

**CUMBERLAND FALLS HIGHWAY  
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2014 AND 2013**

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
DECEMBER 31, 2014 AND 2013**

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

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### INDEPENDENT AUDITORS' REPORT

To the 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 (District), as of and for the years ended December 31, 2014 and 2013, 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. 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, 2014 and 2013, 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, 2015, 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, 2015

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014**

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, 2014 and 2013. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2014**

- The District's net position decreased by \$55,845 or less than 2 percent from \$4,244,505 to \$4,188,651.
- Gross profit from operations increased by \$24,859 or 3 percent from \$979,316 to \$1,004,175.
- Operating expenses decreased by \$22,079 or 3 percent from \$944,920 to \$922,841.
- Capital contributions to the District decreased by \$4,342 or 14 percent from \$30,439 to \$26,097.

**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, 2014**

**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>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$1,599,354	\$1,499,639	\$99,715	7%
Capital assets	4,979,234	5,131,393	(152,159)	(3%)
<b>Total Assets</b>	<u>6,538,588</u>	<u>6,631,032</u>	<u>(92,444)</u>	<u>(2%)</u>
Long-term debt	2,280,669	2,321,719	(41,050)	(2%)
Other liabilities	69,268	64,808	4,460	7%
<b>Total Liabilities</b>	<u>2,349,937</u>	<u>2,386,527</u>	<u>(36,590)</u>	<u>(2%)</u>
Net position invested in capital assets	2,738,193	2,843,622	(105,429)	(4%)
Net position restricted for debt service	381,565	348,031	33,534	10%
Unrestricted net position	<u>1,068,893</u>	<u>1,052,852</u>	<u>(16,041)</u>	<u>(2%)</u>
<b>Total Net Position</b>	<u>\$4,188,651</u>	<u>\$4,244,505</u>	<u>(\$55,854)</u>	<u>(2%)</u>

As the above table indicates, total assets decreased by \$92,444 from \$6,631,032 to \$6,538,588 during the fiscal year ended December 31, 2014. This decrease primarily resulted from a decrease in capital assets of \$152,159 resulting from depreciation of the assets, offset by an increase in current assets of \$99,715.

Table 1 also indicates a decrease of \$55,854 in net position, from \$4,244,505 to \$4,188,651 for fiscal year ending December 31, 2014. 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 \$81,951 and capital contributions were \$26,097, realizing a net change in net position of (\$55,854).

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014**

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

	2014	2013	\$ Change	% Change
Gross Profit	\$1,004,175	\$979,316	24,859	3%
Nonoperating revenues	4,432	5,495	(1,063)	(19%)
<b>Total Revenues</b>	<u>1,008,607</u>	<u>984,811</u>	<u>23,796</u>	<u>3 %</u>
Depreciation expense	237,919	242,523	(4,604)	(2%)
Other operating expenses	754,922	702,397	52,525	8%
Nonoperating expenses	97,717	99,636	(1,919)	(2%)
<b>Total Expenses</b>	<u>1,090,558</u>	<u>802,033</u>	<u>50,606</u>	<u>7%</u>
Income before capital contributions	(81,951)	(59,745)	(22,206)	(38%)
Capital contributions	26,097	30,439	(4,342)	(14%)
Changes in net position	(55,854)	(29,306)	(26,548)	(91%)
Beginning net position	4,244,505	4,273,811	(29,306)	(1%)
<b>Ending Net position</b>	<u>\$4,188,651</u>	<u>\$4,244,505</u>	<u>\$(55,854)</u>	<u>(2%)</u>

Table 2 indicates that the District's total Gross Profit increased by \$24,859 resulting from increased water sales. Total expenses increased by \$50,606 mainly due to an increase in operating expenses.

