

CUMBERLAND FALLS HIGHWAY WATER DISTRICT

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Statements of Net Position.....	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Basic Financial Statements	10
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	20
Management Letter Comments.....	22



Cloyd & Associates, PSC

*Certified Public Accountants
and
Business Advisors*

INDEPENDENT AUDITORS' REPORT

To the Commissioners
Cumberland Falls Highway Water District
Corbin, Kentucky

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, 2022, and 2021, 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, 2022, and 2021, 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 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 and 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, so 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.





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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 12, 2023, 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.

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Certified Public Accountants
London, Kentucky

April 12, 2023

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

Years ended December 31, 2022 and 2021

This discussion and analysis are 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 the 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 2022, the District's net position increased by \$299,110, or 4.40%, compared to an increase in 2021 of \$325,636, or 5.06%.
- In 2022, the District's water sales increased by \$13,830 or 0.66%, compared to an increase in 2021 of \$48,270 or 2.39%.
- In 2022, the District's operating expenses increased by \$189,180 or 15.21%, compared to an decrease in 2021 of \$7,084 or 0.57% in 2021.
- In 2022, the District's additions to capital assets were \$32,793, compared to additions to capital assets of \$34,953 in 2021.
- In 2022, the District's principal payments on long-term debt were \$64,500, compared to principal payments on long-term debt of \$62,000 in 2021.

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 utilizes 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, 2022 and 2021

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, 2022, and 2021 is presented below:

	2022 Amount	2021 Amount	Net Dollar Change	Net Percentage Change
Current and other assets	\$ 3,828,324	\$ 3,351,880	\$ 476,444	14.21%
Non current assets	952,944	868,588	84,356	9.71%
Capital assets, net of accumulated depreciation	<u>5,714,869</u>	<u>6,003,926</u>	<u>(289,057)</u>	-4.81%
Total Assets	<u><u>10,496,137</u></u>	<u><u>10,224,394</u></u>	<u><u>271,743</u></u>	2.66%
Current liabilities	121,987	52,092	69,895	134.18%
Noncurrent liabilities	<u>3,267,365</u>	<u>3,406,020</u>	<u>(138,655)</u>	-4.07%
Total Liabilities	<u><u>3,389,352</u></u>	<u><u>3,458,112</u></u>	<u><u>(68,760)</u></u>	-1.99%
Net investment in capital assets	3,477,300	3,701,857	(224,557)	-6.07%
Restricted net positions	952,401	864,864	87,537	10.12%
Unrestricted (deficit) net positions	<u>2,677,084</u>	<u>2,199,561</u>	<u>477,523</u>	21.71%
Total Net Position	<u><u>\$ 7,106,785</u></u>	<u><u>\$ 6,766,282</u></u>	<u><u>\$ 340,503</u></u>	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, 2022, and 2021 is presented below:

	2022 Amount	2021 Amount	Net Dollar Change	Net Percentage Change
Operating revenue	\$ 2,261,694	\$ 2,130,776	\$ 130,918	6.14%
Nonoperating revenue	5,317	6,157	(840)	-13.64%
Total revenue	<u>2,267,011</u>	<u>2,136,933</u>	<u>130,078</u>	6.09%
Depreciation expense	319,613	331,212	(11,599)	-3.50%
Other operating expense	1,635,444	1,448,581	186,863	12.90%
Non operating expense	<u>92,407</u>	<u>95,651</u>	<u>(3,244)</u>	-3.39%
Total expense	<u><u>2,047,464</u></u>	<u><u>1,875,444</u></u>	<u><u>172,020</u></u>	9.17%
Income (loss) before capital contributions	219,547	261,489	(41,942)	-16.04%
Capital contributions	<u>79,563</u>	<u>64,147</u>	<u>15,416</u>	24.03%
Changes in net position	299,110	325,636	(26,526)	-8.15%
Net position, beginning	<u>6,807,675</u>	<u>6,440,646</u>	<u>367,029</u>	5.70%
Net position, ending	<u><u>\$ 7,106,785</u></u>	<u><u>\$ 6,766,282</u></u>	<u><u>\$ 340,503</u></u>	5.03%

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

Years ended December 31, 2022 and 2021

CAPITAL ASSETS

On December 31, 2022, the District's investment in capital assets, net of depreciation, totaled \$5,714,869, which is a decrease of \$289,057, or 4.81%, compared to the capital asset balance of \$6,003,926 at December 31, 2021. This decrease is attributable to the depreciation expense exceeding the additional fixed assets added for the year ended December 31, 2022.

LONG-TERM DEBT

As of December 31, 2022, the District had long-term debt of \$3,207,059 compared to \$3,295,065 at December 31, 2021, including current portion. During the year ended December 31, 2022, the District paid \$88,006 of principal payments on the long-term debt compared to \$62,000 in 2021.

