

CUMBERLAND FALLS HIGHWAY WATER DISTRICT

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Cumberland Falls Highway Water District
Corbin, Kentucky

We have audited the accompanying financial statements of the business-type activities of Cumberland Falls Highway Water District as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We did not audit the financial statements of the business-type activities of Cumberland Falls Highway Water District as of and for the year ended December 31, 2019, which were audited by other auditors and are presented here for comparative purposes only.

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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 respective financial position of the business-type activities of the Cumberland Falls Highway Water District as of December 31, 2020 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 4 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 28, 2021 on our consideration of the Cumberland Falls Highway Water 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 Cumberland Falls Highway Water District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC
Certified Public Accountants
London, Kentucky

April 28, 2021

CUMBERLAND FALLS HIGHWAY WATER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

Years ended December 31, 2020 and 2019

This discussion and analysis is intended to be an easily readable analysis of the Cumberland Falls Highway Water District's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes that follow. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- In 2020, the District's net position increased by \$308,559, or 5.03%, compared to a increase in 2019 of \$271,544 or 4.63%.
- In 2020, sales of water increased by \$48,211 or 2.44%. In 2019, sales increased by \$46,022 or 2.39%.
- Operating expenses increased by \$11,456 or 0.92% in 2020 compared to an increase of \$8,224, or 0.67% in 2019.
- Additions to capital assets in 2020 were \$133,285. In 2019, additions to capital assets were \$51,484.
- Principal payments on long-term debt amounted to \$59,500 in 2020, compared to \$57,000 in 2019.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the management's discussion and analysis and the basic financial statements. The financial statements include notes that explain information included in the basic financial statements.

FINANCIAL STATEMENTS

The financial statements of the District report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The financial statements also include a statement of cash flows, which presents sources and uses of cash and changes in cash balances during the fiscal year.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

Years ended December 31, 2020 and 2019

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

NET POSITION

A summary of the District's statement of net position as of December 31, 2020 and 2019 is presented below:

	2020 Amount	2019 Amount	Net Dollar Change	Net Percentage Change
Current and other assets	\$ 2,909,042	\$ 2,456,259	\$ 452,783	18.43%
Non current assets	799,418	733,423	65,995	9.00%
Capital assets, net of accumulated depreciation	6,300,185	6,498,101	(197,916)	-3.05%
Total Assets	10,008,645	9,687,783	320,862	3.31%
Current liabilities	159,216	151,110	8,106	5.36%
Noncurrent liabilities	3,408,783	3,404,586	4,197	0.12%
Total Liabilities	3,567,999	3,555,696	12,303	0.35%
Net investment in capital assets	3,937,021	4,076,617	(139,596)	-3.42%
Restricted net positions	798,513	732,338	66,175	9.04%
Unrestricted (deficit) net positions	1,705,112	1,323,132	381,980	28.87%
Total Net Position	\$ 6,440,646	\$ 6,132,087	\$ 308,559	5.03%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the District's statement of revenues, expenses and changes in net position for the year ended December 31, 2020 and 2019 is presented below:

	2020 Amount	2019 Amount	Net Dollar Change	Net Percentage Change
Operating revenue	\$ 1,568,914	\$ 1,548,337	\$ 20,577	1.33%
Nonoperating revenue	31,819	16,019	15,800	98.63%
Total revenue	1,600,733	1,564,356	36,377	2.33%
Depreciation expense	330,556	329,133	1,423	0.43%
Other operating expense	920,135	910,102	10,033	1.10%
Non operating expense	100,683	102,357	(1,674)	-1.64%
Total expense	1,351,374	1,341,592	9,782	0.73%
Income (loss) before capital contributions	249,359	222,764	26,595	11.94%
Capital contributions	59,200	48,780	10,420	21.36%
Changes in net position	308,559	271,544	37,015	13.63%
Net position, beginning	6,132,087	5,860,543	271,544	4.63%
Net position, ending	\$ 6,440,646	\$ 6,132,087	\$ 308,559	5.03%

CUMBERLAND FALLS HIGHWAY WATER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

Years ended December 31, 2020 and 2019

CAPITAL ASSETS

On December 31, 2020, the District's investment in capital assets, net of depreciation, totaled \$6,300,185, which is a decrease of \$197,916, or 3.05%, compared to the capital asset balance of \$6,498,101 at December 31, 2019. This decrease is attributable to the depreciation expense exceeding the additional fixed assets added for the year ended December 31, 2020.

