

**CUMBERLAND FALLS HIGHWAY  
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013 AND 2012**

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
DECEMBER 31, 2013 AND 2012**

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

## CERTIFIED PUBLIC ACCOUNTANTS

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1961-1992

### INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Cumberland Falls Highway Water District  
Corbin, KY

#### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Cumberland Falls Highway Water District (District), as of and for the years ended December 31, 2013 and 2012, 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 an opinion on these financial statements based on our audit. We conducted our audits 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 of 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.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Cumberland Falls Highway Water District as of December 31, 2013 and 2012, and the changes in financial position, and cash flows thereof for the years 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 Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2014, on our consideration of the District'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 the 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 District's internal control over financial reporting and compliance.

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, KY  
April 30, 2014

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

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, 2013 and 2012. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2013**

- The District's net position decreased by \$29,306 or less than 1 percent from \$4,273,811 to \$4,244,505.
- Gross profit from operations increased by \$7,078 or 1 percent from \$972,238 to \$979,316.
- Operating expenses decreased by \$102,516 or 1 percent from \$1,047,436 to \$944,920.
- Capital contributions to the District decreased by \$33,021 or 52 percent from \$63,460 to \$30,439.

**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 source and use 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, 2013**

**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>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$1,499,639	\$1,402,659	\$96,980	7%
Capital assets	<u>5,131,393</u>	<u>5,284,775</u>	<u>(153,382)</u>	(3%)
<b>Total Assets</b>	6,631,032	6,687,434	(56,402)	(2%)
Long-term debt	2,321,719	2,365,055	(43,336)	(2%)
Other liabilities	<u>64,808</u>	<u>48,568</u>	<u>16,240</u>	33%
<b>Total Liabilities</b>	2,386,527	2,413,623	(27,096)	(1%)
Net position invested in capital assets	2,843,622	2,952,462	(108,840)	(4%)
Net position restricted for debt service	348,031	315,799	32,232	10%
Unrestricted net position	<u>1,052,852</u>	<u>1,005,550</u>	<u>47,302</u>	5%
<b>Total Net Position</b>	<u>\$4,244,505</u>	<u>\$4,273,811</u>	<u>(\$29,306)</u>	(1%)

As the above table indicates, total assets decreased by \$56,402 from \$6,687,434 to \$6,631,032 during the fiscal year ended December 31, 2013. This decrease primarily resulted from a decrease in capital assets of \$153,382 resulting from depreciation of the assets, offset by an increase in cash of \$100,607.

Table 1 also indicates a decrease of \$29,306 in net position, from \$4,273,811 to \$4,244,505 for fiscal year ending December 31, 2013. As indicated above, this was due to a decrease in capital assets.

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 a loss of \$59,745 and capital contributions were \$30,439, realizing a net change in net position of (\$29,306).

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

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

	2013	2012	\$ Change	% Change
Gross Profit	\$979,316	\$972,238	7,078	1%
Nonoperating revenues	5,495	6,484	(989)	(15%)
<b>Total Revenues</b>	<u>984,811</u>	<u>978,722</u>	<u>6,089</u>	<u>1%</u>
Depreciation expense	242,523	241,560	963	(1%)
Other operating expenses	702,397	805,876	103,479	13%
Nonoperating expenses	99,636	100,838	(1,202)	(1%)
<b>Total Expenses</b>	<u>802,033</u>	<u>1,148,269</u>	<u>102,277</u>	<u>1%</u>
Income before capital contributions	(59,745)	(169,547)	109,802	65%
Capital contributions	30,439	63,460	(33,021)	(52%)
Changes in net position	(29,306)	(106,087)	76,781	72%
Beginning net position	4,273,811	4,379,898	(106,087)	(2%)
<b>Ending Net position</b>	<u>\$4,244,505</u>	<u>\$4,273,811</u>	<u>\$(29,306)</u>	<u>(1%)</u>

Table 2 indicates that the District's total Gross Profit increased by \$7,078 resulting from increased water sales. Total expenses decreased by \$102,277 mainly due to a decrease in operating expenses.

**CAPITAL ASSETS**

As of December 31, 2013, the District's investment in capital assets totaled \$5,131,393, a decrease of \$153,382. 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, 2013**

**LONG TERM DEBT**

As of December 31, 2013, the District had \$2,287,771 in outstanding revenue bond debt. The reduction in long-term debt obligations of \$44,542 is from principal payments made during the year.

