

CAVE RUN WATER COMMISSION, INC.
Wellington, Kentucky

**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**
for the year ended June 30, 2020

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John T. Lane and Associates, LLC

Certified Public Accountants

219 Young Lane, Suite 2
Mount Sterling, Kentucky 40353
(859) 498-9915
www.TheLaneCPA.com

John T. Lane, CPA
Joel D. Lane, CPA

American Institute of CPAs
Kentucky Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Cave Run Water Commission, Inc.
Wellington, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Cave Run Water Commission, Inc. (the Commission) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cave Run Water Commission, Inc.'s management. Our responsibility is to an express opinion on these financial statements based on our audit.

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 opinion.

Opinion

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 Cave Run Water Commission, Inc., as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic and historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cave Run Water Commission, Inc.'s basic financial statements. The Comparative Statement of Revenues and Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Comparative Statement of Revenues and Expenses is the responsibility of management and was 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 Comparative Statement of Revenues and Expenses is 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 August 31, 2021, on our consideration of the Cave Run Water Commission, 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 Cave Run Water Commission, Inc.'s internal control over financial reporting and compliance.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

August 31, 2021

This report contains 14 pages.

Cave Run Water Commission, Inc.
Statement of Net Position
Proprietary Fund
June 30, 2020

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	\$ 984,558
Cash and cash equivalents - restricted	356,930
Accounts receivable - wholesale water sales	127,049
Inventory	8,831
Prepaid insurance	950
	1,478,318
Total Current Assets	
Noncurrent Assets	
Capital assets:	
Land	117,300
Office furniture	8,607
Machinery & equipment	391,237
Water treatment plant	8,926,633
Water lines	5,182,220
Accumulated depreciation	(4,034,965)
Capital assets, net of accumulated depreciation	10,591,032
Other Noncurrent Assets	
Prepaid water storage lease	72,897
Accumulated amortization	(40,399)
Total Other Noncurrent Assets	32,498
	10,623,530
Total Noncurrent Assets	
Total Assets	\$ 12,101,848
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 61,762
Accrued interest	58,028
Bonds/loans payable - current	95,782
	215,572
Total Current Liabilities	
Noncurrent Liabilities	
Bonds/loans payable	3,158,169
Total Noncurrent Liabilities	3,158,169
Total Liabilities	3,373,741
NET POSITION	
Net investment in capital assets	7,337,081
Restricted	356,930
Unrestricted	1,034,096
Total Net Position	\$ 8,728,107

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

Cave Run Water Commission, Inc.
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended June 30, 2020

<hr/>	
Revenues	
Wholesale water sales	\$ 1,087,173
Other revenue	760
	<hr/>
Total Revenues	1,087,933
	<hr/>
Expenses	
Amortization expense	2,430
Bank service charges	1,617
Chemicals	120,412
Commission office expenses	2,414
Commissioner mileage	223
Depreciation expense	301,475
Dues and subscriptions	2,454
Finance charge	179
Insurance	41,348
Lab supplies	18,535
Licenses and permits	2,417
Mileage	442
Miscellaneous	1,477
Mowing/weed removal	500
Payroll expenses	248,526
Pipe & materials	3,242
Postage and delivery	193
Professional fees	8,960
Project expenses	-
Repairs	30,229
Rock for roads	564
Supplies	3,413
Tank inspection	3,790
Tools	620
Training operator license	600
Travel & entertainment	399
Utilities	179,242
Vehicle expense	6,550
Total Operating Expenses	<hr/> 982,326
Operating Income (Loss)	<hr/> 105,607
	<hr/>
Nonoperating Revenues (Expenses)	
Interest income	10,936
Interest expense	(112,804)
	<hr/>
Net Nonoperating Revenues (Expenses)	(101,868)
	<hr/>
Change in Net Position	3,739
Total Net Position - beginning	<hr/> 8,724,368
Total Net Position - ending	<hr/> <u>\$ 8,728,107</u>

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

Cave Run Water Commission, Inc.
Statement of Cash Flows
Proprietary Fund
June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 1,077,646
Cash paid to employees	(248,526)
Cash paid for general and administrative expenses	<u>(489,722)</u>
Net Cash provided / (used) by operating activities	<u>339,398</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	<u>10,936</u>
Net Cash provided / (used) by investing activities	<u>10,936</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Bond payments	(77,489)
Purchase of capital assets	(120,117)
Interest paid	<u>(114,134)</u>
Net Cash provided/ (used) in capital and financing activities	<u>(311,740)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,594
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,302,894</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 1,341,488</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ 105,607
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
depreciation	301,475
amortization	2,430
(increase) / decrease in inventory	1,121
(increase) / decrease in accounts receivable	(10,287)
increase / (decrease) in accounts payable	<u>(60,948)</u>
Net cash provided / (used) by operating activities	<u>\$ 339,398</u>