LONG-TERM DEBT

As of December 31, 2020, the District had long-term debt of \$3,357,065 compared to \$3,353,406 at December 31, 2019, including current portion. During the year ended December 31, 2020, the District paid \$58,500 of principal payments on the long-term debt compared to \$57,000 in 2019.

CONTACT INFORMATION

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning this report or request for additional information should be addressed to Mike Baird, District Manager, at Cumberland Falls Highway Water District, 6926 Cumberland Falls Highway, Corbin, Kentucky, 40701 or by calling (606) 528-0222.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 1,867,538	\$ 1,468,253
Certificates of deposit	742,473	731,881
Accounts receivable	206,870	169,928
Inventory	73,231	75,201
Prepaid expense	18,930	10,996
Total current assets	<u>2,909,042</u>	<u>2,456,259</u>
Noncurrent assets		
Restricted cash and cash equivalents	798,513	732,338
Miscellaneous deferred debits	905	1,085
Total noncurrent assets	<u>799,418</u>	<u>733,423</u>
Capital assets		
Nondepreciable capital assets		
Land and land structures	73,147	73,147
Depreciable capital assets, net of depreciation	6,227,038	6,424,954
Total capital assets	<u>6,300,185</u>	<u>6,498,101</u>
TOTAL ASSETS	<u>\$ 10,008,645</u>	<u>\$ 9,687,783</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 34,656	\$ 27,961
Accrued interest	44,641	45,033
Accrued taxes	17,919	17,616
Current portion of revenue bonds payable - long-term	62,000	60,500
Total current liabilities	<u>159,216</u>	<u>151,110</u>
Noncurrent liabilities		
Revenue bonds payable - long-term	2,302,069	2,362,069
Loans payable - long-term	992,996	930,837
Customer deposits	113,718	111,680
Total noncurrent liabilities	<u>3,408,783</u>	<u>3,404,586</u>
Total liabilities	<u>3,567,999</u>	<u>3,555,696</u>
NET POSITION		
Invested in capital assets net of related debt	3,936,116	4,075,532
Restricted for debt service and plant replacement	798,513	732,338
Unrestricted	1,706,017	1,324,217
Total net position	<u>\$ 6,440,646</u>	<u>\$ 6,132,087</u>

The accompanying notes are an integral part of the financial statements.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Water sales	\$ 2,020,197	\$ 1,971,986
Other income	24,507	62,276
Total operating revenues	<u>2,044,704</u>	<u>2,034,262</u>
Cost of Sales		
Purchased water	475,790	485,925
Total cost of sales	<u>475,790</u>	<u>485,925</u>
Gross profit from operations	1,568,914	1,548,337
Operating expenses		
Advertising	297	473
Commissioner fees	20,700	18,000
Contractual Services - Maintenance	4,984	11,702
Operating supplies and materials	51,988	54,621
Office supplies and expense	70,192	73,057
Salaries and wages	352,172	330,970
Employee benefits	278,482	275,051
Professional services	31,275	27,911
Transportation expenses	54,772	59,342
Purchased power	14,415	14,272
Insurance	28,976	27,012
Depreciation	330,556	329,133
Bad debt expense	7,798	13,782
Taxes - other	4,084	3,909
Total operating expenses	<u>1,250,691</u>	<u>1,239,235</u>
Operating income (loss)	<u>318,223</u>	<u>309,102</u>
Nonoperating revenues (expenses)		
Gain/(loss) on disposal of equipment	(1,409)	700
Principal Forgiveness - KIA	20,720	-
Interest income	12,508	15,319
Interest expense	(100,502)	(102,176)
Amortization	(181)	(181)
Total nonoperating revenues (expenses)	<u>(68,864)</u>	<u>(86,338)</u>
Change in net position before Capital Contributions	249,359	222,764
Capital Contributions	59,200	48,780
Change in Net Position	308,559	271,544
Net position as of January 1	6,132,087	5,860,543
Net position as of December 31	<u>\$ 6,440,646</u>	<u>\$ 6,132,087</u>

CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,007,762	\$ 2,040,999
Payment to employees for services	(352,172)	(330,970)
Payment for goods and services	(1,042,719)	(1,058,837)
Net cash provided (used) by operating activities	<u>612,871</u>	<u>651,192</u>
Cash flows from noncapital financing activities:		
Change in customer deposits	<u>2,038</u>	<u>6,280</u>
Cash provided (used) by noncapital financing activities	<u>2,038</u>	<u>6,280</u>
Cash flows from capital and related activities		
Acquisitions and construction of capital assets	(133,285)	(51,483)
Capital contributions and grants	59,200	48,780
Proceeds from long-term borrowing	82,879	-
Proceeds from sale of assets	-	700
Principal and interest paid on long-term debt	(158,121)	(160,296)
Cash provided (used) in capital and related activities	<u>(149,327)</u>	<u>(162,299)</u>
Cash flows from investing activities		
Interest received on investments	<u>12,508</u>	<u>15,319</u>
Cash provided (used) in investing activities	<u>12,508</u>	<u>15,319</u>
Net increase (decrease) in cash and cash equivalents	476,052	510,492
Cash and cash equivalents as of January 1,	<u>2,932,472</u>	<u>2,421,980</u>
Cash and cash equivalents as of December 31,	<u>\$ 3,408,524</u>	<u>\$ 2,932,472</u>
Reconciliation of change in net position to net cash used in operating activities		
Adjustments to reconcile change in net position to net cash used in operating activities:		
Operating income	\$ 318,223	\$ 309,102
Depreciation	330,556	329,133
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(36,942)	6,737
(Increase) Decrease in inventory	1,970	198
(Increase) Decrease in prepaid expenses	(7,934)	445
Increase (Decrease) in accounts payable	6,695	5,076
Increase (Decrease) in accrued expenses	303	501
Net cash provided by operating activities	<u>612,871</u>	<u>651,192</u>
Supplemental disclosures		
Interest paid	<u>100,502</u>	<u>103,477</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	1,867,538	1,468,253
Certificate of deposit	742,473	731,881
Restricted cash and cash equivalents	798,513	732,338
Total cash at end of year	<u>\$ 3,408,524</u>	<u>\$ 2,932,472</u>

The accompanying notes are an integral part of the financial statements.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Cumberland Falls Highway Water District, of Whitley County, Kentucky (the District) was created in 1967 under Chapter 74 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The District is governed by a five-person board of Commissioners, which is appointed by the Whitley County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

Cumberland Falls Highway Water District is a rural water utility system whose purpose is to establish, develop, and operate a water supply and distribution system for its members and customers in Whitley County, Kentucky. The District's primary source of revenue is from water sales to its members and customers, including public bodies and local businesses in its service area. Water is purchased from the Corbin City Utilities Commission, City of Williamsburg, West Laurel Water District, and Whitley County Water District and resold to approximately 3,500 residential and commercial customers.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. In addition, the District applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The statement of net position and statement of revenues, expenses and changes in net position display information about the District as a whole. These statements include all funds of the District. The statements distinguish between governmental and business-type activities. The District does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The District considers all highly liquid investments (including restricted cash and investments), with maturities of 90 days or less to be cash equivalents. This includes bank certificates of deposit and demand checking accounts.

Restricted Cash and Cash Equivalents

The District has designated certain bank accounts as restricted in accordance with loan restriction covenants for debt service, depreciation fund, and meter deposits.

Investments

The District is authorized by state statute to invest in: 1) obligations of the United States and of its agencies and instrumentalities; 2) bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; 3) shares of any savings and loan insured by an agency of the government of the United States up to the amount so insured; 4) interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in larger amounts provided such bank shall pledge, as security, obligations of the United States government, its agencies and instrumentalities.

