

Caveland Sanitation Authority, Inc.
dba Caveland Environmental Authority
Financial Statements
June 30, 2018

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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, 2018, 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, 2018, 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 schedules of operations and maintenance expenses and general and administrative expenses 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 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 January 16, 2019, 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

January 16, 2019

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, 2018. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ending June 30, 2018, total operating and non-operating revenues (including capital contributions) totaled \$4,588,038, and expenses amounted to \$5,135,680 creating a decrease in net position of \$549,393. At year end, net position totaled \$18,697,682, of which \$18,169,745 (net of related debt) was invested in capital assets and \$87,509 was restricted for debt retirement. This left a net amount of \$440,428 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>2018</u>	<u>2017</u>
Total Current Assets	\$ 1,187,827	\$ 1,197,987
Total Restricted Assets	166,613	487,222
Net Capital Assets	<u>23,028,965</u>	<u>22,913,704</u>
Total Assets	<u>\$ 24,383,405</u>	<u>\$ 24,598,913</u>
Liabilities		
Total Current Liabilities	\$ 747,399	\$ 568,215
Total Liabilities Payable from Restricted Assets	403,631	339,129
Total Long-term Liabilities	<u>4,534,693</u>	<u>4,444,494</u>
Total Liabilities	<u>5,685,723</u>	<u>5,351,838</u>
Net Position		
Invested in capital assets, net of related debt	18,169,745	18,215,214
Restricted for debt retirement	87,509	402,089
Unrestricted	<u>440,428</u>	<u>629,772</u>
Total Net Position	<u>\$ 18,697,682</u>	<u>\$ 19,247,075</u>

At June 30, 2018, 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>2018</u>	<u>2017</u>
Total operating revenues	\$ 4,537,482	\$ 3,910,114
Total operating expenses	<u>4,960,891</u>	<u>4,494,209</u>
Operating Income	(423,409)	(584,095)
Total non-operating revenue (expenses)	<u>(174,789)</u>	<u>(161,875)</u>
Income (loss) before capital contributions	(598,198)	(745,970)
Capital contributions	<u>48,805</u>	<u>70,697</u>
Increase (decrease) in net position	(549,393)	(675,273)
Beginning of year	<u>19,247,075</u>	<u>19,922,348</u>
End of year	<u>\$ 18,697,682</u>	<u>\$ 19,247,075</u>

At June 30, 2018, net position decreased by \$549,393 and consisted of operating revenues of \$4,537,482, operating expenses of \$4,960,891, non-operating expenses of \$174,789, capital contributions of \$48,805.

Caveland Environmental Authority implemented a wastewater rate increase of five percent (5%) for a three year period, this audit shows the first two years of the rate adjustment with the third being implemented May of 2018. CEA Board will continue monitoring revenues for future adjustments.

Residential customer's base showed a slight increase with the business and industrial showing a continued growth pattern for wastewater usage. The pumping and portable restroom business continues increasing revenues. CEA staff continues working on reducing the water loss issue with the water system.

Capital Asset Changes

At June 30, 2018, the Authority had invested \$23,028,965 in capital assets net of accumulated depreciation. This amount represents a net increase of \$115,261 from the previous year. This increase is mainly due to the addition of new equipment and vehicles.

Debt Administration

At June 30, 2018, the Authority had \$4,859,220 bonds outstanding, an increase of \$169,730 from the prior year's balance of \$4,698,490.