**CAPITAL ASSETS**

As of December 31, 2014, the District's investment in capital assets totaled \$4,979,234, a decrease of \$152,159. 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, 2014**

**LONG TERM DEBT**

As of December 31, 2014, the District had \$2,241,041 in outstanding revenue bond debt. The reduction in long-term debt obligations of \$46,730 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, 2014 AND 2013**

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 452,265	\$ 427,598
Certificates of deposit	510,825	507,116
Accounts receivable	142,137	144,011
Inventory - materials and supplies	57,594	56,220
Prepaid expenses	12,978	14,492
Total Current Assets	1,175,799	1,149,437
 <b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	 381,565	 348,031
 <b>UTILITY PLANT</b>		
Nondepreciable capital assets	73,147	73,147
Depreciable capital assets, net of depreciation	4,906,087	5,058,246
Net Utility Plant	4,979,234	5,131,393
 <b>OTHER ASSETS</b>		
Unamortized debt expense, net	1,990	2,171
Total Other Assets	1,990	2,171
 <b>TOTAL ASSETS</b>	 \$ 6,538,588	 \$ 6,631,032
 <b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 15,452	\$ 13,136
Accrued taxes	6,816	6,672
Revenue bonds payable - due within one year	47,000	45,000
Total Current Liabilities	69,268	64,808
 <b>NONCURRENT LIABILITIES</b>		
Revenue bonds payable - due in more than one year	2,194,041	2,242,771
Customer deposits	86,628	78,948
Total Noncurrent Liabilities	2,280,669	2,321,719
 <b>TOTAL LIABILITIES</b>	 2,349,937	 2,386,527
 <b>NET POSITION</b>		
Invested in capital assets, net of related debt	2,738,193	2,843,622
Restricted for debt service (Expendable)	381,565	348,031
Unrestricted	1,068,893	1,052,852
 <b>TOTAL NET POSITION</b>	 4,188,651	 4,244,505
 <b>TOTAL LIABILITIES AND NET POSITION</b>	 \$ 6,538,588	 \$ 6,631,032

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 1,589,598	\$ 1,546,804
Other income	45,033	43,986
Total Operating Revenues	<u>1,634,631</u>	<u>1,590,790</u>
 <b>COST OF SALES</b>		
Water purchases	<u>630,456</u>	<u>611,474</u>
 Gross Profit from Operations	 1,004,175	 979,316
 <b>OPERATING EXPENSES</b>		
Advertising	1,339	244
Commissioner fees	10,800	10,800
Contractual services:		
Maintenance	1,520	4,318
Operation supplies and materials	76,439	59,032
Office supplies and other expenses	77,043	53,172
Salaries and wages	309,720	306,845
Employee benefits	160,404	153,613
Professional services	27,620	29,750
Transportation expenses	22,259	23,741
Purchased power	30,754	30,409
Insurance	29,183	27,657
Depreciation	238,372	242,523
Bad debt expense	4,233	-
Other taxes	3,155	2,816
 Total Operating Expenses	 <u>992,841</u>	 <u>944,920</u>
 Operating Income (Loss)	 11,334	 34,396
 <b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest income	4,432	5,495
Interest expense	(97,536)	(99,455)
Amortization of debt expense	(181)	(181)
 Net Nonoperating Revenue (Expense)	 <u>(93,285)</u>	 <u>(94,141)</u>
 Income (Loss) before Contributions	 (81,951)	 (59,745)
 <b>CAPITAL CONTRIBUTIONS</b>	 <u>26,097</u>	 <u>30,439</u>
 <b>CHANGE IN NET POSITION</b>	 (55,854)	 (29,306)
 <b>NET POSITION</b>		
Beginning of year	4,244,505	4,273,811
End of year	<u>\$ 4,188,651</u>	<u>\$ 4,244,505</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, 2014 AND 2013**

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,636,505	\$ 1,590,124
Cash payments to employees for services	(309,720)	(306,845)
Cash payments to suppliers for goods and services	(1,072,605)	(988,674)
Net cash provided (used) by operating activities	254,180	294,605
Cash flows from noncapital financing activities:		
Change in customer deposits	7,680	3,206
Cash flows from capital and related financing activities:		
Additions to capital assets	(86,213)	(89,141)
Capital contributions	26,097	30,439
Principal paid on debt	(46,730)	(44,542)
Interest paid on debt	(97,536)	(99,455)
Net cash provided (used) in capital and related financing activities	(204,382)	(202,699)
Cash flows from investing activities:		
Interest received	4,432	5,495
Net Increase (decrease) in cash and cash equivalents	61,910	100,607
Cash and cash equivalents, Beginning of Year	1,282,745	1,182,138
Cash and cash equivalents, End of Year	\$ 1,344,655	\$ 1,282,745
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 11,334	\$ 34,396
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	238,372	242,523
(Increase) decrease in operating assets:		
Accounts receivable	1,874	(666)
Inventory	(1,374)	5,855
Prepaid expenses	1,514	(1,743)
Increase (decrease) in operating liabilities:		
Accounts payable	2,316	13,136
Accrued taxes	144	1,104
Total cash provided (used) by operating activities	\$ 254,180	\$ 294,605
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 452,265	\$ 427,598
Certificates of deposit	510,825	507,116
Restricted cash and cash equivalents	381,565	348,031
Total cash and cash equivalents	\$ 1,344,655	\$ 1,282,745
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, 2014 AND 2013**

