

**CUMBERLAND FALLS HIGHWAY
WATER DISTRICT**

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
DECEMBER 31, 2016 AND 2015**

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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 of
The Cumberland Falls Highway Water District
Corbin, KY

We have audited the accompanying financial statements of the the business-type activities of the Cumberland Falls Highway Water District as of and for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, and the respective changes in financial position and, where applicable, 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 Governmental Accounting Standards

In accordance with Governmental Accounting Standards, we have also issued our report dated April 18, 2017, on our consideration of the District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Lexington, KY
April 18, 2017

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

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, 2016 and 2015. 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 \$636,267 or 14 percent from \$4,438,850 to \$5,075,117.
- Gross profit from operations increased by \$273,363 or 22 percent from \$1,219,579 to \$1,492,942.
- Operating expenses increased by \$26,605 or 3 percent from \$1,023,993 to \$1,050,598.
- Capital contributions to the District increased by \$3,695 or 12 percent from \$31,751 to \$35,446.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

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>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$ 2,266,723	\$ 1,648,870	\$ 617,853	37%
Capital assets	5,971,997	5,867,172	104,825	2%
Total Assets	<u>8,238,720</u>	<u>7,516,042</u>	<u>722,678</u>	<u>10%</u>
Long-term debt	2,981,484	2,934,052	47,432	2%
Other liabilities	182,119	143,140	38,979	27%
Total Liabilities	<u>3,163,603</u>	<u>3,077,192</u>	<u>86,411</u>	<u>3%</u>
Net position invested in capital assets	2,990,513	2,931,311	59,202	2%
Net position restricted for debt service	572,524	414,938	157,586	38%
Unrestricted net position	<u>1,512,080</u>	<u>1,092,601</u>	<u>419,479</u>	<u>38%</u>
Total Net Position	<u><u>\$ 5,075,117</u></u>	<u><u>\$ 4,438,850</u></u>	<u><u>\$ 636,267</u></u>	<u><u>14%</u></u>

As the above table indicates, total assets increased by \$722,678 from \$7,516,042 to \$8,238,720 during the fiscal year ended December 31, 2016. This increase primarily resulted from an increase in cash and cash equivalents of \$587,477 resulting from loans and grants for construction and an increase in operating income, supplemented by an increase in capital assets of \$104,825.

Table 1 also indicates an increase of \$636,267 in net position, from \$4,438,850 to \$5,075,117 for fiscal year ending December 31, 2016. As indicated above, this was due to an increase in operating income and grants.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

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 \$600,821 and capital contributions were \$35,446, realizing a net change in net position of 636,267.

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

	2016	2015	\$ Change	% Change
Gross Profit	\$ 1,492,942	\$ 1,219,579	\$ 273,363	22%
Nonoperating revenues	273,465	122,357	151,108	123%
Total Revenues	<u>1,766,407</u>	<u>1,341,936</u>	<u>424,471</u>	<u>32%</u>
Depreciation expense	269,172	241,912	27,260	11%
Other operating expenses	781,426	782,081	(655)	0%
Nonoperating expenses	114,988	99,495	15,493	16%
Total Expenses	<u>1,165,586</u>	<u>1,123,488</u>	<u>42,098</u>	<u>4%</u>
Income before capital contributions	600,821	218,448	382,373	175%
Capital contributions	35,446	31,751	3,695	12%
Changes in net position	636,267	250,199	386,068	154%
Beginning net position	4,438,850	4,188,651	250,199	6%
Ending Net position	<u>\$ 5,075,117</u>	<u>\$ 4,438,850</u>	<u>\$ 636,267</u>	<u>14%</u>

Table 2 indicates that the District's total Gross Profit increased by \$273,363 resulting from increased water sales due to an increase in rates that took effect late in 2015. Total expenses increased by \$42,098 mainly due to an increase in depreciation expense and interest expense.