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,208,897	\$ 3,630,960
Accounts receivable	189,341	193,046
Inventory	93,205	62,359
Prepaid revenue bond payments	-	64,500
Prepaid expense	15,096	19,324
Total current assets	<u>4,506,539</u>	<u>3,970,189</u>
Noncurrent assets		
Restricted cash and cash equivalents	274,186	249,555
Miscellaneous assets	543	724
Total noncurrent assets	<u>274,729</u>	<u>250,279</u>
Capital assets		
Nondepreciable capital assets		
Land and land rights	73,147	73,147
Depreciable capital assets, net of depreciation		
Total capital assets	<u>5,641,718</u>	<u>5,930,779</u>
TOTAL ASSETS	<u>\$ 10,496,133</u>	<u>\$ 10,224,394</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 34,319	\$ 32,746
Accrued interest	809	828
Accrued taxes	19,359	18,518
Customer deposits	127,806	110,955
Current portion of loans payable	46,372	-
Current portion of revenue bonds payable	67,500	64,500
Total current liabilities	<u>296,165</u>	<u>227,547</u>
Noncurrent liabilities		
Revenue bonds payable	2,170,069	2,237,569
Loans payable	923,118	992,996
Total noncurrent liabilities	<u>3,093,187</u>	<u>3,230,565</u>
Total liabilities	<u>3,389,352</u>	<u>3,458,112</u>
NET POSITION		
Invested in capital assets net of related debt	3,477,296	3,701,857
Restricted:		
Debt service	146,380	138,600
Other	127,806	110,955
Unrestricted	3,355,299	2,814,870
Total net position	<u>7,106,781</u>	<u>6,766,282</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,496,133</u>	<u>\$ 10,224,394</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Water sales	\$ 2,082,297	\$ 2,068,467
Other income	179,397	62,309
Total operating revenues	<u>2,261,694</u>	<u>2,130,776</u>
Cost of Sales		
Purchased water and power	539,320	550,098
Total cost of sales	<u>539,320</u>	<u>550,098</u>
Gross profit from operations	1,722,374	1,580,678
Operating expenses		
Advertising	1,129	249
Commissioner services	28,675	27,100
Contractual Services	113,759	9,150
Operating supplies and maintenance	67,622	79,744
Office supplies and expense	67,845	64,322
Salaries and wages	367,232	343,992
Employee benefits	284,861	264,654
Professional services	47,183	27,010
Transportation expenses	47,800	44,553
Insurance	35,455	33,285
Depreciation	321,849	331,212
Bad debt expense	31,373	55
Taxes - other	3,190	4,369
Total operating expenses	<u>1,417,973</u>	<u>1,229,695</u>
Operating income (loss)	<u>304,401</u>	<u>350,983</u>
Nonoperating revenues (expenses)		
Interest income	5,317	6,157
Interest expense	(89,994)	(95,470)
Amortization	(181)	(181)
Total nonoperating revenues (expenses)	<u>(84,858)</u>	<u>(89,494)</u>
Change in net position before Capital Contributions	219,543	261,489
Capital Contributions	<u>79,563</u>	<u>64,147</u>
Change in Net Position	299,106	325,636
Restated net position as of January 1,	<u>6,807,675</u>	<u>6,440,646</u>
Net position as of December 31,	<u>\$ 7,106,781</u>	<u>\$ 6,766,282</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,265,399	\$ 2,144,800
Payment to employees for services	(367,232)	(343,992)
Payment for goods and services	(1,186,965)	(1,159,922)
Net cash provided (used) by operating activities	<u>711,202</u>	<u>640,886</u>
Cash flows from noncapital financing activities:		
Change in customer deposits	16,851	(2,763)
Cash provided (used) by noncapital financing activities	<u>16,851</u>	<u>(2,763)</u>
Cash flows from capital and related activities		
Acquisitions and construction of capital assets	(32,793)	(34,953)
Capital contributions and grants	79,563	64,147
Principal and interest paid on long-term debt	(177,572)	(201,483)
Cash provided (used) in capital and related activities	<u>(130,802)</u>	<u>(172,289)</u>
Cash flows from investing activities		
Interest received on investments	5,317	6,157
Cash provided (used) in investing activities	<u>5,317</u>	<u>6,157</u>
Net increase (decrease) in cash and cash equivalents	602,568	471,991
Cash and cash equivalents as of January 1,	3,880,515	3,408,524
Cash and cash equivalents as of December 31,	<u>\$ 4,483,083</u>	<u>\$ 3,880,515</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	\$ 304,401	\$ 350,983
Depreciation	321,849	331,212
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	3,705	13,824
(Increase) Decrease in inventory	(30,846)	10,872
(Increase) Decrease in prepaid expenses	110,121	(64,894)
Increase (Decrease) in accounts payable	1,573	(1,910)
Increase (Decrease) in accrued expenses	399	399
Net cash provided by operating activities	<u>\$ 711,202</u>	<u>\$ 640,486</u>
Supplemental disclosures		
Interest paid	<u>\$ 139,145</u>	<u>\$ 139,145</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	\$ 4,208,897	\$ 3,630,960
Restricted cash and cash equivalents	274,186	249,555
Total cash at end of year	<u>\$ 4,483,083</u>	<u>\$ 3,880,515</u>