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, 2018

Assets

Current Assets:

Accounts receivable	\$ 298,986
Inventory	805,396
Prepaid and other assets	<u>83,445</u>
Total Current Assets	<u>1,187,827</u>

Noncurrent Assets:

Restricted Assets

Cash - bond and interest redemption fund	<u>166,613</u>
Total Restricted Assets	<u>166,613</u>

Capital Assets

Utility plant in service	38,835,869
Accumulated depreciation	<u>(15,806,904)</u>
Net Capital Assets	<u>23,028,965</u>
Total Noncurrent Assets	<u>23,195,578</u>

Total Assets	<u>\$ 24,383,405</u>
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Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Statement of Net Position, Concluded
June 30, 2018

Liabilities

Current Liabilities:

Accounts payable and accrued liabilities	\$	388,003
Checks issued in excess of deposits		41,978
Line-of-credit		248,865
Customer deposits		68,553
Total Current Liabilities		747,399

Liabilities Payable from Restricted Assets:

Note payable, current portion		136,243
Current maturities of long-term debt		188,284
Accrued interest		79,104
Total Liabilities Payable from Restricted Assets		403,631

Long-term Liabilities:

Note payable, long-term portion		362,232
Long-term debt, less current maturities		4,172,461
Total Long-term Liabilities		4,534,693

Total Liabilities		5,685,723
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Net Position

Net Position:

Invested in capital assets, net of related debt		18,169,745
Restricted for debt retirement		87,509
Unrestricted		440,428
		440,428

Total Net Position		\$ 18,697,682
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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, 2018

Operating revenue:

Water revenue	\$	952,725
Sewer revenue		1,566,695
Other operating revenue		<u>2,018,062</u>
Total operating revenue		<u>4,537,482</u>

Operating expenses:

Operations and maintenance		4,304,032
General and administrative		<u>656,859</u>
Total operating expenses		<u>4,960,891</u>
Operating income (loss)		<u>(423,409)</u>

Nonoperating revenue (expenses):

Interest income		1,751
Interest on long-term debt		<u>(176,540)</u>
Total nonoperating revenue (expenses)		<u>(174,789)</u>

Income before capital contributions		(598,198)
Capital contributions		<u>48,805</u>
Increase (decrease) in net position		(549,393)

Net position:

Beginning of year		<u>19,247,075</u>
End of year		<u>\$ 18,697,682</u>

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities:	
Cash receipts from customers	\$ 4,529,154
Cash payments to suppliers for goods and services	(2,890,366)
Cash payments to employees for services	<u>(985,042)</u>
Net cash provided (used) by operating activities	<u>653,746</u>
 Cash flows from capital and related financing activities:	
Proceeds from issuance of long-term debt	425,000
Proceeds from line-of-credit	342,900
Payments made on line-of-credit	(284,035)
Principal paid on long-term debt	(264,270)
Interest paid on long-term debt	(182,569)
Additions to capital assets	(1,102,868)
Capital contributions	<u>48,805</u>
Net cash provided (used) in capital and related financing activities	<u>(1,017,037)</u>
 Cash flows from investing activities:	
Investment income	<u>1,751</u>
Net cash provided by (used) in investing activities	<u>1,751</u>
 Net increase (decrease) in cash and cash equivalents	 (361,540)
Cash and cash equivalents, beginning of year	<u>486,175</u>
Cash and cash equivalents, end of year	<u>\$ 124,635</u>
 Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ (423,409)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	987,607
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(8,328)
(Increase) decrease in inventory	29,780
(Increase) decrease in prepaid insurance	(11,292)
Increase (decrease) in accounts payable	73,058
Increase (decrease) in customer deposits	<u>6,330</u>
 Net cash provided (used) by operating activities	 <u>\$ 653,746</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-governmental 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, 2018. 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

Capital assets, Concluded

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 calculated 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 consist of those revenues and expenses 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.

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

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

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.

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 January 16, 2019, the date which the financial statements were available to be issued. In August of 2018, the Authority received a donated sewage system from a neighboring water district. The assets were valued at approximately \$1,120,000.

Note 2 – Cash and Investments

Deposits and Concentration of Risk

At year end, the carrying amount of the Authority’s cash deposits was \$124,635 and the bank balances were \$199,818. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank as of June 30, 2018.

All cash accounts were fully insured by FDIC at June 30, 2018.