The District's investments include certificates of deposits with maturity dates of three months or more. Certificates of deposits in excess of FDIC insurance are collateralized by securities held by the pledging bank.

Accounts Receivable

Accounts receivable arise as services are rendered for which collections have not been realized and are carried net of a provision for doubtful accounts. 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 uncollectable during the years ended December 31, 2020 and 2019 totaled \$7,798 and \$13,782, respectively. Receivable outstanding in excess of ninety days at December 31, 2020 and 2019 totaled \$26,419 and \$7,817, respectively. The increase is due in large part to policies related to the novel coronavirus (COVID-19).

Capital Grants and Subsidies

The purchase of property and equipment via grants or subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as a nonoperating revenue.

Inventory

Inventories are stated at the lower of cost or market as determined by the first-in, first out method of inventory valuation.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure is reported in the year in which services are consumed.

Amortization of Debt Expense

Debt expense was incurred on the Waterworks Refunding and Improvement Revenue Bond of 1986, Series B, originally totaling \$13,799. The debt expense is being amortized over the life of the outstanding bonds. Amortization expense was recorded as a part of interest expense for the years ended December 31, 2020 and 2019 in the amounts of \$181 and \$181, respectively. The unamortized value of loan premium was \$905 and \$1,085; at December 31, 2020 and 2019, respectively.

Capital Assets

Capital assets include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, and equipment that have a useful life of more than one reporting period based on the District's capitalization policy. The cost of additions to the utility plant and major replacements of retired property is capitalized, and the cost of repairs, maintenance, and minor replacements is recorded as expense. By District policy, capital assets are defined as assets with a cost of \$1,000 or more and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation employee fringe benefits, and overhead. Interest incurred during construction is capitalized.

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from disposal is credited or recorded in the non-operating section of the statements of revenues, expenses and changes in net assets. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The range of useful lives of assets is as follows:

<u>Asset Classification</u>	<u>Range of Lives</u>
Lines and storage	50 years
Buildings	30 years
Pumps and water treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Accounts Payable

Accounts payable represent expenses incurred in the current year to be paid in the subsequent year. The majority of the District's accounts payable are to vendors or for the purchase of water.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Customer Deposits

The District collects and holds in escrow a deposit from customers to insure collection of its water charges. Interest is paid on these deposits at the rate established annually by the Kentucky Public Service Commission and applied to customer accounts each December.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

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

Net Investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation 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 and any unamortized debt cost or premium.

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 or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

NOTE 2 – RESTRICTED CASH

The District restricts all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts. At December 31, 2020, and 2019, restricted cash amounted to \$798,513 and \$732,338, respectively. This includes restrictions for customer deposits of \$119,142 and \$111,680, restrictions for construction of \$88 and \$14, and restrictions for debt service of \$679,283 and \$620,644, respectively.

Bond resolutions require the creation of certain separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions are presented below:

Revenue Fund – all income to the district is deposited to the Revenue Fund, and then transferred to the other funds as indicated below.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

Years ended December 31, 2020 and 2019

NOTE 2 – RESTRICTED CASH (continued)

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 semi-annual interest payment plus (2) one-twelfth of the next annual bond principal payment are to be transfer to the Bond and Interest Sinking Funds.

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 such time that the balance equals \$119,025. Funds may be used as needed, but the balance must be restored back to \$119,025 as soon as possible, so long a any bonds are outstanding and unpaid. The balances as of December 31, 2020 and 2019 were \$546,624 and 487,985, respectively.

Operation and Maintenance Fund – Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount to cover anticipated expenditures for a two-month period, which is approximately \$305,000. The balances as of December 31, 2020 and 2019 were \$130,419 and \$389,614, respectively.

NOTE 3 – INVESTMENTS – INTEREST RATE RISK

According to KRS 91A.060, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks. The District classifies only certificates of deposit as investments and does not consider interest rate risk to be significant.

