

**CUMBERLAND FALLS HIGHWAY
WATER DISTRICT**

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
DECEMBER 31, 2015 AND 2014**

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SUMMERS, MCCRARY & SPARKS, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
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 (the District) as of and for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, 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 Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016, 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

Lexington, KY
April 29, 2016

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

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, 2015 and 2014. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2015

- The District's net position increased by \$250,199 or 6 percent from \$4,188,651 to \$4,438,850.
- Gross profit from operations increased by \$215,404 or 21 percent from \$1,004,175 to \$1,219,579.
- Operating expenses increased by \$31,152 or 3 percent from \$992,841 to \$1,023,993.
- Capital contributions to the District increased by \$125,739 or 482 percent from \$26,097 to \$151,836.

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, 2015**

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>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$1,650,679	\$1,599,354	\$51,325	3%
Capital assets	5,867,172	4,979,234	887,938	18%
Total Assets	<u>7,517,851</u>	<u>6,538,588</u>	979,263	15%
Long-term debt	2,935,861	2,241,041	694,820	31%
Other liabilities	143,140	108,896	34,244	31%
Total Liabilities	<u>3,079,001</u>	<u>2,349,937</u>	792,064	31%
Net position invested in capital assets	2,931,311	2,738,193	193,118	7%
Net position restricted for debt service	414,938	381,565	33,373	9%
Unrestricted net position	<u>1,092,601</u>	<u>1,068,893</u>	<u>23,708</u>	2%
Total Net Position	<u><u>\$4,438,850</u></u>	<u><u>\$4,188,651</u></u>	<u><u>250,199</u></u>	6%

As the above table indicates, total assets increased by \$979,263 from \$6,538,588 to \$7,517,851 during the fiscal year ended December 31, 2015. This increase primarily resulted from an increase in capital assets of \$887,938 resulting from new construction in progress, supplemented by an increase in current assets of \$51,325.

Table 1 also indicates an increase of \$250,199 in net position, from \$4,188,651 to \$4,438,850 for fiscal year ending December 31, 2015. As indicated above, this was due to an increase 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 \$98,363 and capital contributions were \$151,836, realizing a net change in net position of 250,199.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

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

	2015	2014	\$ Change	% Change
Gross Profit	\$1,219,579	\$1,004,175	215,404	21%
Nonoperating revenues	2,272	4,432	(2,160)	(49%)
Total Revenues	<u>1,221,851</u>	<u>1,008,607</u>	<u>213,244</u>	<u>21 %</u>
Depreciation expense	241,912	237,919	3,540	1%
Other operating expenses	782,081	754,922	27,159	4%
Nonoperating expenses	99,495	97,717	1,778	2%
Total Expenses	<u>1,123,488</u>	<u>1,090,558</u>	<u>32,930</u>	<u>3%</u>
Income before capital contributions	98,363	(81,951)	180,314	220%
Capital contributions	151,836	26,097	125,739	482%
Changes in net position	250,199	(55,854)	306,053	548%
Beginning net position	4,188,651	4,244,505	(55,854)	(1%)
Ending Net position	<u>\$4,438,850</u>	<u>\$4,188,651</u>	<u>\$250,199</u>	<u>6%</u>

Table 2 indicates that the District's total Gross Profit increased by \$215,404 resulting from increased water sales. Total expenses increased by \$32,930 mainly due to an increase in operating expenses.

CAPITAL ASSETS

As of December 31, 2015, the District's investment in capital assets totaled \$5,867,172, an increase of \$887,938. 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, 2015**

LONG TERM DEBT

As of December 31, 2015, the District had \$2,935,861 in outstanding revenue bond debt. The change in long-term debt obligations of \$694,820 is from principal payments made during the year of \$48,924 and additional borrowings of \$743,744.