**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, 2014 AND 2013**

**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, 2014 and 2013 totaled \$4,807 and \$0, respectively. Receivables outstanding in excess of ninety days at December 31, 2014 and 2013 totaled \$7,627 and \$4,823, 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 2014 and 2013, 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, 2014 AND 2013**

**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 \$846,690 and \$799,020 at December 31, 2014 and 2013 respectively. Following is an analysis of cash at December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Bank Balance	Book Balance	Bank Balance	Book Balance
Unrestricted	\$964,573	\$963,090	\$946,602	\$934,714
Restricted	382,117	381,565	352,418	348,031
Total	\$1,346,690	\$1,317,655	\$1,299,020	\$1,282,745

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, 2014 AND 2013**

**NOTE 3 – UTILITY PLANT**

Details of utility plant activity for the year ending December 31, 2014 are as follows:

	Balance Dec 31, 2013	Additions	Deletions	Balance Dec 31, 2014
Nondepreciable Capital Assets:				
Land & Land Rights	\$73,147	\$0	\$0	\$73,147
Total Nondepreciable	73,147	0	0	73,147
Depreciable Capital Assets:				
Pumping Plant	181,449	0	0	181,449
Transmission & Distribution Plant	7,940,305	65,217	0	8,005,522
General Plant	452,088	20,996	0	473,084
Total Depreciable	8,573,842	86,213	0	8,660,055
Total Utility Plant	8,646,989	86,213	0	8,733,202
Less: Accumulated Depreciation	(3,515,596)	(238,372)	0	(3,753,968)
Net Utility Plant	\$5,131,393	\$(152,159)	\$0	\$4,979,234

**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.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
NOTES DISCLOSURES  
DECEMBER 31, 2014 AND 2013**

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

The annual requirements for debt service as of December 31, 2014, are as follows:

Year Ending	Interest	Principal	Total
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	87,746	55,500	143,246
2020-2024	400,382	318,000	718,382
2025-2029	325,216	394,500	719,716
2030-2034	232,003	489,000	721,003
2035-2039	130,750	409,403	540,153
2040-2044	45,496	374,638	420,134
Total	<u>\$1,594,645</u>	<u>\$2,241,041</u>	<u>\$3,835,686</u>

The following is a summary of bonds payable for the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within one year
1996 Issue	\$566,274	\$0	\$17,237	\$549,037	\$17,000
2001 Issue	429,613	0	8,664	420,949	8,500
2007 Issue	1,291,884	0	20,830	1,271,054	21,500
Total Debt	<u>\$2,287,771</u>	<u>\$0</u>	<u>\$46,731</u>	<u>\$2,241,041</u>	<u>\$47,000</u>

Interest expense paid during 2014 and 2013 was \$97,536 and \$99,455, 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 2014 and 2013 totaled \$9,227 and \$8,880, respectively.

**NOTE 6 – SUBSEQUENT EVENTS**

As required by FASB ASC 855-10-50-1, the Company has evaluated subsequent events through April 30, 2015, the date the financial statements were available to be issued.



**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
NOTES DISCLOSURES  
DECEMBER 31, 2014 AND 2013**

**NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS**

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.

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:

<b>Name</b>	<b>2014</b>	<b>2013</b>
Corbin City Utilities	\$ 327,003	\$ 331,524
City of Williamsburg	167,765	149,283
W. Laurel Water District	135,688	130,668
	<u>\$ 630,456</u>	<u>\$ 611,474</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  
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  
RYAN R. LASKI, CPA

SUSAN A. LACY, 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, 2014, 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, 2015.

#### **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 questioned costs, we identified certain deficiencies in internal control 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 questioned costs to be material weaknesses. [14-01].

## **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, 2015.

## **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 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, 2015

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2014**

**Finding 14-01:**

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.