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**CORINTH WATER DISTRICT**

**CORINTH, KENTUCKY**

**FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2012 and 2011**



**Van Gorder, Walker & Co., Inc.**  
Certified Public Accountants

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**CORINTH WATER DISTRICT  
CORINTH, KENTUCKY  
FINANCIAL STATEMENTS  
For the Years Ended December 31, 2012 and 2011**

**Board of Commissioners**

<b><u>Chairman</u></b>	<b><u>Term Expires</u></b>
Dan Field	07/31/14
<b><u>Treasurer</u></b>	
Donnie Dyer	01/05/15
<b><u>Secretary</u></b>	
Bob McDaniel	06/30/16

**Legal Counsel**

Pete Whaley, Attorney at Law



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

Charles A. Van Gorder, CPA  
John P. Walker, CPA, MBA  
Lori A. Owen, CPA  
John R. Chamberlin, CPA, MBA  
Members of AICPA & KyCPA  
Licensed in Kentucky & Ohio

## **Independent Auditor's Report**

**To the Board of Commissioners  
Corinth Water District**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Corinth Water District (District), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***-Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***-Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**-Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Corinth Water District as of December 31, 2012 and 2011 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**-Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013 on our consideration of the Corinth 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corinth Water District's internal control over financial reporting and compliance.



**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
April 30, 2013

**CORINTH WATER DISTRICT  
P.O. BOX 218  
CORINTH, KY 41010**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2012. The information is presented in conjunction with the audited financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent year by \$1,878,402 (net assets). Net assets decreased by \$27,690 from the prior year.
- At the end of the current year, unrestricted net assets were \$82,289, which is a decrease of \$10,046 from the prior year.

**USING THIS ANNUAL REPORT**

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statement No. 34. The financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and footnotes to the financial statements. These statements show the condition of the District's finances and the sources of income and the funds expended.

**Basis of Accounting**

The District's financial statements are prepared using the accrual basis of accounting.

**The Statements of Net Position and Revenues, Expenses, and Changes in Net Position**

In the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.

## SUMMARY OF NET ASSETS

Table 1 provides a summary of the District's net position at December 31, 2012 and 2011.

**Table 1**  
**Net Assets**

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 114,252	\$ 125,366
Restricted Assets	58,184	123,635
Noncurrent Assets	<u>4,064,080</u>	<u>4,086,029</u>
 Total Assets	 <u>4,236,516</u>	 <u>4,335,030</u>
 Current Liabilities	 42,769	 33,031
Liabilities Payable from Restricted Assets	38,245	122,907
Long-Term Liabilities	<u>2,277,100</u>	<u>2,273,000</u>
 Total Liabilities	 <u>2,358,114</u>	 <u>2,428,938</u>
 Net Position:		
Invested in Capital Assets, Net of Related Debt	1,737,974	1,741,029
Restricted	58,139	72,728
Unrestricted	<u>82,289</u>	<u>92,335</u>
 Total Net Position	 <u>\$1,878,402</u>	 <u>\$1,906,092</u>

The District's net position for 2012 decreased 1.45%, or \$27,690, as compared to a 2.93% or \$57,616 decrease in the previous year. The 2012 decrease is lower than the prior decrease due to reduced operating expenses for 2012 and no loss on disposal of District assets for the year.

The largest portion of the District's net position (93%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (3%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted portion of net position may be used to meet the District's ongoing obligations to customers and creditors.

#### **SUMMARY OF CHANGES IN NET POSITION**

##### Revenues

Operating income for 2012 was \$68,489, compared to an operating income of \$60,718 in the prior year. Operating revenues decreased \$1,168, or 0.2%, and operating expenses decreased \$8,939, or 1.3%. Operating expenses decreased due to decreases in contractual services utilized and water purchased.

##### Investment Income

Investment income decreased \$17 from 2011 to 2012. The decrease is due to continued drops in investment earnings seen all throughout the region.