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
<i>Capital assets not being depreciated</i>				
Land and land rights	\$ 296,551	\$ 13,750	\$ -	\$ 310,301
Construction-in-progress	272,713	-	(272,713)	-
<i>Total Capital assets not being depreciated</i>	<u>569,264</u>	<u>13,750</u>	<u>(272,713)</u>	<u>310,301</u>
<i>Capital assets being depreciated</i>				
Buildings	275,317	95,876	-	371,193
Office furniture and equipment	261,027	2,792	-	263,819
Machinery and equipment	1,003,302	516,473	-	1,519,775
Vehicles	814,482	416,211	-	1,230,693
Water transmission upgrade	391,892	-	-	391,892
Plant	34,417,717	465,859	(135,380)	34,748,196
<i>Total Capital assets being depreciated</i>	37,163,737	1,497,211	(135,380)	38,525,568
Less: Accumulated Depreciation	(14,819,297)	(987,607)	-	(15,806,904)
<i>Total Capital assets being depreciated, net</i>	<u>\$ 22,344,440</u>	<u>\$ 509,604</u>	<u>\$ (135,380)</u>	<u>\$ 22,718,664</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, 2018:

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.	\$ 465,000
Less current portion	<u>20,000</u>
Long-term portion	<u>\$ 445,000</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.	\$ 790,000
Less current portion	<u>70,000</u>
Long-term portion	<u>\$ 720,000</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.	\$ 61,244
Less current portion	<u>6,284</u>
Long-term portion	<u>\$ 54,960</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.	\$ 640,000
Less current portion	<u>35,000</u>
Long-term portion	<u>\$ 605,000</u>

Rural Development Series A due January 2055, bearing annual interest of 2.625% 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 loan is secured by a pledge of a fixed portion of the system revenues.	\$ 1,083,000
Less current portion	<u>17,000</u>
Long-term portion	<u>\$ 1,066,000</u>

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

Note 4 – Long-Term Debt, Continued

Rural Development Series B due January 2055, bearing annual interest of 2.625% 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 loan is secured by a pledge of a fixed portion of the system revenues.	\$ 295,500
Less current portion	<u>4,500</u>
Long-term portion	<u><u>\$ 291,000</u></u>

Kentucky Rural Water Finance Corporation Series 2016 D due January 2036, 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.	\$ 775,000
Less current portion	<u>30,000</u>
Long-term portion	<u><u>\$ 745,000</u></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.	\$ 251,000
Less current portion	<u>5,500</u>
Long-term portion	<u><u>\$ 245,500</u></u>

Hart County Industrial Authority loan agreement due in monthly payments of \$3,526 (principal and interest). Interest is stated at 0.60% until maturity in June, 2020.	\$ 83,750
Less current portion	<u>41,666</u>
Long-term portion	<u><u>\$ 42,084</u></u>

Hart County Industrial Authority loan agreement due in monthly payments of \$3,526 (principal and interest). Interest is stated at 0.60% until maturity in March, 2021.	\$ 114,726
Less current portion	<u>41,354</u>
Long-term portion	<u><u>\$ 73,372</u></u>

Citizens First bank due in monthly payments of \$5,749 (principal and interest). Interest is stated at 5.50% until maturity in June, 2023.	\$ 300,000
Less current portion	<u>53,223</u>
Long-term portion	<u><u>\$ 246,777</u></u>

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

Note 4 – Long-Term Debt, Concluded

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

	<u>Principal</u>	<u>Interest</u>	<u>Toal</u>
2019	\$ 188,284	\$ 155,992	\$ 344,276
2020	193,822	149,015	342,837
2021	204,360	141,732	346,092
2022	235,398	134,020	369,418
2023	246,436	65,233	311,669
2024-2028	1,167,945	482,327	1,650,272
2029-2033	776,000	285,402	1,061,402
2034-2038	423,500	164,715	588,215
2039-2043	244,000	112,809	356,809
2044-2048	279,500	80,282	359,782
2049-2053	285,500	43,844	329,344
2054-2058	<u>116,000</u>	<u>9,098</u>	<u>125,098</u>
Total	<u>\$ 4,360,745</u>	<u>\$ 1,824,469</u>	<u>\$ 6,185,214</u>