Additional information on the District's long-term debt is provided in Note 4 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 the CFHWD at 6929 Cumberland Falls Highway, Corbin Ky.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 427,598	\$ 364,246
Certificates of deposit	507,116	502,093
Accounts receivable	144,011	143,345
Inventory - materials and supplies	56,220	62,075
Prepaid expenses	14,492	12,749
Total Current Assets	1,149,437	1,084,508
 <b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	 348,031	 315,799
 <b>UTILITY PLANT</b>		
Nondepreciable capital assets	73,147	73,147
Depreciable capital assets, net of depreciation	5,058,246	5,211,628
Net Utility Plant	5,131,393	5,284,775
 <b>OTHER ASSETS</b>		
Unamortized debt expense, net	2,171	2,352
Total Other Assets	2,171	2,352
 <b>TOTAL ASSETS</b>	 \$ 6,631,032	 \$ 6,687,434
 <b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 13,136	\$ -
Accrued taxes	6,672	5,568
Revenue bonds payable - due within one year	45,000	43,000
Total Current Liabilities	64,808	48,568
 <b>NONCURRENT LIABILITIES</b>		
Revenue bonds payable - due in more than one year	2,242,771	2,289,313
Customer deposits	78,948	75,742
Total Noncurrent Liabilities	2,321,719	2,365,055
 <b>TOTAL LIABILITIES</b>	 2,386,527	 2,413,623
 <b>NET POSITION</b>		
Invested in capital assets, net of related debt	2,843,622	2,952,462
Restricted for debt service (Expendable)	348,031	315,799
Unrestricted	1,052,852	1,005,550
 <b>TOTAL NET POSITION</b>	 4,244,505	 4,273,811
 <b>TOTAL LIABILITIES AND NET POSITION</b>	 \$ 6,631,032	 \$ 6,687,434

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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 1,546,804	\$ 1,546,092
Other income	43,986	31,406
Total Operating Revenues	<u>1,590,790</u>	<u>1,577,498</u>
<b>COST OF SALES</b>		
Water purchases	<u>611,474</u>	<u>605,260</u>
Gross Profit from Operations	979,316	972,238
<b>OPERATING EXPENSES</b>		
Advertising	244	3,072
Commissioner fees	10,800	10,800
Contractual services:		
Maintenance	4,318	19,545
Operation supplies and materials	59,032	50,420
Office supplies and other expenses	53,172	44,353
Salaries and wages	306,845	339,369
Employee benefits	153,613	205,134
Professional services	29,750	36,405
Transportation expenses	23,741	23,186
Purchased power	30,409	27,897
Insurance	27,657	28,775
Depreciation	242,523	241,560
Bad debt expense	-	14,282
Other taxes	2,816	2,638
Total Operating Expenses	<u>944,920</u>	<u>1,047,436</u>
Operating Income (Loss)	34,396	(75,198)
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest income	5,495	6,484
Interest expense	(99,455)	(100,652)
Amortization of debt expense	(181)	(181)
Net Nonoperating Revenue (Expense)	<u>(94,141)</u>	<u>(94,349)</u>
Income (Loss) before Contributions	(59,745)	(169,547)
<b>CAPITAL CONTRIBUTIONS</b>	<u>30,439</u>	<u>63,460</u>
<b>CHANGE IN NET POSITION</b>	(29,306)	(106,087)
<b>NET POSITION</b>		
Beginning of year	4,273,811	4,379,898
End of year	<u>\$ 4,244,505</u>	<u>\$ 4,273,811</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,590,124	\$ 1,581,631
Cash payments to employees for services	(306,845)	(339,369)
Cash payments to suppliers for goods and services	<u>(988,674)</u>	<u>(1,082,708)</u>
Net cash provided (used) by operating activities	294,605	159,554
Cash flows from noncapital financing activities:		
Change in customer deposits	3,206	9,116
Cash flows from capital and related financing activities:		
Additions to capital assets	(89,141)	(122,121)
Capital contributions	30,439	63,460
Principal paid on debt	(44,542)	(42,693)
Interest paid on debt	<u>(99,455)</u>	<u>(100,652)</u>
Net cash provided (used) in capital and related financing activities	(202,699)	(202,006)
Cash flows from investing activities:		
Interest received	<u>5,495</u>	<u>6,484</u>
Net Increase (decrease) in cash and cash equivalents	100,607	(26,852)
Cash and cash equivalents, Beginning of Year	<u>1,182,138</u>	<u>1,208,990</u>
Cash and cash equivalents, End of Year	<u>\$ 1,282,745</u>	<u>\$ 1,182,138</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 34,396	\$ (75,198)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	242,523	241,560
(Increase) decrease in operating assets:		
Accounts receivable	(666)	4,133
Inventory	5,855	(11,590)
Prepaid expenses	(1,743)	(19)
Increase (decrease) in operating liabilities:		
Accounts payable	13,136	-
Accrued taxes	<u>1,104</u>	<u>668</u>
Total cash provided (used) by operating activities	<u>\$ 294,605</u>	<u>\$ 159,554</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 427,598	\$ 364,246
Certificates of deposit	507,116	502,093
Restricted cash and cash equivalents	<u>348,031</u>	<u>315,799</u>
Total cash and cash equivalents	<u>\$ 1,282,745</u>	<u>\$ 1,182,138</u>
Supplemental disclosure of cash flow information:		
Noncash capital and related activities:		
Amortization of premium on issuance of debt	\$ 181	\$ 181