NOTE 4 – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2020, and 2019, the District's bank balances were \$3,417,005 and \$2,956,186 respectively. In accordance with Kentucky Revised Statute (KRS) 91A.060, deposits are to be collateralized to the extent uninsured by FDIC. According to KRS 41.240(4), it shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The District's deposits were fully insured or collateralized with securities held by an agent of the District in the District's name at December 31, 2020, and 2019.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

Years ended December 31, 2020 and 2019

NOTE 5 – CUSTOMER AND OTHER ACCOUNTS RECEIVABLE

At December 31, 2020 and 2019, customer and other accounts receivable are as follows:

	Balance at 12/31/2020	Balance at 12/31/2019	Net Dollar Change	Net Percentage Change
Due from consumers from the sale of water	\$ 206,870	\$ 169,928	\$ 36,942	21.74%

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 and 2019 was as follows:

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
Land & Land Rights	\$ 73,147	\$ -	\$ -	\$ 73,147
Pumping Plant	1,595,230	-	29,175	1,566,055
Transmission & Distribution Plant	9,402,815	97,091	9,462	9,490,444
General Plant	517,343	36,194	79,242	474,295
Total Utility Plant	<u>11,588,535</u>	<u>133,285</u>	<u>117,879</u>	<u>11,603,941</u>
Less: Accumulated Depreciation				
Pumping Plant	224,513	44,618	28,073	241,058
Transmission & Distribution Plant	4,467,476	255,402	9,314	4,713,564
General Plant	398,445	29,772	79,083	349,134
Total Accumulated Depreciation	<u>5,090,434</u>	<u>329,792</u>	<u>116,470</u>	<u>5,303,756</u>
Total Capital Assets, Net	<u>\$ 6,498,101</u>	<u>\$ (196,507)</u>	<u>\$ 1,409</u>	<u>\$ 6,300,185</u>

	Balance 12/31/2018	Additions	Deletions	Balance 12/31/2019
Land & Land Rights	\$ 73,147	\$ -	\$ -	\$ 73,147
Pumping Plant	1,600,030	-	-	1,600,030
Transmission & Distribution Plant	9,386,997	15,818	-	9,402,815
General Plant	508,213	35,666	31,336	512,543
Total Utility Plant	<u>11,568,387</u>	<u>51,484</u>	<u>31,336</u>	<u>11,588,535</u>
Less: Accumulated Depreciation				
Pumping Plant	184,607	39,906	-	224,513
Transmission & Distribution Plant	4,384,541	82,935	-	4,467,476
General Plant	223,489	206,292	31,336	398,445
Total Accumulated Depreciation	<u>4,792,637</u>	<u>329,133</u>	<u>31,336</u>	<u>5,090,434</u>
Total Capital Assets, Net	<u>\$ 6,775,750</u>	<u>\$ (277,649)</u>	<u>\$ -</u>	<u>\$ 6,498,101</u>

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

Years ended December 31, 2020 and 2019

NOTE 7 – LONG-TERM DEBT

The District's long-term debt consists of bonds payable to Rural Development (RD) and Kentucky Rural Water Finance Corporation (KRWFC), which were obtained for various acquisitions of plant and equipment and to refinance a prior issue. The bonds mature annually in varying series over the period 2021 to 2055. A summary of the bonds is presented below:

RURAL DEVELOPMENT

Date of Issue	Bond Issue	Original Amount	Maturity Date	Interest Rate	12/31/2019			12/31/2020	
					Balance Outstanding	Additions	Retirements	Balance Outstanding	Due Within One Year
07/30/1997	91-05	\$ 766,000	01/01/2037	4.500%	\$ 472,460	\$ -	\$ 21,000	\$ 451,460	\$ 22,000
01/22/2007	91-14	\$ 1,415,000	01/01/2047	4.125%	1,171,609	-	24,500	\$ 1,147,109	26,500
10/21/2015	91-16	\$ 803,000	01/01/2055	2.625%	778,500	-	13,000	\$ 765,500	13,500
					<u>\$ 2,422,569</u>	<u>\$ -</u>	<u>\$ 58,500</u>	<u>\$ 2,364,069</u>	<u>\$ 62,000</u>

All bonds are secured by a lien on the gross income and revenues derived from water district operations sufficient to pay principal and interest on the bonds, as well as a statutory lien on the water utility plant and all properties therewith, pursuant to Kentucky Revised Statutes as well as a first lien on all water purchase contracts owned by the District. The United States Department of Agriculture's Rural Electric Community Development (RECD) requires prepayment of principal annually on January 1 and requires semi-annual prepayments of interest on January 1, and July 1, according to bond documents.