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

CAVE RUN WATER COMMISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies

The Commission's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Financial Reporting Entity

The Commission is a non-profit, non-stock corporation formed pursuant to Kentucky Revised Statutes (Chapter 74.420 through 74.990). The Commission was organized on March 07, 2001. The purpose of the Commission is to construct a regional water treatment plant and main distribution system to be located in Menifee County. The treatment plant obtains water from Cave Run Lake. The Commission is required to make annual payments to the United States Corps of Engineers for access to this water source. The fee is equal to .0956% of the joint-use operating and maintenance cost of the project. The Commission consists of members from the communities of Menifee County, the City of Frenchburg, the City of Jeffersonville and Morgan County. The Commission does not have any individual customers. The only customers are the City of Frenchburg, the City of Jeffersonville and Morgan County Water District.

B. Basis of Presentation

The Commission's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to its customers on a continuing basis be financed or recovered primarily through user charges, or where the governing body had decided that periodic determination of revenues earned, expenses incurred, and /or net income is appropriate for capital maintenance, public policy, management control, accountability or other policies. Net position represents the amount available for future operations.

C. Proprietary Fund

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenditures) in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund include the cost of contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Cash Equivalents

The Commission's cash and cash equivalents include unrestricted and restricted cash in bank accounts.

E. Capital Assets

Capital assets are recorded at acquisition or construction cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and construction in progress are not depreciated. Interest incurred during construction is capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Capital Asset Type</u>	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land improvements	\$12,500	10-60
Buildings and building improvements	\$25,000	10-75
Machinery and equipment	\$2,500	3-25
Infrastructure	\$20,000	10-50

F. Net Position

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted 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 improvements of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of “restricted” or “net investment in capital assets. “

G. Interest Expense

Interest expense incurred during the construction of financed projects is capitalized during the construction period. Interest expense on notes and bonds payable in subsequent years is expensed currently.

H. Use of Estimates

The preparation of financial statements in conformity with accounting standards generally accepted in the U.S. requires management to make estimates that effect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

I. Budgetary Information

The Commission prepared a budget for the fiscal year ended June 30, 2020, and it was accepted and approved by the board as required by the Commission's by-laws.

Note 2. Deposits

The Commission maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480 (1)(d). KRS 66.480 authorizes the Commission to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240 (4). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Commission and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk- Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Commission’s deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2020, the reconciled bank balance was \$1,341,488. These deposits were covered by FDIC insurance or a properly executed collateral security agreement.

	<u>Reconciled Bank Balance</u>	<u>Deposits in Bank</u>
Insured by FDIC	\$ 250,000	\$ 250,000
Collateralized with specific securities in the Commission's name which are held by the financial institution	1,091,488	1,038,143
Uncollateralized	<u>0</u>	<u>0</u>
	<u>\$ 1,431,488</u>	<u>\$ 1,288,143</u>

Note 3. Restricted Cash

Depreciation Reserve

The amount in the Reserve Account at June 30, 2020 was \$128,344.

Sinking Fund Reserve

Rural Development requires one-sixth of the next succeeding interest payment and one-twelfth of the next succeeding principle payment of any current bond to be deposited into this reserve. The money that accumulates in this reserve is to be used to pay current interest and principal on bonds as they come due.

Rural Development currently requires a \$1,490 monthly payment to be deposited into a reserve account until the balance is at least \$178,800.

Kentucky Infrastructure Authority requires a \$1,800 annual payment to be deposited into a reserve account until the balance is at least \$18,000.

The amount in the Sinking Fund Reserve as of June 30, 2020 was \$228,586. This balance makes the reserve account fully funded.

Restricted cash is composed of the following:

Depreciation reserve fund	\$ 128,344
Sinking fund	<u>228,586</u>
	\$ 356,930

Note 4. Prepaid Water Storage Lease

On November 18, 2003, Cave Run Water Commission, Inc. entered into a 30-year lease agreement with the U. S. Army Corps of Engineers for water storage in the amount of \$72,897. This lease was paid in full during fiscal year ending June 30, 2004 and has been amortized over the life of the lease. Water storage lease expense (amortization) at June 30, 2020 was \$2,430.

