

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT**

**INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2021 AND 2020**

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**Cloyd & Associates, PSC**

*Certified Public Accountants  
and  
Business Advisors*

To the Commissioners  
Cumberland Falls Highway Water District  
Corbin, Kentucky

INDEPENDENT AUDITORS' REPORT

**Report on the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of the business-type activities of Cumberland Falls Highway Water District as of and for the years ended December 31, 2021 and 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.

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 Cumberland Falls Highway Water District, as of December 31, 2021 and 2020, 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.

***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cumberland Falls Highway Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit program.

***Responsibility of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cumberland Falls Highway Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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## ***Auditors' Responsibilities for the Audit of the Financial Statement***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

## **Supplementary information**

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022 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*

Cloyd & Associates, PSC  
Certified Public Accountants  
Corbin, Kentucky

April 22, 2022

# **CUMBERLAND FALLS HIGHWAY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**

## **Years ended December 31, 2021 and 2020**

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 2021, the District's net position increased by \$25,636, or 5.06%, compared to an increase in 2020 of \$308,559, or 5.03%.
- In 2021, the District's water sales increased by \$48,270 or 2.39%, compared to an increase in 2020 of \$48,211 or 2.44%.
- In 2021, the District's operating expenses decreased by \$7,084 or 0.57%, compared to an increase in 2020 of \$11,456 or 0.92% in 2020.
- In 2021, the District's additions to capital assets were \$34,953, compared to additions to capital assets of \$133,285 in 2020.
- In 2021, the District's principal payments on long-term debt were \$62,000, compared to principal payments on long-term debt of \$59,500 in 2020.

### **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 statements 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'S DISCUSSION AND ANALYSIS (MD & A)**

**Years ended December 31, 2021 and 2020**

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, 2021 and 2020 is presented below:

	2021 Amount	2020 Amount	Net Dollar Change	Net Percentage Change
Current and other assets	\$ 3,351,880	\$ 2,909,042	\$ 442,838	15.22%
Non current assets	868,588	799,418	69,170	8.65%
Capital assets, net of accumulated depreciation	6,003,926	6,300,185	(296,259)	-4.70%
<b>Total Assets</b>	<b>10,224,394</b>	<b>10,008,645</b>	<b>215,749</b>	<b>2.16%</b>
Current liabilities	52,092	159,216	(107,124)	-67.28%
Noncurrent liabilities	3,406,020	3,408,783	(2,763)	-0.08%
<b>Total Liabilities</b>	<b>3,458,112</b>	<b>3,567,999</b>	<b>(109,887)</b>	<b>-3.08%</b>
Net investment in capital assets	3,701,857	3,937,021	(235,164)	-5.97%
Restricted net positions	864,864	798,513	66,351	8.31%
Unrestricted (deficit) net positions	2,199,561	1,705,112	494,449	29.00%
<b>Total Net Position</b>	<b>\$ 6,766,282</b>	<b>\$ 6,440,646</b>	<b>\$ 325,636</b>	<b>5.06%</b>

**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, 2021 and 2020 is presented below:

	2021 Amount	2020 Amount	Net Dollar Change	Net Percentage Change
Operating revenue	\$ 2,130,776	\$ 2,044,704	\$ 86,072	4.21%
Nonoperating revenue	6,157	31,819	(25,662)	-80.65%
<b>Total revenue</b>	<b>2,136,933</b>	<b>2,076,523</b>	<b>60,410</b>	<b>2.91%</b>
Depreciation expense	331,212	330,556	656	0.20%
Other operating expense	1,448,581	1,395,925	52,656	3.77%
Non operating expense	95,651	98,425	(2,774)	-2.82%
<b>Total expense</b>	<b>1,875,444</b>	<b>1,824,906</b>	<b>50,538</b>	<b>2.77%</b>
Income (loss) before capital contributions	261,489	251,617	9,872	3.92%
Capital contributions	64,147	59,200	4,947	8.36%
Changes in net position	325,636	308,559	14,819	4.80%
Net position, beginning	6,440,646	6,132,087	308,559	5.03%
<b>Net position, ending</b>	<b>\$ 6,766,282</b>	<b>\$ 6,440,646</b>	<b>\$ 323,378</b>	<b>5.02%</b>

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**

**Years ended December 31, 2021 and 2020**

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**CAPITAL ASSETS**

On December 31, 2021, the District's investment in capital assets, net of depreciation, totaled \$6,003,926, which is a decrease of \$296,259, or 2.70%, compared to the capital asset balance of \$6,300,185 at December 31, 2020. This decrease is attributable to the depreciation expense exceeding the additional fixed assets added for the year ended December 31, 2021.

**LONG-TERM DEBT**

As of December 31, 2021, the District had long-term debt of \$3,295,065 compared to \$3,357,065 at December 31, 2020, including current portion. During the year ended December 31, 2021, the District paid \$62,000 of principal payments on the long-term debt compared to \$59,500 in 2020.