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, 2015 AND 2014**

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 480,047	\$ 452,265
Certificates of deposit	512,322	510,825
Accounts receivable	168,171	142,137
Inventory - materials and supplies	60,763	57,594
Prepaid expenses	12,629	12,978
Total Current Assets	1,233,932	1,175,799
 RESTRICTED CASH AND CASH EQUIVALENTS	 414,938	 381,565
 UTILITY PLANT		
Nondepreciable capital assets	1,137,820	73,147
Depreciable capital assets, net of depreciation	4,729,352	4,906,087
Net Utility Plant	5,867,172	4,979,234
 OTHER ASSETS		
Unamortized debt expense, net	1,809	1,990
Total Other Assets	1,809	1,990
 TOTAL ASSETS	 \$ 7,517,851	 \$ 6,538,588
 LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 54,750	\$ 15,452
Accrued taxes	7,341	6,816
Revenue bonds payable - due within one year	792,744	47,000
Total Current Liabilities	854,835	69,268
 NONCURRENT LIABILITIES		
Revenue bonds payable - due in more than one year	2,143,117	2,194,041
Customer deposits	81,049	86,628
Total Noncurrent Liabilities	2,224,166	2,280,669
 TOTAL LIABILITIES	 3,079,001	 2,349,937
 NET POSITION		
Invested in capital assets, net of related debt	2,931,311	2,738,193
Restricted for debt service (Expendable)	414,938	381,565
Unrestricted	1,092,601	1,068,893
 TOTAL NET POSITION	 4,438,850	 4,188,651
 TOTAL LIABILITIES AND NET POSITION	 \$ 7,517,851	 \$ 6,538,588

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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Water sales	\$ 1,784,375	\$ 1,589,598
Other income	58,131	45,033
Total Operating Revenues	<u>1,842,506</u>	<u>1,634,631</u>
COST OF SALES		
Water purchases	<u>622,927</u>	<u>630,456</u>
Gross Profit from Operations	1,219,579	1,004,175
OPERATING EXPENSES		
Advertising	1,527	1,339
Commissioner fees	10,200	10,800
Contractual services:		
Maintenance	11,932	1,520
Operation supplies and materials	55,873	76,439
Office supplies and other expenses	49,754	77,043
Salaries and wages	321,978	309,720
Employee benefits	191,720	160,404
Professional services	29,290	27,620
Transportation expenses	17,515	22,259
Purchased power	47,972	30,754
Insurance	31,083	29,183
Depreciation	241,912	238,372
Bad debt expense	10,115	4,233
Other taxes	3,122	3,155
Total Operating Expenses	<u>1,023,993</u>	<u>992,841</u>
Operating Income (Loss)	195,586	11,334
NONOPERATING REVENUE (EXPENSE)		
Interest income	2,272	4,432
Interest expense	(99,314)	(97,536)
Amortization of debt expense	<u>(181)</u>	<u>(181)</u>
Net Nonoperating Revenue (Expense)	<u>(97,223)</u>	<u>(93,285)</u>
Income (Loss) before Contributions	98,363	(81,951)
CAPITAL CONTRIBUTIONS	<u>151,836</u>	<u>26,097</u>
CHANGE IN NET POSITION	250,199	(55,854)
NET POSITION		
Beginning of year	4,188,651	4,244,505
End of year	<u>\$ 4,438,850</u>	<u>\$ 4,188,651</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, 2015 AND 2014**

	2015	2014
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,816,472	\$ 1,636,505
Cash payments to employees for services	(321,978)	(309,720)
Cash payments to suppliers for goods and services	(1,046,027)	(1,072,605)
Net cash provided (used) by operating activities	448,467	254,180
Cash flows from noncapital financing activities:		
Change in customer deposits	(5,579)	7,680
Cash flows from capital and related financing activities:		
Additions to capital assets	(1,071,541)	(86,213)
Capital contributions	837,271	26,097
Principal paid on debt	(48,924)	(46,730)
Interest paid on debt	(99,314)	(97,536)
Net cash provided (used) in capital and related financing activities	(382,508)	(204,382)
Cash flows from investing activities:		
Interest received	2,272	4,432
Net Increase (decrease) in cash and cash equivalents	62,652	61,910
Cash and cash equivalents, Beginning of Year	1,344,655	1,282,745
Cash and cash equivalents, End of Year	\$ 1,407,307	\$ 1,344,655
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 195,586	\$ 11,334
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	241,912	238,372
(Increase) decrease in operating assets:		
Accounts receivable	(26,034)	1,874
Inventory	(3,169)	(1,374)
Prepaid expenses	349	1,514
Increase (decrease) in operating liabilities:		
Accounts payable	39,298	2,316
Accrued taxes	525	144
Total cash provided (used) by operating activities	\$ 448,467	\$ 254,180
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 480,047	\$ 452,265
Certificates of deposit	512,322	510,825
Restricted cash and cash equivalents	414,938	381,565
Total cash and cash equivalents	\$ 1,407,307	\$ 1,344,655
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, 2015 AND 2014

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 prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*

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, 2015 AND 2014

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, 2015 and 2014 totaled \$10,115 and \$4,233, respectively. Receivables outstanding in excess of ninety days at December 31, 2015 and 2014 totaled \$10,117 and \$7,627, 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 2015 and 2014, 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, 2015 AND 2014**

