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## Todd County Water District

A Component Unit of  
Todd County, Kentucky

Financial Statements

December 31, 2012 and 2011



**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
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December 31, 2012 and 2011

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## Independent Auditors' Report

Commissioners  
Todd County Water District  
Elkton, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of Todd County Water District (the "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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audits 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 auditors' 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 opinion.

### **Opinion**

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

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 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 audits 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 March 18, 2013 on our consideration of Todd County 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 Todd County Water District's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Russellville, Kentucky  
March 18, 2013

# Required Supplementary Information

## Management's Discussion and Analysis

# Todd County Water District

## A Component Unit of Todd County, Kentucky Management's Discussion and Analysis Years Ended December 31, 2012 and 2011

The Todd County Water District's discussion and analysis is designed to offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2012 and 2011. Readers are encouraged to read the Management's Discussion and Analysis included in the audit and the District's financial statements.

### • Financial Highlights

- The total assets of the District exceeded its total liabilities at the close of the most recent fiscal year by \$6,321,409 compared to \$6,000,236 in the 2011 fiscal year. Of this amount, \$1,842,802 may be used to meet the District's ongoing obligations to citizens and creditors, as compared to \$1,696,582 for the 2011 fiscal year. It is the District's intent to use these assets to operate the District. The restricted net assets are earmarked for unbudgeted repairs and maintenance cost and debt service of the District.
- The District has \$5,844,536, in long-term debt, net of current portion, as compared to \$4,933,800 for the 2011 fiscal year.

### ▶ Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) Financial Statements; and 2) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### ▶ Financial Statements

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues and expenses and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets 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 can be found on pages 8 through 14 of this report.

► **Notes to the Financial Statements**

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 32 of this report.

• **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded current liabilities by \$6,321,409, as compared with \$6,000,236 for the 2011 fiscal year.

**Net Assets as of December 31, 2012, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	2,501,549	2,571,495	2,151,846
Capital and other assets	<u>9,920,675</u>	<u>9,700,759</u>	<u>9,096,686</u>
<b>Total Assets</b>	<u>12,422,224</u>	<u>12,272,254</u>	<u>11,248,532</u>
Long-term liabilities	5,844,536	4,933,800	5,027,300
Other liabilities (current)	<u>256,279</u>	<u>1,338,218</u>	<u>289,225</u>
<b>Total Liabilities</b>	<u>6,100,815</u>	<u>6,272,018</u>	<u>5,316,525</u>

**Net Assets**

Investment in capital assets, net of related debt	3,857,259	3,735,415	3,931,186
Restricted	621,348	568,239	475,909
Unrestricted	<u>1,842,802</u>	<u>1,696,582</u>	<u>1,524,912</u>
<b>Total Net Assets</b>	<b><u>6,321,409</u></b>	<b><u>6,000,236</u></b>	<b><u>5,932,007</u></b>

By far the largest portion of the District's net assets in the amount of \$3,857,259 reflects its investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). This is an increase from \$3,735,415 for the 2011 fiscal year. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Unrestricted net assets in the amount \$1,842,802 may be used to meet the District's ongoing obligation to customers and creditors. This is an increase from \$1,696,582 from the 2011 fiscal year. The remaining restricted net assets are for replacement reserves for future years.

At December 31, 2012, 2011 and 2010, the District is able to report positive balances in all categories of net assets.

**Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues			
Water service revenues	1,946,126	1,919,293	1,929,327
Other revenues	<u>76,242</u>	<u>65,505</u>	<u>77,090</u>
<b>Total Operating Revenues</b>	<b><u>2,022,368</u></b>	<b><u>1,984,798</u></b>	<b><u>2,006,417</u></b>
Expenses			
Water operations	<u>1,833,780</u>	<u>1,815,536</u>	<u>1,831,540</u>
<b>Total Operating Expenses</b>	<b><u>1,833,780</u></b>	<b><u>1,815,536</u></b>	<b><u>1,831,540</u></b>

<b>Net Operating Income</b>	188,588	169,262	174,877
Non-operating revenue (expenses), net	<u>(208,160)</u>	<u>(206,592)</u>	<u>(202,441)</u>
<b>Income Before Capital Contributions</b>	(19,572)	(37,330)	(27,564)
Capital contributions	<u>340,745</u>	<u>105,559</u>	<u>42,658</u>
<b>Increase in Net Assets</b>	<u><b>321,173</b></u>	<u><b>68,229</b></u>	<u><b>15,094</b></u>

## ● Revenues

**Water sold** is the Water District's primary source of revenue. For the fiscal year of 2012 revenue from water sold was \$1,946,126, an increase from \$1,919,293 in the 2011 year and \$1,929,327 in 2010.