##### Capital Contributions

Capital contributions decreased \$5,578 from 2011 to 2012.

The following schedule compares the revenues and expenses for the current year and the previous year.

**Table 2  
Changes in Net Position**

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Water Revenue	\$ 681,704	\$ 683,170
Forfeited Discounts	35,502	35,170
Miscellaneous Service Revenues	<u>4,786</u>	<u>4,820</u>
Total Operating Revenues	<u>721,992</u>	<u>723,160</u>
Total Operating Expenses	<u>653,503</u>	<u>662,442</u>
Net Operating Income (Loss)	<u>68,489</u>	<u>60,718</u>
Non-Operating Income (Expense):		
Interest Income	45	62
Loss on disposal of assets	-	(26,218)
Interest expense	<u>(100,282)</u>	<u>(101,814)</u>
Net Non-Operating Expense	<u>(100,237)</u>	<u>(127,970)</u>
Net Loss	(31,748)	(67,252)
Capital Contributions	<u>4,058</u>	<u>9,636</u>
Change in Net Position	(27,690)	(57,616)
Net Position, January 1	<u>1,906,092</u>	<u>1,963,708</u>
Net Position, December 31	<u>\$ 1,878,402</u>	<u>\$ 1,906,092</u>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At December 31, 2012, the District had \$4,064,080 invested in capital assets including land, water lines, vehicles, and equipment, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$21,949 from the prior year.

Table 3 summarizes the District's capital assets at the end of 2012 as compared to 2011.

**Table 3  
Capital Assets at Year End**

	<u>2012</u>	<u>2011</u>
Land	\$ 21,200	\$ 6,200
Buildings and improvements	89,041	34,027
Lines and Equipment	6,228,841	6,196,791
Office Furniture and Fixtures	21,743	21,743
Transportation Equipment	<u>55,252</u>	<u>55,252</u>
Subtotal	6,416,077	6,279,986
Accumulated Depreciation	<u>(2,351,997)</u>	<u>(2,193,957)</u>
Total Capital Assets	<u>\$ 4,064,080</u>	<u>\$ 4,086,029</u>

The District currently has no construction in progress.

### Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2012 compared to 2011.

**Table 4  
Outstanding Debt at Year End**

	<u>2012</u>	<u>2011</u>
Bonds Payable	<u>\$2,273,000</u>	<u>\$2,345,000</u>
Capital Lease Obligation – City of Corinth	<u>\$ 53,100</u>	<u>\$ -</u>

At year-end, the District had \$2,273,000 in outstanding bonds compared to \$2,345,000 last year. This is a decrease of \$72,000, which represents repayment on the bond debt.

Additionally, the District entered into a capital lease agreement with the City of Corinth, Kentucky, a related party, for the purchase of land and a building, which is to be leased back by the City. Outstanding balance on this lease obligation is \$53,100 at December 31, 2012.

## **OTHER INFORMATION**

The District uses the accounting firm of Morris & Bressler to oversee its daily accounting operations. The District uses Van Gorder, Walker & Company for its yearly audit.

The District has a month to month accrual of monies expended to maintain the operations of the District. The reports of income & expenses are discussed at each monthly meeting of the District's Board.

## **FINANCIAL CONTACT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's administrative office at Thomas Lane, Corinth, Kentucky 41018.

William H. Hill, Manager  
Corinth Water District

<b>CORINTH WATER DISTRICT</b> <b>STATEMENTS OF NET POSITION</b> <b>December 31, 2012 and 2011</b>
---------------------------------------------------------------------------------------------------------