KENTUCKY INFRASTRUCTURE AUTHORITY

Loan No.	Approved Amount	Current Interest Rate	Service Fee	12/31/2019			12/31/2020	
				Balance Outstanding	Additions	Retirements	Balance Outstanding	Due Within One Year
F16-002	\$ 1,723,000	0.750%	0.250%	\$ 930,837	\$ 82,879	\$ 20,720	\$ 992,996	\$ -
				<u>\$ 930,837</u>	<u>\$ 82,879</u>	<u>\$ 20,720</u>	<u>\$ 992,996</u>	<u>\$ -</u>

In 2018 a loan with the Kentucky Infrastructure Authority was approved for up to \$1,723,000 for the replacement and reinforcement of water lines. Loan disbursement has occurred as expenses have been incurred. As of December 31, 2020, a total of \$1,013,716 had been drawn against the total requested amount of \$1,723,000. Included in the terms of this loan is potential for Principal Forgiveness of \$430,750. As of December 31, 2020, a total of \$20,720 in Principal Forgiveness has been granted. Because this loan is not yet in repayment status, a repayment schedule has not been established as of December 31, 2020. Payment of interest and fees are currently due semi-annually on June 1 and December 1.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

Years ended December 31, 2020 and 2019

NOTE 7 – LONG-TERM DEBT – (continued)

Future bond principal and interest payment amounts are as follows:

USDA RURAL DEVELOPMENT BONDS			
YEAR	PRINCIPAL	INTEREST	TOTAL
2021	\$ 62,000	\$ 102,153	\$ 164,153
2022	64,500	99,375	163,875
2023	67,000	96,488	163,488
2024	70,000	93,480	163,480
2025	72,500	90,351	162,851
2026 - 2030	409,500	400,277	809,777
2031 - 2035	495,460	300,895	796,355
2036 - 2040	377,000	205,661	582,661
2041 - 2045	449,609	116,200	565,809
2046 - 2050	138,000	51,526	189,526
2051 - 2055	158,500	18,515	177,015
	<u>\$ 2,364,069</u>	<u>\$ 1,574,921</u>	<u>\$ 3,938,990</u>

As noted above, the Loan Payable to the Kentucky Infrastructure Authority is not fully drawn down and is not yet in repayment therefore future principal and interest payments cannot be determined.

NOTE 8 – AMORTIZATION OF MISCELLANEOUS DEFERED DEBITS

Miscellaneous deferred debits related to the Waterworks Refunding and Improvement Revenue Bond of 1986, Series B, originally totaling \$13,799 are be amortized over the life of the outstanding bonds. Future amortization of miscellaneous deferred debits are as follows:

YEAR	AMOUNT
2021	\$ 181
2022	181
2023	181
2024	181
2025	180
	<u>\$ 904</u>

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

Years ended December 31, 2020 and 2019

NOTE 9 – CUSTOMER DEPOSITS

At December 31, 2020 and 2019, customer deposits are as follows:

	Balance at 12/31/2020	Balance at 12/31/2019	Net Dollar Change	Net Percentage Change
Customer Deposits	\$ 113,718	\$ 111,680	\$ 2,038	1.82%

NOTE 10 – RETIREMENT PLAN

Cumberland Falls Highway Water District adopted a Savings Incentive Match Plan for Employees of Small Employers Individual Retirement Account (SIMPLE IRA or SIMPLE) effective October 1, 2006. Employees are eligible for participation in the SIMPLE IRA if they are expected to receive at least \$5,000 in compensation during the year and received at least \$5,000 in compensation during the prior year. The district matches participant contributions to Plan up to 3% of the participant's compensation. The District's contributions to the plan for 2020 and 2019 totaled \$11,138 and \$10,383, respectively.