**Capital grants and contributions** totaled \$340,745 for fiscal year 2012. These funds were received from customers for tap on fees and a grant from Rural Development. This is an increase from the \$105,559 for the fiscal year of 2011 and from the \$42,658 for the fiscal year 2010.

**Unrestricted investment earnings** totaled \$17,684 for fiscal year 2011 and decreased to \$15,398 for the 2012 fiscal year. The District earned its investment revenues by placing idle cash in Certificates of Deposits and Reserve Funds.

**Debt service and facility reserve**—the water treatment plant debt is paid off now and no further monthly payments will be collected from the City of Elkton.

**Other operating revenues** totaled \$76,242 for the fiscal year 2012 which was an increase from the prior year. The 2011 total for Other Operating Revenue was \$65,505.

## ● Expenses

**Operating expenses** totaled \$1,833,780 for fiscal year 2012 which was an increase from the 2011 amount of \$1,815,536 and also a decrease from \$1,831,540 for the 2010 fiscal year. These expenses relate directly to the everyday operations of the District such as payroll, transmission and distribution, and purchased water.

**Interest expense** totaled \$224,276 for fiscal year 2011 and decreased to \$223,558 for the 2012 fiscal year.

**Change in net assets** for 2011 was \$68,229 as compared to 2010 which was \$15,094. In the 2012 fiscal year the change in net assets was \$321,173.

## • **Capital Assets and Debt Administration**

### ▶ **Capital Assets**

The District's investment in capital assets at December 31, 2012 amounts to \$9,793,795 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles. This is an increase from \$9,700,759 for the 2011 fiscal year.

Additional information on the District's capital assets can be found in Note 4 of the financial statements.

### ▶ **Long-Term Debt**

Long-term debt, including current portion, totaled \$5,936,536 at December 31, 2012, an increase from \$5,027,300 for the 2011 fiscal year. Outstanding debt at year-end was to finance the District's infrastructure. Outstanding debt was increased by the issuance of refunding bonds of \$2,165,000 for the FmHA Series 1987, 1990, 1992, 1995, and 2000 bonds. These financial activities resulted in a net decrease to general obligation debt of \$32,800. Outstanding debt was also increased by the issuance of FmHA Series 2011 bond of \$994,000.

### ▶ **Operation and Maintenance Budgetary Highlights**

The District's O & M budget was increased by 3 percent over the prior year. Variances between the revenues that were budgeted and the actual amounts collected are not significant.

Any variances are not expected to have a significant effect on future services or liquidity of the District.

### ▶ **Economic Factors and Next Year's Budget and Rates**

The District's primary source of revenue is water sold to customers. This revenue will vary along with the number of customers the Water District has at any given time.

The costs of water and line loss are areas the District is trying to manage as they have the most direct impact on the operations of the District.

During the current fiscal year, the Operation and Maintenance account decreased to \$255,006. This is a change (decrease) from the 2011 balance of \$337,215.

- **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information should be addressed to Todd County Water District, PO Box 520, Elkton, KY 42220.

# Financial Statements

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Statements of Net Assets**

<b>December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current Assets		
Cash	\$ 255,006	\$ 337,215
Short-term investments	1,421,741	1,400,414
Accounts receivable – trade	146,036	142,364
Accounts receivable – other	-	19,130
Grant receivable	-	49,622
Supplies	42,513	41,013
Prepaid expenses	14,905	13,498
Total current assets	1,880,201	2,003,256
Cash – Restricted	621,348	568,239
Investments	90,000	-
Utility Plant		
Utility plant in service	15,852,629	15,301,739
Less: accumulated depreciation	(6,058,834)	(5,600,980)
Net utility plant	9,793,795	9,700,759
Other Assets		
Bond issuance cost	37,475	-
Less: accumulated amortization	(595)	-
Total other assets	36,880	-
<b>Total Assets</b>	<b>\$ 12,422,224</b>	<b>\$ 12,272,254</b>

