

**CUMBERLAND FALLS HIGHWAY
WATER DISTRICT**

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
DECEMBER 31, 2018 AND 2017**

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion & Analysis	3-6
Statements of Net Position	7
Statements of Revenue, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to the Financial Statements	10-18
Independent Auditors' Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	19-20

SUMMERS, MCCRARY & SPARKS, P.S.C.

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LAURENCE T. SUMMERS
1961-1992

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
The Cumberland Falls Highway Water District
Corbin, KY

We have audited the accompanying financial statements of the business-type activities of the Cumberland Falls Highway Water District as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Cumberland Falls Highway Water District, as of December 31, 2018 and 2017, 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 3 through 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 Reporting Required by Governmental Accounting Standards

In accordance with Governmental Accounting Standards, we have also issued our report dated April 24, 2019 on our consideration of the District's internal control over financial reporting and on our tests of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards on considering the District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Lexington, KY
April 24, 2019

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

This section of the Cumberland Falls Highway Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2018 and 2017. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2018

- The District's net position increased by \$409,941 or 8 percent from \$5,450,602 to \$5,860,543.
- Gross profit from operations decreased by \$7,162 or 0.5 percent from \$1,493,864 to \$1,486,702.
- Operating expenses increased by \$71,202 or 6 percent from \$1,159,809 to \$1,231,011.
- Capital contributions to the District increased by \$108,544 or 76 percent from \$142,870 to \$251,414.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management's Discussion and Analysis and the Basic Financial Statements. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position identify the District's revenues and expenses. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position provide an indication of the District's financial condition and also indicate the financial condition of the District during the last fiscal year. The District's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

**Table 1
Condensed Statement of Net Position**

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$ 2,685,486	\$ 2,275,173	\$ 410,313	18%
Capital assets	<u>6,775,750</u>	<u>6,220,952</u>	<u>554,798</u>	9%
Total Assets	9,461,236	8,496,125	965,111	11%
Long-term debt	3,409,140	2,855,571	553,569	19%
Other liabilities	<u>191,553</u>	<u>189,952</u>	<u>1,601</u>	1%
Total Liabilities	3,600,693	3,045,523	555,170	18%
Net position invested in capital assets	4,297,447	3,687,330	610,117	17%
Net position restricted for debt service	675,402	621,872	53,530	9%
Unrestricted net position	<u>887,694</u>	<u>1,141,400</u>	<u>-253,706</u>	-22%
Total Net Position	<u>\$ 5,860,543</u>	<u>\$ 5,450,602</u>	<u>\$ 409,941</u>	8%

As the above table indicates the total assets increased by \$965,111 from \$8,496,125 to \$9,461,236 during the fiscal year ended December 31, 2018. This increase primarily resulted from an increase in capital assets of \$856,401 resulting from loans and grants for construction and an increase in operating income, supplemented by an increase in other assets of \$108,710.

Table 1 also indicates an increase of \$409,941 in net position, from \$5,450,602 to \$5,860,543 for fiscal year ending December 31, 2018. As indicated above, this was due to an increase in operating income and grants.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

The Statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which affect the change in net position. As the information in Table 2 indicates, income before capital contributions was \$158,527 and capital contributions were \$251,414, realizing a net change in net position of 409,941.

**Table 2
Condensed Statement of Revenues, Expenses
and Changes in Net Position**

	2018	2017	\$ Change	% Change
Gross Profit	\$ 1,486,702	\$ 1,493,864	\$ (7,162)	0%
Nonoperating revenues	2,090	5,735	-3,645	-64%
Total Revenues	<u>1,488,792</u>	<u>1,499,599</u>	<u>-10,807</u>	<u>-1%</u>
Depreciation expense	301,784	287,927	13,857	5%
Other operating expenses	929,227	871,882	57,345	7%
Nonoperating expenses	99,254	107,175	-7,921	-7%
Total Expenses	<u>1,330,265</u>	<u>1,266,984</u>	<u>63,281</u>	<u>5%</u>
Income before capital contributions	158,527	232,615	-74,088	-32%
Capital contributions	251,414	142,870	108,544	76%
Changes in net position	409,941	375,485	34,456	9%
Beginning net position	5,450,602	5,075,117	375,485	7%
Ending Net position	<u>\$ 5,860,543</u>	<u>\$ 5,450,602</u>	<u>\$ 409,941</u>	<u>8%</u>