The Accompanying Notes Are An Integral Part Of These Financial Statements

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT**  
**NOTES DISCLOSURES**  
**DECEMBER 31, 2013 AND 2012**

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Organization

Cumberland Falls Highway Water District, a special district pursuant to KRS Chapter 74, was created by the Whitley County Fiscal Court on February 1, 1967, upon petition by area residents, to provide water services to the residents of the area specified in the petition. The District is accounted for as a governmental enterprise fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

Basis of Presentation and Accounting, and Measurement Focus

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The District follows the provisions of the GASB No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the District. Operating revenues and expenses result from providing water services to customers. All other revenues and expenses are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Significant Accounting Policies

*Cash and Cash Equivalents:* Cash and cash equivalents are considered by the District to be highly liquid investments with a maturity of three months or less when purchased. All certificates of deposit are considered cash and cash equivalents.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT**  
**NOTES DISCLOSURES**  
**DECEMBER 31, 2013 AND 2012**

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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, 2013 and 2012 totaled \$0 and \$14,282, respectively. Receivables outstanding in excess of ninety days at December 31, 2013 and 2012 totaled \$4,823 and \$700, respectively.

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

*Utility plant:* Utility plant and equipment are stated at cost and depreciated over their useful lives using the straight-line method. The estimated useful lives are as follows:

Structures, reservoirs, pumps and other improvements	10 - 40 years
Office furniture, fixtures and equipment	3-10 years
Motor Vehicles	5 years

*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 A and Series B, originally totaling \$13,799, is being amortized over the life of the outstanding bonds. Amortization expense was \$181 and \$181 for 2013 and 2012, respectively.

*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.

*Net Position:* Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

*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.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
NOTES DISCLOSURES  
DECEMBER 31, 2013 AND 2012**

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

**NOTE 2 - COMPOSITION OF CASH**

The District maintains its cash accounts with banks in Corbin, Kentucky. The balance of the accounts over the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 is collateralized by securities held by the bank or by its agent in the name of the District and totaled \$799,020 and \$728,523 at December 31, 2013 and 2012 respectively. Following is an analysis of cash at December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Bank Balance	Book Balance	Bank Balance	Book Balance
Unrestricted	\$946,602	\$934,714	\$909,794	\$866,339
Restricted	352,418	348,031	318,729	315,799
Total	<u>\$1,299,020</u>	<u>\$1,282,745</u>	<u>\$1,228,523</u>	<u>\$1,182,138</u>

**NOTE 3 – UTILITY PLANT**

Details of utility plant activity for the year ending December 31, 2013 are as follows:

	Balance Dec 31, 2012	Additions	Deletions	Balance Dec 31, 2013
<b>Nondepreciable Capital Assets:</b>				
Land & Land Rights	\$73,147	\$0	\$0	\$73,147
Total Nondepreciable	<u>73,147</u>	<u>0</u>	<u>0</u>	<u>73,147</u>
<b>Depreciable Capital Assets:</b>				
Pumping Plant	181,449	0	0	181,449
Transmission & Distribution Plant	7,851,164	89,141	0	7,940,305
General Plant	452,088	0	0	452,088
Total Depreciable	<u>8,484,701</u>	<u>89,141</u>	<u>0</u>	<u>8,573,842</u>
Total Utility Plant	8,557,848	89,141	0	8,646,989
Less: Accumulated Depreciation	(3,273,073)	(242,523)	0	(3,515,596)
Net Utility Plant	<u>\$5,284,775</u>	<u>\$(153,382)</u>	<u>\$0</u>	<u>\$5,131,393</u>

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
NOTES DISCLOSURES  
DECEMBER 31, 2013 AND 2012**

**NOTE 4 - BONDS PAYABLE**

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.