CUMBERLAND FALLS HIGHWAY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

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), constitute 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, 2022 and 2021

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, 2022 and 2021 totaled \$31,373 and \$55, respectively. The decrease 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 - CONTINUED**

Years ended December 31, 2022 and 2021

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, 2022, and 2021 in the amounts of \$181 and \$181, respectively. The unamortized value of loan premium was \$543 and \$724; at December 31, 2022 and 2021, 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 more than 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. Most 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, 2022 and 2021

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 funds required for debt service, and funds related to specific projects or customer accounts. At December 31, 2022, and 2021, restricted cash amounted to \$274,186 and \$249,555, respectively. This includes restrictions for customer deposits of \$127,806 and \$110,955, and restrictions for debt service of \$146,380 and \$138,600, 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:

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

Years ended December 31, 2022 and 2021

NOTE 2 – RESTRICTED CASH (continued)

Rural Development

Rural Development regulations require the District to annually deposit and keep in reserve a specific amount in relation to the amount of Rural Development debt that the District carries. For the year ending December 31, 2022, the required annual deposit was \$3,480 and the required reserve account balance as of December 31, 2022 was \$142,080.

Kentucky Infrastructure Authority

Kentucky Infrastructure Authority (KIA) requires an annual deposit into a repair and maintenance reserve and maintain the balance over the life of the KIA loan payable. For the year ending December 31, 2022, the required annual deposit was \$4,300. The annual deposit will be made annually until the balance reaches \$43,000. The reserve balance for the ended December 31, 2022 was \$4,300.

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, 2022, and 2021, the District’s bank balances were \$4,482,677 and \$3,887,297 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, 2022, and 2021.

NOTE 4 – CUSTOMER AND OTHER ACCOUNTS RECEIVABLE

At December 31, 2022 and 2021, customer and other accounts receivable are as follows:

	<u>Balance at 12/31/2022</u>	<u>Balance at 12/31/2021</u>	<u>Net Dollar Change</u>	<u>Net Percentage Change</u>
Due from consumers from the sale of water	\$ 189,341	\$ 193,046	\$ (3,705)	-1.92%

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

Years ended December 31, 2022 and 2021

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 and 2021 was as follows:

	Balance 12/31/2021	Additions	Deletions	Balance 12/31/2022
Land & Land Rights	\$ 73,147	\$ -	\$ -	\$ 73,147
Pumping Plant	1,566,055	-	-	1,566,055
Transmission & Distribution Plant	9,516,627	28,336	-	9,544,963
General Plant	483,065	4,457	-	487,522
Total Utility Plant	11,638,894	32,793	-	11,671,687
Less: Accumulated Depreciation				
Pumping Plant	285,507	44,449	-	329,956
Transmission & Distribution Plant	4,969,771	246,542	-	5,216,313
General Plant	379,695	30,858	-	410,553
Total Accumulated Depreciation	5,634,972	321,849	-	5,956,822
Total Capital Assets, Net	\$ 6,003,922	\$ (289,056)	\$ -	\$ 5,714,865

	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 Plant	9,490,444	26,183	-	9,516,627
General Plant	474,295	8,770	-	483,065
Total Utility Plant	11,603,941	34,953	-	11,638,894
Less: Accumulated Depreciation				
Pumping Plant	241,058	44,449	-	285,507
Transmission & Distribution Plant	4,713,568	256,202	-	4,969,770
General Plant	349,134	30,561	-	379,695
Total Accumulated Depreciation	5,303,760	331,212	-	5,634,972
Total Capital Assets, Net	\$ 6,498,101	\$ (296,259)	\$ -	\$ 6,003,922