Table 2 indicates that the District's total Gross Profit decreased by \$7,162 resulting from slightly increased water purchases due to an increase in line loss related to construction in 2018. Total expenses increased by \$63,281 mainly due to an increase in depreciation expense, interest expense, and technical support expense.

CAPITAL ASSETS

As of December 31, 2018, the District's investment in capital assets totaled \$6,775,750, an increase of \$554,798. A comparison of the District's capital assets over the past two years is presented in Note 3 of the financial statements.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

LONG TERM DEBT

As of December 31, 2018, the District had \$2,479,569 in outstanding revenue bond debt, this is presented in the Statements of Net Position net of \$1,266 in amortizable bond costs. The District also had 930,837 in outstanding KIA loan as of December 31, 2018. The change in long-term debt obligations of \$553,569 is from principal payments made during the year of \$258,464, amortization of bond costs of \$181, and draws upon the KIA loan of 811,852.

Additional information on the District's long-term debt is provided in Note 5 of the financial statements.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Dayna Cain at CFHWD located at 6926 Cumberland Falls Highway, Corbin Ky.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,027,497	\$ 660,839
Certificates of deposit	719,081	719,081
Accounts receivable	176,665	188,549
Inventory - materials and supplies	75,400	70,823
Prepaid expenses	11,441	14,009
Total Current Assets	2,010,084	1,653,301
RESTRICTED CASH AND CASH EQUIVALENTS	675,402	621,872
UTILITY PLANT		
Nondepreciable capital assets	73,147	502,443
Depreciable capital assets, net of depreciation	6,702,603	5,718,509
Net Utility Plant	6,775,750	6,220,952
TOTAL ASSETS	\$ 9,461,236	\$ 8,496,125
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 22,885	\$ 22,537
Accrued interest	46,153	47,222
Accrued taxes	17,115	17,503
Revenue bonds payable - due within one year	58,000	55,500
Total Current Liabilities	144,153	142,762
NONCURRENT LIABILITIES		
Revenue bonds payable - due in more than one year	2,420,303	2,478,122
Loans payable - due in more than one year	930,837	321,949
Customer deposits	105,400	102,690
Total Noncurrent Liabilities	3,456,540	2,902,761
TOTAL LIABILITIES	3,600,693	3,045,523
NET POSITION		
Invested in capital assets, net of related debt	4,297,447	3,687,330
Restricted for debt service and Plant Replacement	675,402	621,872
Unrestricted	887,694	1,141,400
TOTAL NET POSITION	5,860,543	5,450,602
TOTAL LIABILITIES AND NET POSITION	\$ 9,461,236	\$ 8,496,125