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 \$1,183,852 and \$846,690 at December 31, 2015 and 2014 respectively. Following is an analysis of cash at December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Bank	Book	Bank	Book
	Balance	Balance	Balance	Balance
Unrestricted	\$998,241	\$992,369	\$964,573	\$963,090
Restricted	435,611	414,938	382,117	381,565
Total	\$1,433,852	\$1,407,307	\$1,346,690	\$1,317,655

Credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk exposure. The District has no formal policy on managing credit risk; however, Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies and shares in savings and loan associations insured by federal agencies. Larger amounts can be deposited in savings and loan associations and banks provided such institutions pledge obligations of the United States government or its agencies as security.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES DISCLOSURES
DECEMBER 31, 2015 AND 2014**

NOTE 3 – UTILITY PLANT

Details of utility plant activity for the year ending December 31, 2015 are as follows:

	Balance Dec 31, 2014	Additions	Deletions	Balance Dec 31, 2015
Nondepreciable Capital Assets:				
Land & Land Rights	\$73,147	\$0	\$0	\$73,147
Construction in Progress	0	1,064,673	0	1,064,673
Total Nondepreciable	<u>73,147</u>	<u>1,064,673</u>	<u>0</u>	<u>1,137,820</u>
Depreciable Capital Assets:				
Pumping Plant	181,449	0	0	181,449
Transmission & Distribution Plant	8,005,522	60,178	0	8,065,700
General Plant	473,084	4,999	0	478,083
Total Depreciable	<u>8,660,055</u>	<u>65,177</u>	<u>0</u>	<u>8,725,232</u>
Total Utility Plant	8,733,202	1,129,850	0	9,863,052
Less: Accumulated Depreciation	<u>(3,753,968)</u>	<u>(241,912)</u>	<u>0</u>	<u>(3,995,880)</u>
Net Utility Plant	<u>\$4,979,234</u>	<u>\$887,938</u>	<u>\$0</u>	<u>\$5,867,172</u>

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.

During 2015 the District obtained interim financing in the form of a loan from Regions Bank to provide funding for a new construction project. The balance of this loan at December 31, 2015 was \$743,744. This loan is schedule to be refinanced via a Waterworks Revenue Bond in 2016.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES DISCLOSURES
DECEMBER 31, 2015 AND 2014**

NOTE 4 - 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.

The annual requirements for debt service as of December 31, 2015, are as follows:

Year Ending	Interest	Principal	Total
2016	94,366	792,744	887,110
2017	92,246	51,000	143,246
2018	90,039	53,000	143,039
2019	87,746	55,500	143,246
2020	85,344	58,000	143,344
2021-2025	386,617	332,000	718,617
2026-2030	308,139	412,000	720,139
2031-2035	210,827	493,903	704,730
2036-2040	113,260	402,000	515,260
2041-2044	29,660	285,714	315,374
Total	\$1,498,244	\$2,935,861	\$4,434,105

The following is a summary of bonds payable for the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within one year
1996 Issue	\$549,037	\$0	\$18,012	\$531,025	\$17,500
2001 Issue	420,949	0	9,111	411,838	9,000
2007 Issue	1,271,054	0	21,801	1,249,254	22,500
2015 Issue	0	743,744	0	743,744	743,744
Total Debt	\$2,241,041	\$895,580	\$48,924	\$2,935,861	\$792,744

Interest expense paid during 2015 and 2014 was \$99,314 and \$97,536, respectively.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES DISCLOSURES
DECEMBER 31, 2015 AND 2014**

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 2015 and 2014 totaled \$9,674 and \$9,227, respectively.

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS

During 2014, the District implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement established standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures. Implementation had no effect on the District's net position; however, implementation did change the terminology the District uses in the presentation of its financial position in its financial report.

During 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The adoption of GASB Statement No. 65 had no effect on the financial statements.

NOTE 8 – ECONOMIC DEPENDENCY

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

Name	2015	2014
Corbin City Utilities	\$ 332,941	\$ 327,003
City of Williamsburg	179,628	167,765
W. Laurel Water District	110,358	135,688
	<u>\$ 622,927</u>	<u>\$ 630,456</u>

The District has entered into a 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.

SUMMERS, MCCRARY & SPARKS, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
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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
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 (the District), as of and for the year ended December 31, 2015, 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 29, 2016.

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 opinions 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.

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 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 29, 2016