NOTE 11 – ECONOMIC DEPENDENCY

The District is economically dependent for water purchases from the following outside entities which provide 100% of water purchased:

NAME	2020	2019
City of Williamsburg	\$ 138,953	\$ 133,722
Corbin City Utilities Commission	344,633	350,381
West Laurel Water District	1,878	1,822
Whitley County Water District	326	-
	<u>\$ 485,790</u>	<u>\$ 485,925</u>

The District has water purchase contracts with the entities listed above which require those entities to provide water to the District and the rates that the District will be charged therein. The contracts extend for terms ranging from 45 to 52 years beginning in 1968. The entities will not be required to sell more than 8,000,000 gallons of water to the District in any one month. These entities may interrupt the water supply at any time for various reasons as outlined in the contracts.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The District has purchased certain policies which are retrospectively rated which include worker's compensation coverage.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

Years ended December 31, 2020 and 2019

NOTE 13 – LIMITED SCOPE EXAMINATION BY THE AUDITOR OF PUBLIC ACCOUNTS

The Auditor of Public Accounts (APA) was engaged to complete a limited scope engagement of the District after receiving concerns regarding the occurrence of bonuses and nepotism within the District. There were two findings as a result of the examination issued by the APA on September 16, 2020: (1) *the District awarded employee bonuses unrelated to individual employee job performance violating both its own policy and the Kentucky Constitution* and (2) *the District Transfers Funds from its Operations and Maintenance Fund Account to a Separate Account from Which Expenditures are Not Fully Reported to the Board*. A full copy of this report may be found on the Auditor of Public Accounts webpage at <https://auditor.ky.gov/auditreports/Pages/OnlineAuditSearch.aspx>.

District policies related to payroll and the presentation of information to the Board have been amended to reflect the findings of the examination by the Auditor of Public Accounts.

NOTE 14 – IMPACT OF COVID

In March 2020, the World Health Organization (“WHO”) declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. This prompted many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy. Management believes the ultimate financial impact of the COVID-19 pandemic on the District is likely to be determined by factors which are uncertain, unpredictable, and outside the control of the District. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely affect future revenues.

NOTE 15 – SUBSEQUENT EVENTS

Management of the District has evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. Management performed this evaluation through April 28, 2021, the date on which the financial statements were available to be issued. No events have occurred subsequent to the date of the financial statements that would require adjustment to the financial statements.

**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, Kentucky

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 Cumberland Falls Highway Water District, as of and for the years ended December 31, 2020, and 2019, and the related notes to the financial statements, which collectively comprise Cumberland Falls Highway Water District's basic financial statements, and have issued our report thereon dated April 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

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 and significant deficiencies may exist that have not been identified. However, as described in the accompanying comments and recommendations we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiency described in the accompanying comments and recommendations as item 2020-001 to be a significant deficiency.

Our consideration of internal control over financial reporting 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 Cumberland Falls Highway Water District's financial statements are free of 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.

Cloyd & Associates, PSC
London, Kentucky
April 28, 2021

MANAGEMENT LETTER COMMENTS

To the Commissioners
Cumberland Falls Highway Water District
Corbin, Kentucky

In planning and performing our audit of the basic financial statements of the Cumberland Falls Highway Water District for the year ended December 31, 2020, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statement and not to provide assurance on the internal control structure.

During our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated April 28, 2021, on the basic financial statements of the Cumberland falls Highway Water District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Cloyd & Associates, PSC
London, Kentucky
April 28, 2021

Cumberland Falls Highway Water District
Comments and Recommendations
Year Ended December 31, 2020

Current Year Comments

Significant Deficiencies

- 2020-01 Condition: There is a lack of segregation of duties
Criteria: There is insufficient personnel to separate duties.
Effect: There are a small number of personnel in the office, efforts are made to segregate duties but deficiencies remain that could lead to errors or confusion without being detected.
Cause: There is an insufficient number of personnel.
Recommendation: Hire additional staff or separate duties as much as possible.
Response of Management: Management feels that their use of an third party accountant for bookkeeping along with being very transparent with the Commissioners helps to mitigate the issue of segregation of duties but they will remain mindful of opportunities to further the segregation of duties when possible.

Prior Year Comments

There were none