The Accompanying Notes Are An Integral Part Of These Financial Statements

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Water sales	\$ 1,925,964	\$ 1,930,540
Other income	64,271	59,830
Total Operating Revenues	<u>1,990,235</u>	<u>1,990,370</u>
 COST OF SALES		
Water purchases	<u>503,533</u>	<u>496,506</u>
 Gross Profit from Operations	 1,486,702	 1,493,864
 OPERATING EXPENSES		
Advertising	-	880
Commissioner fees	18,000	18,000
Contractual services:		
Maintenance	18,803	5,460
Operation supplies and materials	73,374	75,685
Office supplies and other expenses	84,715	86,336
Salaries and wages	348,077	339,963
Employee benefits	150,191	210,149
Professional services	33,436	29,195
Transportation expenses	51,048	34,906
Purchased power	17,888	15,997
Insurance	121,664	40,441
Depreciation	301,784	287,927
Bad debt expense	8,050	10,913
Other taxes	3,981	3,957
 Total Operating Expenses	 <u>1,231,011</u>	 <u>1,159,809</u>
 Operating Income (Loss)	 255,691	 334,055
 NON-OPERATING REVENUE (EXPENSE)		
Interest income	2,090	5,735
Interest expense	<u>(99,254)</u>	<u>(107,175)</u>
 Net Nonoperating Revenue (Expense)	 <u>(97,164)</u>	 <u>(101,440)</u>
 Income (Loss) before Contributions	 158,527	 232,615
 CAPITAL CONTRIBUTIONS	 <u>251,414</u>	 <u>142,870</u>
 CHANGE IN NET POSITION	 409,941	 375,485
 NET POSITION		
Beginning of year	<u>5,450,602</u>	<u>5,075,117</u>
End of year	\$ <u><u>5,860,543</u></u>	\$ <u><u>5,450,602</u></u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,002,119	\$ 1,991,072
Cash payments to employees for services	(348,077)	(339,963)
Cash payments to suppliers for goods and services	(1,086,732)	(1,026,060)
Net cash provided (used) by operating activities	567,310	625,049
Cash flows from noncapital financing activities:		
Change in customer deposits	2,710	13,093
Cash flows from capital and related financing activities:		
Additions to capital assets	(856,401)	(536,701)
Capital contributions and grants	251,414	142,870
Loan proceeds	811,852	321,949
Principal paid on debt	(258,464)	(448,043)
Interest paid on debt	(100,323)	(116,944)
Net cash provided (used) in capital and related financing activities	(151,922)	(636,869)
Cash flows from investing activities:		
Interest received	2,090	5,735
Net Increase (decrease) in cash and cash equivalents	420,188	7,008
Cash and cash equivalents, Beginning of Year	2,001,792	1,994,784
Cash and cash equivalents, End of Year	\$ 2,421,980	\$ 2,001,792
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 255,691	\$ 334,055
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	301,784	287,927
(Increase) decrease in operating assets:		
Accounts receivable	11,884	702
Inventory	(4,577)	(2,253)
Prepaid expenses	2,568	109
Increase (decrease) in operating liabilities:		
Accounts payable	348	4,274
Accrued taxes	(388)	235
Total cash provided (used) by operating activities	\$ 567,310	\$ 625,049
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 1,027,497	\$ 660,839
Certificates of deposit	719,081	719,081
Restricted cash and cash equivalents	675,402	621,872
Total cash and cash equivalents	\$ 2,421,980	\$ 2,001,792

The Accompanying Notes Are An Integral Part Of These Financial Statements

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Cumberland Falls Highway Water District is a "Class B" water district located in Whitley County, Kentucky, with principal offices located at 6926 Cumberland Falls Highway, Corbin, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a three-member commission consisting of a chairman and two commissioners, all appointed by Whitley County Fiscal Court. Water is purchased from City of Corbin, City of Williamsburg and East Laurel Water District and resold to approximately 3,300 residential and commercial customers.

Basis of Accounting and Measurement Focus

The District is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses: The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchased water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses generally result from contracts with other entities to move existing water lines as required by road and railroad maintenance and improvements.

Property and Equipment: The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2018 and 2017.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment:

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Lines and storage	50 years
Building	30 years
Pumps and treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Capital Grants and Subsidies: The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Accounts Receivable: The District uses the direct write-off method for accounting for bad debts, which management feels is not materially different from the allowance method. Accounts written off as uncollectible during the years ended December 31, 2018 and 2017 totaled \$8,050 and \$10,913, respectively. Receivables outstanding in excess of ninety days at December 31, 2018 and 2017 totaled \$17,747 and \$11,252, respectively.

Inventory: Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

Cash and Cash Equivalents: The District includes in cash and cash equivalents, cash on hand and unrestricted cash in checking, money market accounts, federated treasury obligation funds, and unrestricted certificates of deposit with maturities of three months or less.