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 31,223	\$ 27,682
Accounts receivable - customers, net of allowance	67,370	75,768
Inventories	11,215	19,024
Prepaid insurance	4,444	2,892
Total Current Assets	<u>114,252</u>	<u>125,366</u>
Restricted Assets		
Reserve funds	27,787	31,268
Sinking funds	30,397	92,367
Total Restricted Assets	<u>58,184</u>	<u>123,635</u>
Capital Assets		
Land	21,200	6,200
Buildings and improvements	89,041	34,027
Lines and equipment	6,228,841	6,162,764
Office furniture and fixtures	21,743	21,743
Transportation equipment	55,252	55,252
Total utility plant in service	<u>6,416,077</u>	<u>6,279,986</u>
Less accumulated depreciation	<u>(2,351,997)</u>	<u>(2,193,957)</u>
Total Capital Assets, net of depreciation	<u>4,064,080</u>	<u>4,086,029</u>
<b>TOTAL ASSETS</b>	<u>4,236,516</u>	<u>4,335,030</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable - general	14,998	16,397
Customer deposits	5,520	5,240
Current portion of capital lease obligation - related party	10,800	-
Withheld and accrued liabilities	<u>11,451</u>	<u>11,394</u>
Total Current Liabilities	<u>42,769</u>	<u>33,031</u>
Current Liabilities Payable from Restricted Assets		
Bonds payable	38,200	72,000
Accrued interest on bonds	45	50,907
Total Current Liabilities Payable from Restriced Assets	<u>38,245</u>	<u>122,907</u>
Long-Term Liabilities		
Capital lease obligation - related party	42,300	-
Bonds payable - USDA - Water Revenue Bonds	<u>2,234,800</u>	<u>2,273,000</u>
Total Long-Term Liabilities	<u>2,277,100</u>	<u>2,273,000</u>
<b>TOTAL LIABILITIES</b>	<u>2,358,114</u>	<u>2,428,938</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,737,974	1,741,029
Restricted	58,139	72,728
Unrestricted	<u>82,289</u>	<u>92,335</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,878,402</u>	<u>\$ 1,906,092</u>

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

<b>CORINTH WATER DISTRICT</b> <b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> <b>For the Years Ended December 31, 2012 and 2011</b>
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	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Water revenue	\$ 681,704	\$ 683,170
Forfeited discounts	35,502	35,170
Miscellaneous service revenues	4,786	4,820
<b>TOTAL OPERATING REVENUES</b>	<u>721,992</u>	<u>723,160</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages - employees	147,686	146,567
Salaries and wages - officer and directors	11,549	11,447
Employee benefits	22,830	20,766
Retirement benefits	25,332	24,202
Advertising	472	558
Bad debt expenses	6,600	9,180
Contractual services	40,175	45,748
Depreciation expenses	160,363	162,008
Education/training	-	1,090
Insurance expenses	10,359	7,841
Materials and supplies	18,356	18,727
Miscellaneous expenses	4,331	1,492
Purchased power	2,534	2,268
Purchased water	170,069	178,979
Taxes other than income taxes	12,891	12,438
Transportation expenses	19,956	19,131
<b>TOTAL OPERATING EXPENSES</b>	<u>653,503</u>	<u>662,442</u>
<b>OPERATING INCOME</b>	<u>68,489</u>	<u>60,718</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	45	62
Loss on disposal of assets	-	(26,218)
Interest expense	(100,282)	(101,814)
<b>NET NON-OPERATING EXPENSE</b>	<u>(100,237)</u>	<u>(127,970)</u>
<b>NET LOSS</b>	<u>(31,748)</u>	<u>(67,252)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>4,058</u>	<u>9,636</u>
<b>CHANGE IN NET POSITION</b>	<u>(27,690)</u>	<u>(57,616)</u>
<b>NET POSITION, JANUARY 1</b>	<u>1,906,092</u>	<u>1,963,708</u>
<b>NET POSITION, DECEMBER 31</b>	<u>\$ 1,878,402</u>	<u>\$ 1,906,092</u>