**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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,266,086	\$ 1,867,538
Certificates of deposit	746,565	742,473
Accounts receivable	193,046	206,870
Inventory	62,359	73,231
Prepaid revenue bond payments	64,500	-
Prepaid expense	19,324	18,930
Total current assets	<u>3,351,880</u>	<u>2,909,042</u>
Noncurrent assets		
Restricted cash and cash equivalents	867,864	798,513
Miscellaneous deferred debits	724	905
Total noncurrent assets	<u>868,588</u>	<u>799,418</u>
Capital assets		
Nondepreciable capital assets		
Land and land structures	73,147	73,147
Depreciable capital assets, net of depreciation		
	<u>5,930,779</u>	<u>6,227,038</u>
Total capital assets	<u>6,003,926</u>	<u>6,300,185</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,224,394</u>	<u>\$ 10,008,645</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 32,746	\$ 34,656
Accrued interest	828	44,641
Accrued taxes	18,518	17,919
Current portion of revenue bonds payable - long-term	64,500	62,000
Total current liabilities	<u>116,592</u>	<u>159,216</u>
Noncurrent liabilities		
Revenue bonds payable - long-term	2,237,569	2,302,069
Loans payable - long-term	992,996	992,996
Customer deposits	110,955	113,718
Total noncurrent liabilities	<u>3,341,520</u>	<u>3,408,783</u>
Total liabilities	<u>3,458,112</u>	<u>3,567,999</u>
<b>NET POSITION</b>		
Invested in capital assets net of related debt	3,701,857	3,936,116
Restricted for debt service and plant replacement	867,864	798,513
Unrestricted	2,196,561	1,706,017
Total net position	<u>6,766,282</u>	<u>6,440,646</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 10,224,394</u>	<u>\$ 10,008,645</u>

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

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the years ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Operating revenues		
Water sales	\$ 2,068,467	\$ 2,020,197
Other income	62,309	24,507
Total operating revenues	<u>2,130,776</u>	<u>2,044,704</u>
Cost of Sales		
Purchased water	<u>536,186</u>	<u>475,790</u>
Total cost of sales	<u>536,186</u>	<u>475,790</u>
Gross profit from operations	1,594,590	1,568,914
Operating expenses		
Advertising	249	297
Commissioner fees	27,100	20,700
Contractual Services - Maintenance	9,150	4,984
Operating supplies and materials	79,744	51,988
Office supplies and expense	64,322	70,192
Salaries and wages	343,992	352,172
Employee benefits	264,654	278,482
Professional services	27,010	31,275
Transportation expenses	44,553	54,772
Purchased power	13,912	14,415
Insurance	33,285	28,976
Depreciation	331,212	330,556
Bad debt expense	55	7,798
Taxes - other	4,369	4,084
Total operating expenses	<u>1,243,607</u>	<u>1,250,691</u>
Operating income (loss)	<u>350,983</u>	<u>318,223</u>
Nonoperating revenues (expenses)		
Gain/(loss) on disposal of equipment	-	(1,409)
Principal Forgiveness - KIA	-	20,720
Interest income	6,157	12,508
Interest expense	(95,470)	(98,244)
Amortization	(181)	(181)
Total nonoperating revenues (expenses)	<u>(89,494)</u>	<u>(68,864)</u>
Change in net position before Capital Contributions	261,489	249,359
Capital Contributions	<u>64,147</u>	<u>59,200</u>
Change in Net Position	325,636	308,559
Net position as of January 1,	<u>6,440,646</u>	<u>6,132,087</u>
Net position as of December 31,	<u>\$ 6,766,282</u>	<u>\$ 6,440,646</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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,144,600	\$ 2,007,762
Payment to employees for services	(343,992)	(352,172)
Payment for goods and services	(1,159,922)	(1,042,719)
Net cash provided (used) by operating activities	<u>640,686</u>	<u>612,871</u>
Cash flows from noncapital financing activities:		
Change in customer deposits	(2,763)	2,038
Cash provided (used) by noncapital financing activities	<u>(2,763)</u>	<u>2,038</u>
Cash flows from capital and related activities		
Acquisitions and construction of capital assets	(34,953)	(133,285)
Capital contributions and grants	64,147	59,200
Proceeds from sale of assets	-	-
Principal and interest paid on long-term debt	(201,283)	(158,121)
Cash provided (used) in capital and related activities	<u>(172,089)</u>	<u>(232,206)</u>
Cash flows from investing activities		
Interest received on investments	6,157	12,508
Cash provided (used) in investing activities	<u>6,157</u>	<u>12,508</u>
Net increase (decrease) in cash and cash equivalents	471,991	476,052
Cash and cash equivalents as of January 1,	<u>3,408,524</u>	<u>2,932,472</u>
Cash and cash equivalents as of December 31,	<u>\$ 3,880,515</u>	<u>\$ 3,408,524</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	\$ 350,983	\$ 318,223
Depreciation	331,212	330,556
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	13,824	(36,942)
(Increase) Decrease in inventory	10,872	1,970
(Increase) Decrease in prepaid expenses	(64,894)	(7,934)
Increase (Decrease) in accounts payable	(1,910)	6,695
Increase (Decrease) in accrued expenses	599	303
Net cash provided by operating activities	<u>\$ 640,686</u>	<u>\$ 612,871</u>
Supplemental disclosures		
Interest paid	<u>\$ 139,145</u>	<u>\$ 100,502</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	\$ 2,266,086	\$ 1,867,538
Certificate of deposit	746,565	742,473
Restricted cash and cash equivalents	867,864	798,513
Total cash at end of year	<u>\$ 3,880,515</u>	<u>\$ 3,408,524</u>