Note 5. Long-Term Debt

Bonds

- A. On March 25, 2003, Cave Run Water Commission, Inc. issued \$3,000,000 in Waterworks Revenue Bonds from the United States Department of Agriculture (USDA), Rural Development for the construction of the water treatment plant and water lines. Semiannual interest payments at a 4.25% interest rate are required on January 01 and July 01 of each year beginning January 01, 2006 and annual principal payments are required on January 01 of each year beginning January 01, 2008. The bonds will be paid in full July 01, 2044. As of June 30, 2020, the principal balance on these bonds was \$2,408,000.

Maturity for Note A:
Fiscal Year Ended

June 30	Principal	Interest	Total Payment
2021	\$ 58,000	\$ 108,360	\$ 166,360
2022	60,000	105,750	165,750
2023	63,000	103,050	166,050
2024	66,000	100,215	166,215
2025	69,000	97,245	166,245
2026-2030	394,000	436,815	830,815
2031-2035	492,000	381,150	873,150
2036-2040	613,000	218,655	831,655
2041-2044	593,000	67,860	660,860
Total	\$ 2,408,000	\$ 1,619,100	\$ 4,027,100

- B. On December 3, 2009, Cave Run Water Commission, Inc. issued \$280,000 in Waterworks Revenue Bonds from the United States Department of Agriculture (USDA), Rural Development for a 500,000-gallon ground storage tank. Semi-annual interest payments at a 2.5% interest rate are required on January 01 and July 01 of each year beginning January 01, 2010 and annual principal payments are required on January 01 of each year beginning January 01, 2011. The bonds will be paid in full January 01, 2048. As of June 30, 2020, the principal balance on these bonds was \$237,000.

Maturity for Note B:
Fiscal Year

Ended June 30	Principal	Interest	Total Payment
2021	\$ 5,600	\$ 6,367	\$ 11,967
2022	5,800	6,213	12,013
2023	5,900	6,053	11,953
2024	6,100	5,891	11,991
2025	6,200	5,723	11,923
2026-2030	34,000	25,949	59,949
2031-2035	39,000	23,061	62,061
2036-2040	44,500	15,344	59,844
2041-2045	51,000	8,884	59,884
2046-2048	33,400	1,833	35,233
Total	\$ 231,500	\$ 105,318	\$ 336,818

Notes/Loans

- C. The Commission entered into an agreement with Kentucky Infrastructure Authority ("KIA") to borrow \$678,908 to be used for the improvement of its water treatment plant. Semiannual principal and interest payments at a rate of .75% are required on June 01 and December 01 of each year beginning on June 01, 2018. The bonds will be paid in full on December 01, 2037. As of June 30, 2020, the principal balance on this loan was \$614,451.

Maturity for Note C:

Fiscal Year				
Ended June 30	Principal	Interest	Total Payment	
2021	\$ 32,182	\$ 4,436	\$ 36,618	
2022	32,424	4,194	36,618	
2023	32,668	3,951	36,619	
2024	32,913	3,705	36,618	
2025	33,161	3,458	36,618	
2026-2030	169,578	13,514	183,092	
2031-2035	176,046	7,046	183,092	
2036-2038	105,479	1,012	106,491	
Total	\$ 614,451	\$ 41,316	\$ 655,767	

Long-Term Debt Maturity in the Aggregate (Notes A, B and C):

Bonds				
Fiscal Year Ended				
June 30	Principal	Interest	Total Payment	
2021	\$ 95,782	\$ 119,163	\$ 214,945	
2022	98,224	116,157	214,381	
2023	101,568	113,054	214,622	
2024	105,013	109,811	214,824	
2025	108,361	106,426	214,787	
2026-2030	597,578	476,278	1,073,856	
2031-2035	707,046	411,257	1,118,303	
2036-2040	762,978	235,020	997,998	
2041-2045	644,000	76,744	720,744	
2046-2048	33,400	1,833	35,233	
Total Bonds	\$ 3,253,951	\$ 1,765,743	\$ 5,019,693	
Less: current portion	95,782			
Long-Term Portion	\$ 3,158,169			

Note 6. Risk Management

Significant losses are covered by commercial insurance.

Note 7. Contingencies

If major repair expenses are incurred by the United States Corp of Engineers to maintain the Cave Run Lake, the Commission will be required to provide approximately one tenth of one percent (.1%) of such costs. An estimate of these future costs cannot be determined.

Note 8. Subsequent Review

Subsequent events have been evaluated through August 31, 2021, which is the date the financial statements were available to be issued.