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

<b>CORINTH WATER DISTRICT</b> <b>STATEMENTS OF CASH FLOWS</b> For the Years Ended December 31, 2012 and 2011
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	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 730,390	\$ 726,362
Paid to suppliers for goods and services	(268,982)	(308,181)
Paid to or on behalf of employees for services	(218,963)	(212,071)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>242,445</u>	<u>206,110</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	45	62
Expenditures for construction and equipment	(85,314)	(56,835)
Decrease (Increase) in restricted cash	65,451	(18,554)
Contributions in aid of construction	4,058	9,636
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(15,760)</u>	<u>(65,691)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest on long-term debt	(151,144)	(102,552)
Payments on long-term debt	(72,000)	(33,800)
<b>NET CASH PROVIDED BY (USED IN) CAPITAL AND FINANCING ACTIVITIES</b>	<u>(223,144)</u>	<u>(136,352)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,541	4,067
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	<u>27,682</u>	<u>23,615</u>
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u>\$ 31,223</u>	<u>\$ 27,682</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 68,489	\$ 60,718
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	160,363	162,008
Change in operating assets and liabilities		
Decrease (Increase) in receivables	8,398	3,202
Decrease (Increase) in inventories	7,809	(10,799)
Decrease (Increase) in prepaid assets	(1,552)	(538)
Increase (Decrease) in accounts payable	(1,399)	(10,894)
Increase (Decrease) in withheld and accrued liabilities	57	2,333
Increase (Decrease) in customer deposits	280	80
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 242,445</u>	<u>\$ 206,110</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ (151,144)	\$ (102,552)
Income taxes paid	\$ -	\$ -
Noncash acquisition of fixed assets through capital lease	<u>\$ 53,100</u>	<u>\$ -</u>

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

<b>CORINTH WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2012 and 2011</b>
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## **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES**

Corinth Water District (District) is a water utility, which provides service to residential and commercial customers in Grant, Pendleton, and Harrison Counties in Kentucky. The District was created by the Grant County Court on January 11, 1965 under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”).

### Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

### Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) Opinions of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District has adopted GASB Statements 33 through 63, and related interpretations issued through December 31, 2012. Statement No. 33 required capital contributions to be recorded on the statement of revenues, expenses and changes in net position. Statement 34 and subsequent statements and interpretations required certain other changes in terminology, format and content, as well as inclusion of the management’s discussion and analysis as required supplementary information.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) is segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

<b>CORINTH WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011</b>
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Allowance for Bad Debts

The District uses the allowance method to account for bad debts. For both years ending June 30, 2012 and 2011, the balance of the allowance was \$4,000.

Cash Equivalents

For purposes of the balance sheets and statement of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65.065, the District is required to submit a balanced budget to the Grant County Fiscal Court prior to December 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year end.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Income Tax Status

The District is exempt from federal and state income taxes since it is a political subdivision of the Grant County Court. Accordingly, the financial statements include no provision for income taxes.

Purchased Water Costs

The District is dependent on the City of Williamstown as its sole supplier of water. On September 1, 2004, the District signed an agreement with the City of Williamstown to extend this water service agreement for the next 42 years.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

<p><b>CORINTH WATER DISTRICT</b>  <b>NOTES TO THE FINANCIAL STATEMENTS</b>  December 31, 2012 and 2011</p>
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**NOTE 2 – DEPOSITS AND INVESTMENTS**

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as “Cash and Cash Equivalents” and “Restricted Assets”. At December 31, 2012 and 2011, the bank balances were \$89,407 and \$151,317 respectively, which were the same as the carrying amount.

The District's investment policy allows investments only in the form of savings accounts and certificates of deposit at local banks in Grant County, Kentucky. The District holds funds at Forcht Bank. The FDIC insures bank deposits for amounts under \$250,000 per banking institution. Thus, all of the \$89,407 in District funds is insured. In accordance with GASB 40, there is no market risk on these savings account investments.