CAPITAL ASSETS

As of December 31, 2016, the District's investment in capital assets totaled \$5,971,997, an increase of \$104,825. 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, 2016**

LONG TERM DEBT

As of December 31, 2016, the District had \$2,983,112 in outstanding revenue bond debt, this is presented in the Statements of Net Position net of \$1,628 in amortizable bond costs. The change in long-term debt obligations of \$47,432 is from principal payments made during the year of \$755,749, additional borrowings of \$803,000, and amortization of bond costs of \$181.

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

ADDITIONAL FINANCIAL INFORMATION

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

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 707,244	\$ 480,047
Certificates of deposit	715,016	512,322
Accounts receivable	189,251	168,171
Inventory - materials and supplies	68,570	60,763
Prepaid expenses	14,118	12,629
Total Current Assets	1,694,199	1,233,932
 RESTRICTED CASH AND CASH EQUIVALENTS	 572,524	 414,938
 UTILITY PLANT		
Nondepreciable capital assets	73,147	1,137,820
Depreciable capital assets, net of depreciation	5,898,850	4,729,352
Net Utility Plant	5,971,997	5,867,172
 TOTAL ASSETS	 \$ 8,238,720	 \$ 7,516,042
 LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 18,263	\$ 54,750
Accrued interest	56,991	-
Accrued taxes	17,268	7,341
Revenue bonds payable - due within one year	51,000	792,744
Total Current Liabilities	143,522	854,835
 NONCURRENT LIABILITIES		
Revenue bonds payable - due in more than one year	2,930,484	2,141,308
Customer deposits	89,597	81,049
Total Noncurrent Liabilities	3,020,081	2,222,357
 TOTAL LIABILITIES	 3,163,603	 3,077,192
 NET POSITION		
Invested in capital assets, net of related debt	2,990,513	2,931,311
Restricted for debt service and Plant Replacement	572,524	414,938
Unrestricted	1,512,080	1,092,601
 TOTAL NET POSITION	 5,075,117	 4,438,850
 TOTAL LIABILITIES AND NET POSITION	 \$ 8,238,720	 \$ 7,516,042

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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Water sales	\$ 1,917,569	\$ 1,784,375
Other income	64,682	58,131
Total Operating Revenues	<u>1,982,251</u>	<u>1,842,506</u>
COST OF SALES		
Water purchases	<u>489,309</u>	<u>622,927</u>
Gross Profit from Operations	1,492,942	1,219,579
OPERATING EXPENSES		
Advertising	822	1,527
Commissioner fees	12,600	10,200
Contractual services:		
Maintenance	3,282	11,932
Operation supplies and materials	49,415	55,873
Office supplies and other expenses	68,855	49,754
Salaries and wages	325,733	321,978
Employee benefits	185,351	191,720
Professional services	37,735	29,290
Transportation expenses	26,427	17,515
Purchased power	22,104	47,972
Insurance	33,358	31,083
Depreciation	269,172	241,912
Bad debt expense	10,568	10,115
Other taxes	5,176	3,122
Total Operating Expenses	<u>1,050,598</u>	<u>1,023,993</u>
Operating Income (Loss)	442,344	195,586
NON-OPERATING REVENUE (EXPENSE)		
Interest income	3,758	2,272
Interest expense	(114,988)	(99,495)
Grant income	<u>269,707</u>	<u>120,085</u>
Net Nonoperating Revenue (Expense)	<u>158,477</u>	<u>22,862</u>
Income (Loss) before Contributions	600,821	218,448
CAPITAL CONTRIBUTIONS	<u>35,446</u>	<u>31,751</u>
CHANGE IN NET POSITION	636,267	250,199
NET POSITION		
Beginning of year	4,438,850	4,188,651
End of year	<u>\$ 5,075,117</u>	<u>\$ 4,438,850</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, 2016 AND 2015**