Restricted Cash and Cash Equivalents: The District has designated bank accounts per the loan resolution covenants for debt service, depreciation fund and meter deposits.

Amortization of Debt Expense: Debt expense on the Waterworks Refunding and Improvement Revenue Bond of 1986, Series B, originally totaling \$13,799, is being amortized over the life of the outstanding bonds. Amortization expense was \$181 and \$181 for 2018 and 2017, respectively. This has been included in interest expense.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interest: Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2018 and 2017.

Net Position Classifications: The District records restrictions for portions of its net position which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods. Restrictions in net position are classified as follows:

- **Invested in capital assets, net of related debt** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service and Plant Renewal and Replacement** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's Debt and includes assets that have been set aside for future additions, repairs or replacement of property, plant or infrastructure.

Unrestricted - This component of net position consists of net position that does not meet the definitions of "restricted" or "invested in capital assets, net of related debt."

Fair Value Measurements: The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, customer deposits and bonds approximates fair value because of the relative terms and short maturities of these financial instruments.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 - COMPOSITION OF CASH

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District's deposits and investments are collateralized with securities held by the bank's trust department in the District's name or letter of credit held by a third party in the District's name. Following is an analysis of cash at December 31, 2018 and 2017:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Bank Balance</u>	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Unrestricted	\$1,746,578	\$1,750,085	\$1,391,076	\$1,379,920
Restricted	676,384	675,402	623,565	621,872
Total	<u>\$2,426,470</u>	<u>\$2,421,980</u>	<u>\$2,014,641</u>	<u>\$2,001,792</u>

Custodial Credit Risk-Deposits Custodial credit risk is the risk that in the event of the failure of a financial institution, the District's deposits and/or investments may not be returned to it. The District does not have a deposit policy for custodial credit risk.

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Revenue Fund

All income to the District is deposited to the Revenue Fund, and then transferred to the other funds as indicated below.

Bond and Interest Sinking Funds and Sinking Fund Reserves

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH (Continued)

Depreciation Reserve Fund

The Depreciation Reserve Fund was established to provide funds for extraordinary repairs, betterments, and expansion. The District is required to make deposits into the fund each month until the accumulated balance equals \$119,025. Funds may be used as needed, but the balance must be restored to \$119,025, as soon as possible, so long as any bonds are outstanding and unpaid. The balances as of December 31, 2018 and 2017 were \$437,361 and \$387,267, respectively.

Operation and Maintenance Fund

Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount sufficient to cover anticipated expenditures for a two-month period, which is approximately \$175,000. The balances as of December 31, 2018 and 2017 were \$132,526 and \$132,460, respectively.

NOTE 4 – UTILITY PLANT

Details of utility plant activity for the years ending December 31, 2018 and 2017 are as follows:

	Balance Dec 31, 2017	Additions	Deletions	Balance Dec 31, 2018
Nondepreciable Capital Assets:				
Land & Land Rights	\$ 73,147	\$ 0	\$ 0	\$ 73,147
Construction in Progress	429,296	811,862	1,241,158	0
Total Nondepreciable	<u>502,443</u>	<u>811,862</u>	<u>1,241,158</u>	<u>73,147</u>
Depreciable Capital Assets:				
Pumping Plant	1,588,480	11,550	0	1,600,030
Transmission & Distribution Plant	8,126,696	1,260,301	0	9,386,997
General Plant	514,920	30,527	37,234	508,213
Total Depreciable	<u>10,230,096</u>	<u>1,302,378</u>	<u>37,234</u>	<u>11,495,240</u>
Total Utility Plant	10,732,539	2,114,240	1,278,392	11,568,387
Less: Accumulated Depreciation	<u>(4,511,587)</u>	<u>(301,784)</u>	<u>(20,734)</u>	<u>(4,792,637)</u>
Net Utility Plant	<u>\$ 6,220,952</u>	<u>\$1,812,456</u>	<u>\$1,257,658</u>	<u>\$ 6,775,750</u>