# CUMBERLAND FALLS HIGHWAY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2021 and 2020

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### 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 - CONTINUED**

**Years ended December 31, 2021 and 2020**

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**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, 2021 and 2020 totaled \$55 and \$7,798, respectively. The decrease is due in large part to policies related to the novel coronavirus (COVID-19). Receivable outstanding in excess of ninety days at December 31, 2021 and 2020 totaled \$30,650 and \$26,419, respectively. The increases are 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 - CONTINUED**

**Years ended December 31, 2021 and 2020**

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**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, 2021 and 2020 in the amounts of \$181 and \$181, respectively. The unamortized value of loan premium was \$724 and \$905; at December 31, 2021 and 2020, 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 - CONTINUED**

**Years ended December 31, 2021 and 2020**

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**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, 2021, and 2020, restricted cash amounted to \$864,864 and \$798,513, respectively. This includes restrictions for customer deposits of \$123,419 and \$119,142, restrictions for construction of \$89 and \$88, and restrictions for debt service of \$744,356 and \$679,283, 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 - CONTINUED**

**Years ended December 31, 2021 and 2020**

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**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 as any bonds are outstanding and unpaid. The balances as of December 31, 2021 and 2020 were \$611,631 and \$546,624, 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, 2021 and 2020 were \$132,725 and \$132,659, respectively.

**NOTE 3 – 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, 2021, and 2020, the District's bank balances were \$3,887,297 and \$3,417,005 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, 2021, and 2020.

**NOTE 4 – CUSTOMER AND OTHER ACCOUNTS RECEIVABLE**

At December 31, 2021 and 2020, customer and other accounts receivable are as follows:

	Balance at <u>12/31/2021</u>	Balance at <u>12/31/2020</u>	Net Dollar <u>Change</u>	Net Percentage <u>Change</u>
Due from consumers from the sale of water	<u>\$ 193,046</u>	<u>\$ 206,870</u>	<u>\$ (13,824)</u>	-6.68%



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

**Years ended December 31, 2021 and 2020**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2021 and 2020 was as follows:

	Balance 12/31/2020	Additions	Deletions	Balance 12/31/2021
Land & Land Rights	\$ 73,147	\$ -	\$ -	\$ 73,147
Pumping Plant	1,566,055	-	-	1,566,055
Transmission & Distribution Pla	9,490,444	26,183	-	9,516,627
General Plant	474,295	8,770	-	483,065
<b>Total Utility Plant</b>	<b>11,603,941</b>	<b>34,953</b>	<b>-</b>	<b>11,638,894</b>
Less: Accumulated Depreciation				
Pumping Plant	241,058	44,449	-	285,507
Transmission & Distribution Pla	4,713,564	256,202	-	4,969,766
General Plant	349,134	30,561	-	379,695
<b>Total Accumulated Depreciation</b>	<b>5,303,756</b>	<b>331,212</b>	<b>-</b>	<b>5,634,968</b>
<b>Total Capital Assets, Net</b>	<b>\$ 6,300,185</b>	<b>\$ (296,259)</b>	<b>\$ -</b>	<b>\$ 6,003,926</b>

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
Land & Land Rights	\$ 73,147	\$ -	\$ -	\$ 73,147
Pumping Plant	1,600,030	-	29,175	1,570,855
Transmission & Distribution Plant	9,402,815	97,091	9,462	9,490,444
General Plant	512,543	36,194	79,242	469,495
<b>Total Utility Plant</b>	<b>11,588,535</b>	<b>133,285</b>	<b>117,879</b>	<b>11,603,941</b>
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
<b>Total Accumulated Depreciation</b>	<b>5,090,434</b>	<b>329,792</b>	<b>116,470</b>	<b>5,303,756</b>
<b>Total Capital Assets, Net</b>	<b>\$ 6,498,101</b>	<b>\$ (196,507)</b>	<b>\$ 1,409</b>	<b>\$ 6,300,185</b>