**NOTE 3 – RESTRICTED ASSETS**

Included in restricted portion of net position at December 31,

	2012	2011
Reserve fund	\$ 27,787	\$ 31,268
Sinking fund	30,397	92,367
Total Restricted Assets	<u>\$ 58,184</u>	<u>\$ 123,635</u>

**NOTE 4 – CAPITAL CONTRIBUTIONS**

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. During 2012 and 2011 these contributions consisted of the following:

Source	2012	2011
Tap in fees and construction costs paid by new customers	\$ 4,058	\$ 9,636
Total capital contributions received in aid of construction	<u>\$ 4,058</u>	<u>\$ 9,636</u>

**NOTE 5 – UTILITY PLANT IN SERVICE**

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and

<b>CORINTH WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2012 and 2011</b>
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maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Asset Type	Balance at December 31, 2011	Additions	Retirements	Balance at December 31, 2012
Land	\$ 6,200	\$ 15,000	\$ -	\$ 21,200
Buildings and improvements	34,027	55,014	-	89,041
Distribution reservoirs and pipes	409,285	-	-	409,285
Furniture and fixtures	21,743	-	-	21,743
Hydrants	118,502	3,388	-	121,890
Meter system and installation	771,067	50,713	-	821,780
Supply mains	13,191	-	-	13,191
Tools and equipment	11,801	1,909	(2,323)	11,387
Transmission mains	4,838,282	12,390	-	4,850,672
Transportation equipment	55,888	-	-	55,888
Subtotal	<u>6,279,986</u>	<u>138,414</u>	<u>(2,323)</u>	<u>6,416,077</u>
Accumulated depreciation	(2,193,957)	(160,363)	2,323	(2,351,997)
Capital assets, net	<u>\$ 4,086,029</u>	<u>\$ (21,949)</u>	<u>\$ -</u>	<u>\$ 4,064,080</u>

#### NOTE 6 – WATER REVENUE BONDS; SERIES 1998

On November 5, 1998, the District issued a water revenue bond in the amount of \$526,000. The interest rate is 4.75% per year. Interest is payable semi-annually on the first day of January and July of each year. Collateral includes water lines, meters and pumping equipment of the District. The first payments were due January 1, 2001 and mature through 2037.

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	4.75%	\$ 9,000	\$ 20,853	\$ 29,853
2014	4.75%	10,000	20,425	30,425
2015	4.75%	10,000	19,950	29,950
2016	4.75%	11,000	19,475	30,475
2017	4.75%	11,000	18,953	29,953
2018-2022	4.75%	65,000	86,261	151,261
2023-2027	4.75%	83,000	69,208	152,208
2028-2032	4.75%	105,000	47,501	152,501
2033-2037	4.75%	135,000	19,856	154,856
Totals		<u>\$ 439,000</u>	<u>\$ 322,482</u>	<u>\$ 761,482</u>

<b>CORINTH WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2012 and 2011</b>
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**NOTE 7 – WATER REVENUE BONDS; SERIES 2002**

On October 25, 2002, the District issued water revenue bonds in the amount of \$485,000. The interest rate is 4.625% per year. Interest is payable semi-annually on the first day of January and July of each year. Principal installments mature in 2005 through 2041. The first payments were due January 2005. Collateral includes water lines, meters and pumping equipment of the District. The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	4.625%	\$ 7,200	\$ 20,026	\$ 27,226
2014	4.625%	7,600	19,693	27,293
2015	4.625%	7,900	19,342	27,242
2016	4.625%	8,300	18,976	27,276
2017	4.625%	8,700	18,593	27,293
2018-2022	4.625%	50,200	86,524	136,724
2023-2027	4.625%	63,300	73,760	137,060
2028-2032	4.625%	79,800	57,669	137,469
2033-2037	4.625%	100,800	37,366	138,166
2038-2041	4.625%	99,200	11,738	110,938
Totals		<u>\$ 433,000</u>	<u>\$ 363,687</u>	<u>\$ 796,687</u>

**NOTE 8 – WATER REVENUE BONDS; SERIES 2005**

On September 9, 2005, the District issued water revenue bonds in the amount of \$1,532,000. These bonds were issued to finance the construction of a waterline extension and to pay off the capital lease balance of \$890,000 previously held by the District. The interest rate is 4.125% per year. Interest is payable semi-annually on the first day of January and July of each year. Principal installments mature in 2007 through 2043. Collateral includes water lines, meters and pumping equipment of the District.