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.

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.

The annual requirements for debt service as of December 31, 2013, are as follows:

Year Ending	Interest	Principal	Total
2014	\$98,347	\$45,000	\$143,347
2015	96,401	47,000	143,401
2016	94,366	49,000	143,366
2017	92,246	51,000	143,246
2018	90,039	53,000	143,039
2019-2023	413,561	304,500	718,061
2024-2028	341,580	378,000	719,580
2029-2033	252,267	468,000	720,267
2034-2038	149,294	431,903	581,197
2039-2043	61,887	390,240	452,127
2044	3,004	70,128	73,132
Total	<u>\$1,692,992</u>	<u>\$2,287,771</u>	<u>\$3,980,763</u>

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
NOTES DISCLOSURES  
DECEMBER 31, 2013 AND 2012**

**NOTE 4 - BONDS PAYABLE (Continued)**

The following is a summary of bonds payable for the year ended December 31, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount due within one year</u>
1996 Issue	\$582,692	\$0	\$16,418	\$566,274	\$16,000
2001 Issue	437,854	0	8,241	429,613	8,000
2007 Issue	1,311,767	0	19,883	1,291,884	21,000
Total Debt	<u>\$2,332,313</u>	<u>\$0</u>	<u>\$44,542</u>	<u>\$2,287,771</u>	<u>\$45,000</u>

Interest expense paid during 2013 and 2012 was \$99,455 and \$100,652, respectively.

**NOTE 5 – 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 2013 and 2012 totaled \$8,880 and \$10,240, respectively.

**NOTE 6 – SUBSEQUENT EVENTS**

As required by FASB ASC 855-10-50-1, the Company has evaluated subsequent events through April 30, 2014, the date the financial statements were available to be issued.

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

## CERTIFIED PUBLIC ACCOUNTANTS

### MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES  
PRACTICE SECTION OF THE AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

STUART K. McCRARY, JR., CPA  
THOMAS S. SPARKS, CPA  
JAMES R. WHITTEN, CPA

SUSAN A. LACY, CPA  
DEBORAH L. MAYNARD, CPA  
RYAN R. LASKI, CPA

LAURENCE T. SUMMERS  
1961-1992

### **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 GOVERNMENT AUDITING STANDARDS**

To the Commissioners  
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 the business-type activities of the Cumberland Falls Highway Water District (District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 30, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (13-01 and 13-02)

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

We noted certain other matters that we reported to management of Cumberland Falls Highway Water District in a separate letter dated April 30, 2014.

## **Cumberland Falls Highway Water District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of the Report**

The purpose of this report is intended 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 40509  
April 30, 2014

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2013**

**Finding 13-01:**

Condition: The financial statements were not adjusted to actual and not converted to full accrual in accordance with generally accepted accounting principles, GAAP, (capital assets, accounts payable, deposits, bonds, prior year adjustments).

Criteria: Financial statements must be prepared in accordance with GAAP.

Effect: Financial statements issued that are not in accordance with GAAP.

Cause: The organization's personnel lack the expertise specific to preparing the financial statements in accordance with GAAP.

Recommendation: Bookkeeper should attempt to adjust the financial statement accounts to actual at the end of each fiscal year. The organization should also consider electing a board member with the necessary knowledge to be able to prepare the financial statements in accordance with GAAP. Another alternative would be to contract with another CPA to take responsibility of the financial statements in accordance with GAAP.

Response: Due to the complexity of GAAP and audit standards, we rely on the audit for year-end adjustments that meet the required GAAP standards.

**Finding 13-02:**

Condition: The District lacks proper internal control over financing reporting of their year-end financial statements to be issued in accordance with generally accepted accounting principles.

Criteria: Financial statements must be prepared in accordance with GAAP.

Effect: Financial statements issued that are not in accordance with GAAP.

Cause: The organization's personnel lack the expertise specific to preparing the financial statements in accordance with GAAP.

Recommendation: The organization should consider electing a board member with the necessary knowledge to be able to prepare the financial statements in accordance with GAAP. Another alternative would be to contract with another CPA to take responsibility of the financial statements in accordance with GAAP.

Response: Due to the complexity of GAAP and audit standards this is not worth the effort required. The financial statements are more than adequate to reveal the financial stability of the organization and the reporting of operating results. We rely on the audit for year-end financial statements that meet the required GAAP standards.