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

**Years ended December 31, 2021 and 2020**

**NOTE 6 – 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 2018 to 2038. A summary of the bonds is presented below:

**RURAL DEVELOPMENT**

Date of Issue	Bond Issue	Original Amount	Maturity Date	Interest Rate	12/31/2020			12/31/2021	
					Balance Outstanding	Additions	Retirements	Balance Outstanding	Due Within One Year
07/30/1997	91-05	\$ 766,000	01/01/2037	4.500%	\$ 451,460	\$ -	\$ 22,000	\$ 429,460	\$ 23,000
01/22/2007	91-14	\$ 1,415,000	01/01/2047	4.125%	1,147,109	-	26,500	\$ 1,120,609	28,000
10/21/2015	91-16	\$ 803,000	01/01/2055	2.625%	765,500	-	13,500	\$ 752,000	13,500
					<u>\$ 2,364,069</u>	<u>\$ -</u>	<u>\$ 62,000</u>	<u>\$ 2,302,069</u>	<u>\$ 64,500</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	12/31/2020			12/31/2021	
				Balance Outstanding	Additions	Retirements	Balance Outstanding	Due Within One Year
F16-002	\$ 1,723,000	0.750%	0.250%	\$ 992,996	\$ -	\$ -	\$ 992,996	\$ -
				<u>\$ 992,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 992,996</u>	<u>\$ -</u>

In 2018 a loan with the Kentucky Infrastructure Authority was approved for up \$1,723,000 for the replacement and reinforcement of water lines. Loan disbursement has occurred as expenses have been incurred. As of December 31, 2021, 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, 2021, a total of \$20,720 of Principal Forgiveness has been granted. Because this loan is not yet in repayment status, a repayment schedule has been established as of December 31, 2021. 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 - CONTINUED**

**Years ended December 31, 2021 and 2020**

**NOTE 6 – LONG-TERM DEBT – (continued)**

Future bond principal and interest payment amounts are as follows:

USDA RURAL DEVELOPMENT BONDS			
YEAR	PRINCIPAL	INTEREST	TOTAL
2022	64,500	84,019	148,519
2023	67,500	81,422	148,922
2024	69,000	78,740	147,740
2025	72,000	75,965	147,965
2026	75,000	73,069	148,069
2027 - 2031	422,000	317,503	739,503
2032 - 2036	465,960	226,220	692,180
2037 - 2041	383,000	148,599	531,599
2042 - 2046	426,609	71,384	497,993
2047 - 2051	144,500	24,380	168,880
2052 - 2055	112,000	4,883	116,883
	<u>\$ 2,302,069</u>	<u>\$ 1,186,184</u>	<u>\$ 3,488,253</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 7 – 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
2022	181
2023	181
2024	181
2025	181
	<u>\$ 724</u>

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

**Years ended December 31, 2021 and 2020**

**NOTE 8 – CUSTOMER DEPOSITS**

At December 31, 2021 and 2020, customer deposits are as follows:

	Balance at 12/31/2021	Balance at 12/31/2020	Net Dollar Change	Net Percentage Change
Customer Deposits	\$ 110,955	\$ 113,718	\$ (2,763)	-2.43%

**NOTE 9 – 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 2021 and 2020 totaled \$11,105 and \$11,138, respectively.

**NOTE 10 – ECONOMIC DEPENDENCY**

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

NAME	2021	2020
City of Williamsburg	\$ 163,082	\$ 138,953
Corbin City Utilities Commission	370,971	344,633
West Laurel Water District	1,878	1,878
Whitley County Water District	255	326
	<u>\$ 536,186</u>	<u>\$ 485,790</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 11 – 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 - CONTINUED**

**Years ended December 31, 2021 and 2020**

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**NOTE 12 – 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 13 – 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 14 – 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 22, 2022, 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.



**Cloyd & Associates, PSC**

Certified Public Accountants

and

Business Advisors

**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, 2021, and 2020, 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 22, 2022.

**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 opinions 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.

*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.

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## **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 22, 2022

**MANAGEMENT LETTER COMMENTS**





**Cloyd & Associates, PSC**

*Certified Public Accountants  
and  
Business Advisors*

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 years ended December 31, 2021 and 2020, we considered the District's internal control structure to determine out 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 22, 2022, 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*

Cloyd & Associates, PSC  
London, Kentucky  
April 22, 2022



**CUMBERLAND FALLS HIGHWAY WATER DISTRICT  
MANAGEMENT LETTER COMMENTS**

**Years ended December 31, 2021 and 2020**

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**Prior Year Comments**

**Significant Deficiencies**

2020-01 Condition: There is a lack of segregation of duties  
Status: This has not been corrected.

**Current Year Comments**

**Significant Deficiencies**

2021-01 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 a 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.