Long-term debt activity for the year ended June 30, 2018 is as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Debt Payments</u> <u>and Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amount Due</u> <u>within One Year</u>
KIA	\$ 67,490	\$ -	\$ 6,245	\$ 61,245	\$ 6,284
KRWFC 2011 B	675,000	-	35,000	640,000	35,000
KRWFC 2013 C	890,000	-	100,000	790,000	70,000
KRWFC 2014 B	485,000	-	20,000	465,000	20,000
RUS bond	256,000	-	5,000	251,000	5,500
RD Series 2015 A	300,000	-	4,500	295,500	4,500
RD Series 2015 B	1,100,000	-	17,000	1,083,000	17,000
KRWFC 2016 D	800,000	-	25,000	775,000	30,000
Citizens First	-	300,000	-	300,000	53,223
Hart County Industrial Authority	-	125,000	10,275	114,725	41,354
Hart County Industrial Authority	<u>125,000</u>	<u>-</u>	<u>41,250</u>	<u>83,750</u>	<u>41,666</u>
	<u>\$ 4,698,490</u>	<u>\$ 425,000</u>	<u>\$ 264,270</u>	<u>\$ 4,859,220</u>	<u>\$ 324,527</u>

Note 5 – Short –Term Debt

On September 24, 2015, Caveland Environmental Authority, Inc. negotiated a line of credit with Citizens First Bank in the amount of \$250,000 to be used for operations in the proprietary funds. The variable rate interest is due monthly, with the principal balance due at maturity of March 17, 2019. At June 30, 2018 Caveland Environmental Authority, Inc. had a balance of \$248,865 on the line of credit.

Note 6 – 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 \$26,000, and employee contributions were approximately \$43,000 for the year ended June 30, 2018.

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

Note 7 – 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 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.

Supplemental Information

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Schedule of Operations and Maintenance Expenses
For the Year Ended June 30, 2018

	<u>Water</u>	<u>Sewer</u>
Depreciation	\$ 370,674	\$ 609,426
Labor	208,711	480,888
Utilities	12,874	136,340
Telephone	5,473	11,925
Repairs and maintenance	9,140	128,311
Employee benefits	31,620	62,403
Payroll taxes	19,723	36,014
Insurance	45,522	103,840
Vehicle expense	13,957	23,006
Equipment expense	14,175	1,997
Employee training	5,813	4,958
Chemicals and supplies	94,870	1,108,471
Water purchased	501,415	-
Employee uniforms	4,667	7,674
Construction expense	7,043	11,578
Other	<u>27,452</u>	<u>51,348</u>
 Total	 <u>\$ 1,373,129</u>	 <u>\$ 2,778,179</u>

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Schedule of General and Administrative Expenses
For the Year Ended June 30, 2018

Office salaries	\$ 280,650
Employee benefits	53,373
Legal and accounting	63,744
Billing charges	22,777
Depreciation and amortization	7,507
Office expenses	48,402
Travel	34,863
Insurance	43,467
Engineering fees	43,507
Advertising	15,084
Telephone	4,385
Utilities	4,310
Repairs and maintenance	12,996
Employee training	19,269
Miscellaneous	<u>2,525</u>
 Total	 <u>\$ 656,859</u>



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Skip R. Campbell, CPA ■ L. Joe Rutledge, CPA ■ Ryan A. Mosier, CPA ■ Jenna B. Glass, CPA ■ Van Shepard, 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
Cleveland 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 Cleveland Environmental Authority, Inc., as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cleveland Environmental Authority, Inc.'s basic financial statements, and have issued our report thereon dated January 16, 2019

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cleveland 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 Cleveland Environmental Authority, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cleveland 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

January 16, 2019