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 – UTILITY PLANT (Continued)

	Balance Dec 31, 2016	Additions	Deletions	Balance Dec 31, 2017
Nondepreciable Capital Assets:				
Land & Land Rights	\$ 73,147	\$ 0	\$ 0	\$ 73,147
Construction in Progress	0	429,296	0	429,296
Total Nondepreciable	<u>73,147</u>	<u>429,296</u>	<u>0</u>	<u>502,443</u>
Depreciable Capital Assets:				
Pumping Plant	1,554,570	33,910	0	1,588,480
Transmission & Distribution Plant	8,105,461	26,947	5,712	8,126,696
General Plant	503,870	47,768	36,718	514,920
Total Depreciable	<u>10,163,901</u>	<u>108,625</u>	<u>42,430</u>	<u>10,230,096</u>
Total Utility Plant	10,237,048	537,921	42,430	10,732,539
Less: Accumulated Depreciation	<u>(4,265,051)</u>	<u>(287,927)</u>	<u>(41,391)</u>	<u>(4,511,587)</u>
Net Utility Plant	<u>\$ 5,971,997</u>	<u>\$249,994</u>	<u>\$1,039</u>	<u>\$ 6,220,952</u>

NOTE 5 – LONG TERM DEBT

The Waterworks Revenue Bonds, Series 1996, provide for the partial financing of the cost of construction of extension, additions, and improvements to the existing system. The interest rate of the Bonds is 4.50%. The maturity date is 01/01/35.

The Waterworks Revenue Bonds, Series 2001, provide for the partial financing of the cost of construction of extension, additions, and improvements to the existing waterworks system. The interest rate of the Bonds is 4.50%. The maturity date is 01/01/41. This bond was paid in full in 2017.

The Waterworks Revenue Bonds, Series 2007, provide for the partial financing of the cost of construction of extension, additions, and improvements to the existing waterworks system. The interest rate of the Bonds is 4.125%. The maturity date is 01/01/44.

The Waterworks Revenue Bonds, Series 2018, provide for the partial financing of the cost of construction of extension, additions, and improvements to the existing waterworks system. The interest rate of the Bonds is 2.625%. The maturity date is 01/01/55.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 - BONDS PAYABLE (Continued)

All bonds are secured by a lien on the gross income and revenues derived from the operation of the system sufficient to pay principal and interest on the bonds, as well as a statutory mortgage lien on the water utility plant and all properties therewith, pursuant to the Kentucky Revised Statutes, and also a first lien on all water purchase contracts owned by the District. The U.S. Department of Agriculture's Rural Economic Community Development (RECD), formerly Farmers Home Administration, requires the District to prepay monthly the required amounts of interest, due January 1 and July 1, and the required amounts of principal due January 1, according to bond redemption schedules.

In 2017 a loan through the Kentucky Infrastructure Authority was approved for a total of \$1,720,500 for the replacement and reinforcement of water lines. Loan funds are dispersed as project expenses are incurred. This loan also receives principal forgiveness, grant revenue is recognized as principal is forgiven. No payment schedule has been enacted for this loan as not all draws have been made.

The annual requirements for debt service as of December 31, 2018, are as follows:

Year Ending	Interest	Principal	Total
2019	\$92,060	\$58,000	\$150,060
2020	89,764	60,500	150,264
2021	87,369	63,500	150,869
2022	84,853	65,500	150,353
2023	82,250	68,500	150,750
2024-2028	368,172	385,500	753,672
2029-2033	284,716	482,557	767,273
2034-2038	190,218	423,403	613,621
2039-2043	113,128	435,000	548,128
2044-2048	43,668	221,109	264,797
2049-2053	21,668	150,000	171,668
2054-2056	2,736	66,000	68,736
Total	\$1,460,622	\$2,479,569	\$3,940,191

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 - BONDS PAYABLE (Continued)