	2016	2015
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,961,171	\$ 1,816,472
Cash payments to employees for services	(325,733)	(321,978)
Cash payments to suppliers for goods and services	(980,858)	(1,046,027)
Net cash provided (used) by operating activities	654,580	448,467
Cash flows from noncapital financing activities:		
Change in customer deposits	8,548	(5,579)
Cash flows from capital and related financing activities:		
Additions to capital assets	(314,560)	(1,071,541)
Capital contributions and grants	305,153	837,271
Principal paid on debt	(12,005)	(48,924)
Interest paid on debt	(57,997)	(99,314)
Net cash provided (used) in capital and related financing activities	(79,409)	(382,508)
Cash flows from investing activities:		
Interest received	3,758	2,272
Net Increase (decrease) in cash and cash equivalents	587,477	62,652
Cash and cash equivalents, Beginning of Year	1,407,307	1,344,655
Cash and cash equivalents, End of Year	\$ 1,994,784	\$ 1,407,307
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 442,344	\$ 195,586
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	269,172	241,912
(Increase) decrease in operating assets:		
Accounts receivable	(21,080)	(26,034)
Inventory	(7,807)	(3,169)
Prepaid expenses	(1,489)	349
Increase (decrease) in operating liabilities:		
Accounts payable	(36,487)	39,298
Accrued taxes	9,927	525
Total cash provided (used) by operating activities	\$ 654,580	\$ 448,467
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 707,244	\$ 480,047
Certificates of deposit	715,016	512,322
Restricted cash and cash equivalents	572,524	414,938
Total cash and cash equivalents	\$ 1,994,784	\$ 1,407,307

The Accompanying Notes Are An Integral Part Of These Financial Statements

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Cumberland Falls Highway Water District is a "Class B" water district located in Whitley County, Kentucky, with principal offices located at 6926 Cumberland Falls Highway, Corbin, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a three-member commission consisting of a chairman and two commissioners, all appointed by Whitley County Fiscal Court. Water is purchased from City of Corbin, City of Williamsburg and East Laurel Water District and resold to approximately 3,200 residential and commercial customers.

Basis of Accounting and Measurement Focus

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

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

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

Property and Equipment: The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2016 and 2015

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment:

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

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

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

Accounts Receivable: The District uses the direct write-off method for accounting for bad debts, which management feels is not materially different from the allowance method. Accounts written off as uncollectible during the years ended December 31, 2016 and 2015 totaled \$10,568 and \$10,115, respectively. Receivables outstanding in excess of ninety days at December 31, 2016 and 2015 totaled \$10,219 and \$10,117, respectively.

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

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

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

Amortization of Debt Expense: Debt expense on the Waterworks Refunding and Improvement Revenue Bond of 1986, Series B, originally totaling \$13,799, is being amortized over the life of the outstanding bonds. Amortization expense was \$181 and \$181 for 2016 and 2015, respectively. This has been included in interest expense.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interest: Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2016 and 2015.

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

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

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

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

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 - COMPOSITION OF CASH

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District's deposits and investments are collateralized with securities held by the bank's trust department in the District's name or letter of credit held by a third party in the District's name.. Following is an analysis of cash at December 31, 2016 and 2015:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Bank Balance</u>	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Unrestricted	\$1,427,421	\$1,422,260	\$ 998,241	\$ 992,369
Restricted	<u>573,354</u>	<u>572,524</u>	<u>435,611</u>	<u>414,938</u>
Total	<u>\$2,000,775</u>	<u>\$1,994,784</u>	<u>\$1,433,852</u>	<u>\$1,407,307</u>

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

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

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

Revenue Fund

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

Bond and Interest Sinking Funds and Sinking Fund Reserves

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

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

Depreciation Reserve Fund

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

Operation and Maintenance Fund

Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount sufficient to cover anticipated expenditures for a two-month period, which is approximately \$175,000. The balances as of December 31, 2016 and 2015 were \$132,394 and \$12,341, respectively.