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

Years ended December 31, 2022 and 2021

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	12/31/2021			12/31/2022	
					Balance Outstanding	Additions	Retirements	Balance Outstanding	Due Within One Year
07/30/1997	91-05	\$ 766,000	01/01/2037	4.500%	\$ 429,460	\$ -	\$ 23,000	\$ 406,460	\$ 24,000
01/22/2007	91-14	\$ 1,415,000	01/01/2047	4.125%	1,120,609	-	28,000	\$ 1,092,609	28,500
10/21/2015	91-16	\$ 803,000	01/01/2055	2.625%	752,000	-	13,500	\$ 738,500	15,000
					<u>\$ 2,302,069</u>	<u>\$ -</u>	<u>\$ 64,500</u>	<u>\$ 2,237,569</u>	<u>\$ 67,500</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.	Loan Amount	Interest Rate	Service Fee	12/31/2021			12/31/2022	
				Balance Outstanding	Additions	Retirements	Balance Outstanding	Due Within One Year
F16-002	\$ 992,996	0.750%	0.250%	\$ 992,996	\$ -	\$ 23,506	\$ 969,490	\$ 46,372
				<u>\$ 992,996</u>	<u>\$ -</u>	<u>\$ 23,506</u>	<u>\$ 969,490</u>	<u>\$ 46,372</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, 2022, the loan of \$992,996 had been placed in repayment status, and a repayment schedule has been established as of December 31, 2022. Payment of principal, 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, 2022 and 2021

NOTE 6 – LONG-TERM DEBT – (continued)

Future bond principal and interest payment amounts are as follows:

USDA RURAL DEVELOPMENT BONDS			
YEAR	PRINCIPAL	INTEREST	TOTAL
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	78,000	70,052	148,052
2028-2032	438,500	300,452	738,952
2033-2037	442,460	208,480	650,940
2038-2042	397,500	134,189	531,689
2043-2047	368,609	56,906	425,515
2048-2052	148,000	20,541	168,541
2053-2054	81,000	2,349	83,349
	<u>\$ 2,237,569</u>	<u>\$ 1,102,165</u>	<u>\$ 3,339,734</u>

Future loan principal and interest due to the Kentucky Infrastructure Authority is as follows:

Kentucky Infrastructure Authority			
Year	Principal	Interest	Total
2023	\$ 46,372	\$ 9,584	\$ 55,955
2024	46,720	9,119	55,839
2025	47,071	8,651	55,722
2026	47,425	8,179	55,604
2027	47,781	7,704	55,486
2028-2032	244,346	31,268	275,615
2033-2037	253,665	18,843	272,508
2038-2042	236,110	5,944	242,054
	<u>\$ 969,490</u>	<u>\$ 99,293</u>	<u>\$ 1,068,783</u>

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

Years ended December 31, 2022 and 2021

NOTE 7 – CUSTOMER DEPOSITS

At December 31, 2022 and 2021, customer deposits are as follows:

	Balance at <u>12/31/2022</u>	Balance at <u>12/31/2021</u>	Net Dollar Change	Net Percentage Change
Customer Deposits	\$ 127,806	\$ 110,955	\$ 16,851	15.19%

NOTE 8 – 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. The district matches participant contributions to Plan up to 3% of the participant’s compensation. The District’s contributions to the plan for 2022 and 2021 totaled \$10,425 and \$11,105, respectively.

NOTE 9 – ECONOMIC DEPENDENCY

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

<u>NAME</u>	<u>2022</u>	<u>2021</u>
City of Williamsburg	\$ 151,348	\$ 163,082
Corbin City Utilities Commission	369,044	370,971
West Laurel Water District	1,878	1,878
Whitley County Water District	-	255
	<u>\$ 522,270</u>	<u>\$ 536,186</u>

The District has water purchase contracts with the entities listed above which require those entities to provide water to the District for a set price for a certain length of time. 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 10 – 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, 2022 and 2021

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The District restated the beginning balance of accrued interest and beginning net position by \$41,393. This was due to an accounting error whereby, principal of the bonds payable was accrued but the correlating interest was not. The District does not feel that this adjustment is material to the financial statements.

NOTE 12 – 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 13 – 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 12, 2023, the date on which the financial statements were available to be issued. No events have occurred after 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, 2022, and 2021, 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 12, 2023.

Report on 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying management letter as items 2022-01 that we consider to be significant deficiencies.

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Report on 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*.

Cumberland Falls Highway Water District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying management letter comments. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

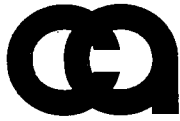
Purpose of this Report

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

Cloyd & Associates, PSC
London, Kentucky
April 12, 2023

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, 2022, and 2021, 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 12, 2023, 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 12, 2023

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

Years ended December 31, 2022 and 2021

Prior Year Comments

Significant Deficiencies

2021-01 Condition: There is a lack of segregation of duties
Status: This has not been corrected.

Current Year Comments

Significant Deficiencies

2022-01 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.