The following is a summary of the long term debt for the years ended December 31, 2018 and 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within one year
1996 Issue	\$511,460	\$0	\$19,000	\$492,460	\$20,000
2007 Issue	1,220,609	0	24,500	1,196,109	25,500
2018 Issue	803,000	0	12,000	791,000	12,500
Bond Discount	(1,447)	0	(181)	(1,266)	0
KIA Loan	321,949	811,852	202,964	930,837	0
Total Debt	<u>\$2,855,571</u>	<u>\$811,852</u>	<u>\$258,283</u>	<u>\$3,410,406</u>	<u>\$58,000</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within one year
1996 Issue	\$527,485	\$0	\$16,025	\$511,460	\$19,000
2001 Issue	409,518	0	409,518	0	0
2007 Issue	1,243,109	0	22,500	1,220,609	24,500
2017 Issue	803,000	0	0	803,000	12,000
Bond Discount	(1,628)	0	(181)	(1,447)	0
KIA Loan	0	321,949	0	321,949	0
Total Debt	<u>\$2,981,484</u>	<u>\$321,949</u>	<u>\$447,862</u>	<u>\$2,855,571</u>	<u>\$55,500</u>

Interest expense paid during 2018 and 2017 was \$99,254 and \$107,175, respectively.

NOTE 6 – RETIREMENT PLAN

The District adopted a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) effective October 1, 2006. The SIMPLE IRA is available to employees who are expected to receive at least \$5,000 in compensation during the year and who received at least \$5,000 in compensation during the prior year. The District matches participants' contributions to the Plan up to 3% of the participants' compensation. The District's contributions to the plan for 2018 and 2017 totaled \$11,431 and \$9,643, respectively.

NOTE 7 – ECONOMIC DEPENDENCY

The District is economically dependent for water purchases from the following three entities which account for 100% of water purchases:

Name	2018	2017
Corbin City Utilities	\$ 407,777	\$ 337,844
City of Williamsburg	92,211	148,273
W. Laurel Water District	3,545	10,389
	<u>\$ 503,533</u>	<u>\$ 496,506</u>

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 7 – ECONOMIC DEPENDENCY (Continued)

The District has entered into water purchase agreements with the entities listed above, whereas the contract requires the entities to provide water to the District and the rates the District will be charged therein. The contracts will extend for terms ranging from 45 - 52 years beginning in 1968. The entities will not be required in any case to sell the District more than 8,000,000 gallons of water in any one month. The entities may interrupt the water supply for various reasons as outlined in the agreements.

NOTE 8 – SUBSEQUENT EVENT

The District has evaluated and considered the need to recognize or disclose subsequent events through April 24, 2019, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2018, have not been evaluated by the District.

NOTE 9 – RECLASSIFICATION OF PRIOR YEAR AMOUNTS

In 2017 loan proceeds from KIA were inadvertently recorded as capital contributions instead of loan proceeds. The following 2017 accounts have been reclassified to properly reflect this transaction. The effects of these reclassifications are as follows:

	<u>As Originally Stated</u>	<u>Restated</u>
Capital Contributions	464,819	142,870
Loans Payable	0	321,949
Total Net Position	5,772,551	5,450,602

SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

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STUART K. McCRARY, JR., CPA
THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA

SUSAN A. LACY, CPA
JUSTIN B. NICHOLS, CPA
MATTHEW T. WADE, CPA
M. SHANE SMITH, CPA
EMILY N. JACKSON, CPA

LAURENCE T. SUMMERS
1961-1992

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 Commissioners of
The Cumberland Falls Highway Water District
Corbin, KY

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 business-type activities of the Cumberland Falls Highway Water District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Cumberland Falls Highway Water District's basic financial statements, and have issued our report thereon dated April 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cumberland Falls Highway Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cumberland Falls Highway Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cumberland Falls Highway Water District'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 Cumberland Falls Highway Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Summers, McCrary & Sparks, PSC

Lexington, KY

April 24, 2019