NOTE 4 – UTILITY PLANT

Details of utility plant activity for the year ending December 31, 2016 are as follows:

	Balance Dec 31, 2015	Additions	Deletions	Balance Dec 31, 2016
Nondepreciable Capital Assets:				
Land & Land Rights	\$ 73,147	\$ 0	\$ 0	\$ 73,147
Construction in Progress	1,064,673	308,448	1,373,121	0
Total Nondepreciable	<u>1,137,820</u>	<u>308,448</u>	<u>1,373,121</u>	<u>73,147</u>
Depreciable Capital Assets:				
Pumping Plant	181,449	1,373,121	0	1,554,570
Transmission & Distribution Plant	8,065,700	39,761	0	8,105,461
General Plant	478,083	25,787	0	503,870
Total Depreciable	<u>8,725,232</u>	<u>1,438,669</u>	<u>0</u>	<u>10,163,901</u>
Total Utility Plant	9,863,052	1,747,117	1,373,121	10,237,048
Less: Accumulated Depreciation	<u>(3,995,880)</u>	<u>(269,172)</u>	<u>0</u>	<u>(4,265,052)</u>
Net Utility Plant	<u>\$ 5,867,172</u>	<u>\$1,477,945</u>	<u>\$1,373,121</u>	<u>\$ 5,971,996</u>

CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 - 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.

The Waterworks Revenue Bonds, Series 2016, provide for the partial financing of the cost of construction of extension, additions, and improvements to the existing waterworks system. The interest rate of the Bonds is 2.625%. The maturity date is 01/01/55.

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 TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 - BONDS PAYABLE (Continued)

The annual requirements for debt service as of December 31, 2016, are as follows:

Year Ending	Interest	Principal	Total
2017	\$ 114,328	\$ 51,000	\$ 165,328
2018	112,121	65,000	177,121
2019	109,498	68,000	177,498
2020	106,752	71,000	177,752
2021	103,884	74,500	178,384
2022-2026	471,795	418,500	890,295
2027-2031	379,401	512,500	891,901
2032-2036	266,446	568,903	835,349
2037-2041	159,550	519,240	678,790
2042-2046	65,108	363,969	398,471
2047-2051	29,588	142,000	171,588
2052-2055	8,950	128,500	137,450
Total	<u>\$1,927,421</u>	<u>\$2,983,112</u>	<u>\$4,879,927</u>

The following is a summary of bonds payable for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within one year
1996 Issue	\$531,025	\$0	\$3,540	\$527,485	\$18,500
2001 Issue	411,838	0	2,320	409,518	9,000
2007 Issue	1,249,254	0	6,145	1,243,109	23,500
2016 Issue	743,744	803,000	743,744	803,000	0
Total Debt	<u>\$2,935,861</u>	<u>\$803,000</u>	<u>\$755,749</u>	<u>\$2,983,112</u>	<u>\$51,000</u>

Interest expense paid during 2016 and 2015 was \$114,988 and \$99,314, 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 2016 and 2015 totaled \$9,320 and \$9,674, respectively.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 – ECONOMIC DEPENDENCY

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

<u>Name</u>	<u>2016</u>	<u>2015</u>
Corbin City Utilities	\$ 293,902	\$ 332,941
City of Williamsburg	142,706	179,628
W. Laurel Water District	52,701	110,358
	<u>\$ 489,309</u>	<u>\$ 622,927</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.

NOTE 7 – RECLASSIFICATION OF PRIOR YEAR AMOUNTS

Certain 2015 amounts have been reclassified for consistency with the 2016 presentation. These reclassifications had no effect on the reported results of operations.

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

MEMBERS:
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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 of
The Cumberland Falls Highway Water District
Corbin, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Cumberland Falls Highway Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Cumberland Falls Highway Water District's basic financial statements, and have issued our report thereon dated April 18, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cumberland Falls Highway Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Summers, McCrary & Sparks, PSC

Lexington, KY
April 18, 2017