Subsequent Event - Coronavirus Pandemic:

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the entity's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the customers' ability to pay monthly bills. Operating functions that may be changed include intake, recertifications and maintenance. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of tenants to continue

making rental payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

Note 9 - Changes in Capital Assets

The following is a summary of changes in capital assets for the year:

	Balance 7/1/2019	Additions	Deletions	Balance 6/30/2020
Capital assets not being depreciated:				
Land, non-depreciable	\$ 116,300	\$ 1,000	\$ -	\$ 117,300
Construction in process	772,078	50,571	822,649	-
Total capital assets not being depreciated	<u>888,378</u>	<u>51,571</u>	<u>822,649</u>	<u>117,300</u>
Capital assets being depreciated:				
Office furniture	8,607	-	-	8,607
Machinery & equipment	341,160	68,552	18,475	391,237
Water treatment plant	8,143,651	782,982	-	8,926,633
Water lines	<u>5,142,553</u>	<u>39,667</u>	<u>-</u>	<u>5,182,220</u>
Total capital assets being depreciated	<u>13,635,971</u>	<u>891,201</u>	<u>18,475</u>	<u>14,508,697</u>
Total capital assets, gross	<u>14,524,349</u>	<u>942,772</u>	<u>841,124</u>	<u>14,625,997</u>
Less accumulated depreciation for:				
Office furniture	8,607	-	-	8,607
Machinery & equipment	161,072	28,895	18,475	171,492
Water treatment plant	2,178,158	169,398	-	2,347,556
Water lines	<u>1,404,128</u>	<u>103,182</u>	<u>-</u>	<u>1,507,310</u>
Total accumulated depreciation	<u>3,751,965</u>	<u>301,475</u>	<u>18,475</u>	<u>4,034,965</u>
Capital assets, net of accumulated depreciation	<u>\$ 10,772,384</u>	<u>\$ 641,297</u>	<u>\$ 822,649</u>	<u>\$ 10,591,032</u>

SUPPLEMENTARY INFORMATION

John T. Lane and Associates, LLC

Certified Public Accountants

219 Young Lane, Suite 2
Mount Sterling, Kentucky 40353

(859) 498-9915

www.TheLaneCPA.com

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Cave Run Water Commission, Inc.
Wellington, Kentucky

We have audited the financial statements of the business-type activities of the Cave Run Water Commission, Inc., as of and for the year ended June 30, 2020, and have issued our report thereon dated August 31, 2021. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cave Run Water Commission, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of Stanford's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of Stanford'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 Cave Run Water Commission, 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 the financial statements. 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.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

August 31, 2021

Cave Run Water Commission, Inc.
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
For the years ended June 30, 2019 and June 30, 2020

	2019	2020
Revenues		
Wholesale water sales	\$ 1,114,522	\$ 1,087,173
US 460 line relocation reimbursement	31,096	-
Other revenue	71	760
Total Revenues	<u>1,145,689</u>	<u>1,087,933</u>
Expenses		
Advertising expenses	380	-
Amortization expense	2,430	2,430
Bank service charges	1,763	1,617
Chemicals	113,974	120,412
Commission office expenses	168	2,414
Commissioner mileage	425	223
Contract labor	450	-
Depreciation expense	288,708	301,475
Dues and subscriptions	2,624	2,454
Equipment rental	1,259	75
Finance charge	154	179
Insurance	58,843	41,348
Lab supplies	14,383	18,535
Licenses and permits	983	2,417
Mileage	362	442
Miscellaneous	-	1,477
Mowing/weed removal	500	500
Payroll expenses	241,002	248,526
Pipe & materials	5,970	3,242
Postage and delivery	249	193
Professional fees	6,795	8,960
Project expenses	31,096	-
Repairs	28,128	30,229
Rock for roads	1,538	564
Supplies	2,442	3,413
Tank inspection	-	3,790
Tools	-	620
Training operator license	843	600
Trash pickup	224	-
Travel & entertainment	-	399
Uniforms	258	-
Utilities	189,273	179,242
Vehicle expense	5,982	6,550
Total Operating Expenses	<u>1,001,206</u>	<u>982,326</u>
Operating Income (Loss)	<u>144,483</u>	<u>105,607</u>
Nonoperating Revenues (Expenses)		
Interest income	5,976	10,936
Interest expense	(115,391)	(112,804)
Net Nonoperating Revenues (Expenses)	<u>(109,415)</u>	<u>(101,868)</u>
Change in Net Position	<u>\$ 35,068</u>	<u>\$ 3,739</u>