<b>CORINTH WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2012 and 2011</b>
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The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	4.125%	\$ 22,000	\$ 57,791	\$ 79,791
2014	4.125%	23,000	56,884	79,884
2015	4.125%	24,000	55,935	79,935
2016	4.125%	25,000	54,945	79,945
2017	4.125%	26,000	53,914	79,914
2018-2022	4.125%	149,500	252,388	401,888
2023-2027	4.125%	185,500	218,728	404,228
2028-2032	4.125%	230,000	176,964	406,964
2033-2037	4.125%	284,500	125,215	409,715
2038-2042	4.125%	352,500	61,152	413,652
2043	4.125%	79,000	3,259	82,259
Totals		<u>\$ 1,401,000</u>	<u>\$ 1,117,175</u>	<u>\$ 2,518,175</u>

#### NOTE 9 – CAPITAL LEASE

In November 2012, the District entered into a capital lease agreement with the City of Corinth, Kentucky, a related party, for the purchase of land and a building, which is being leased back by the City. The leased property of \$69,000 is included in land and buildings and improvements on the fixed asset summary in Note 5. Amortization of the lease is included in depreciation expense. Accumulated amortization amounted to \$229 and \$0 at December 31, 2012 and 2011, respectively. The leased property represents security on this lease, and no interest is being charged. Future minimum lease payments are as follows:

Year	Principal Amount	Interest Amount	Total Lease Payment
2013	\$ 10,800	\$ -	\$ 10,800
2014	10,800	-	10,800
2015	10,800	-	10,800
2016	10,800	-	10,800
2017	9,900	-	9,900
Totals	<u>\$ 53,100</u>	<u>\$ -</u>	<u>\$ 53,100</u>

#### NOTE 10 – RELATED PARTY TRANSACTIONS

Billy Hill, the General Manager of the Water District, acts as both the General Manager of the Water District and the Mayor of the City of Corinth. The District has normal business relations with the City of Corinth. Some minor reimbursable expenses have been paid by one entity and reimbursed by/to the other.

<b>CORINTH WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011</b>
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Tara Wright is the City Clerk of the City of Corinth. She also does some work for the Water District, but because the City and the Water District exchange services and employees on an as needed basis to cover what needs done, most of her work is not paid by the District. There are few if any actual charges by the city or the District for these services.

The District paid \$769 and \$745 during 2012 and 2011, respectively, to the brother of a District commissioner for meter testing services.

As noted in Note 9, the District entered into a capital lease agreement with the City of Corinth, Kentucky for the purchase of land and a building, which is being leased back by the City.

**NOTE 11 – RISKS/COMMITMENTS/CONTINGENCIES**

Corinth Water District depends upon the credit given to a large group of individual customers. The revenue from individuals is significantly larger than the revenue from corporations. Therefore there is considerably less cash flow risk from the failure of a single customer to pay.

**NOTE 12 – SUBSEQUENT EVENTS**

Management has evaluated events through April 30, 2013, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2012 through April 30, 2013 to disclose.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**To the Board of Commissioners  
Corinth Water District**

We have audited the financial statements of the business-type activities of the Corinth Water District as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated April 30, 2013. We conducted our audits in accordance with 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.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the Corinth Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corinth Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corinth Water District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain

deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

***Lack of Segregation of Duties***

Condition: We noted that, due to the size of the District and financial considerations, the executing and recording of transactions are performed by the same person.

Criteria: The process of executing a transaction should be segregated from the process of recording the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account.

Recommendation: Internal controls should continue to be implemented to segregate the duties of the personnel. Controls should be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corinth 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 that are required to be reported under *Government Auditing Standards*.



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Van Gorder, Walker & Co., Inc.*

**Van Gorder, Walker & Co., Inc.**

Erlanger, Kentucky

April 30, 2013