December 31,	2012	2011
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable	\$ 59,113	\$ 164,567
Accrued liabilities	5,573	9,694
Accrued interest payable	99,593	132,413
Short-term notes payable	-	938,044
Current portion of notes payable	92,000	93,500
Total current liabilities	256,279	1,338,218
Long-Term Debt, net of current portion	5,844,536	4,933,800
Total liabilities	6,100,815	6,272,018
Net Assets		
Invested in capital assets, net of related debt	3,857,259	3,735,415
Restricted	621,348	568,239
Unrestricted	1,842,802	1,696,582
Total net assets	6,321,409	6,000,236
<b>Total Liabilities and Net Assets</b>	<b>\$ 12,422,224</b>	<b>\$ 12,272,254</b>

See accompanying notes to the financial statements.

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Statements of Revenues, Expenses and Changes in Net Assets**

<b>Years Ended December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Operating Revenues</b>		
Water revenue	\$ 1,946,126	\$ 1,919,293
Late charges	35,368	35,321
Other	40,874	30,184
<b>Total operating revenues</b>	<b>2,022,368</b>	<b>1,984,798</b>
<b>Operating Expenses</b>		
Payroll	258,851	252,754
Retirement	50,453	44,269
Payroll taxes	19,294	18,962
Purchased water	775,227	773,438
Transmission and distribution	49,987	52,498
Contract services	22,455	20,080
Utilities	27,692	27,553
Telephone	8,129	7,180
Dues and subscriptions	2,471	2,837
Professional fees	21,132	12,637
Insurance	27,586	26,036
Commissioners' fees	18,000	18,000
Taxes and licenses	3,481	3,068
Office rent	6,000	6,500
Office supplies and postage	30,707	33,597
Depreciation	458,451	454,730
Travel	26,115	29,900
Bad debts	26,707	28,889
Miscellaneous	1,042	2,608
<b>Total operating expenses</b>	<b>1,833,780</b>	<b>1,815,536</b>
<b>Operating income</b>	<b>188,588</b>	<b>169,262</b>

<b>Years Ended December 31,</b>	<b>2012</b>	<b>2011</b>
Non-Operating Revenues (Expenses)		
Interest income	15,398	17,684
Interest expense	(223,558)	(224,276)
Total non-operating revenues (expenses)	(208,160)	(206,592)
Loss before capital contributions	(19,572)	(37,330)
Capital Contributions	340,745	105,559
Change in net assets	321,173	68,229
Net Assets – Beginning	6,000,236	5,932,007
<b>Net Assets – Ending</b>	<b>\$ 6,321,409</b>	<b>\$ 6,000,236</b>

See accompanying notes to the financial statements.

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Statements of Cash Flows**

Years Ended December 31,	2012	2011
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 2,037,826	\$ 1,972,742
Cash payments to suppliers for goods and services	(1,089,729)	(987,734)
Cash paid to employees	(348,462)	(332,497)
Net cash flows provided by operating activities	599,635	652,511
<b>Cash Flows from Capital and Related Financing Activities</b>		
Interest paid on debt	(256,104)	(205,586)
Purchase of capital assets	(550,890)	(1,108,803)
Debt proceeds	2,203,718	938,044
Debt issuance cost	(37,475)	-
Principal payments on long-term debt	(2,232,800)	(88,200)
Capital contributions	340,745	105,559
Net cash flows used in capital and related financing activities	(532,806)	(358,986)
<b>Cash Flows from Investing Activities</b>		
Interest income	15,398	17,684
Purchase of investments	(111,327)	(262,585)
Net cash flows used in investing activities	(95,929)	(244,901)
Net Increase (Decrease) In Cash	(29,100)	48,624
Cash – Beginning of Year	905,454	856,830
<b>Cash – End of Year</b>	<b>\$ 876,354</b>	<b>\$ 905,454</b>

**Noncash Financing Transaction**

District refinanced short-term debt into long-term debt	\$ 994,000	\$ -
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<b>Years Ended December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>		
Operating income	\$ 188,588	\$ 169,262
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	457,854	454,730
Amortization	595	-
Change in:		
Accounts receivable	65,080	(61,678)
Supplies	(1,500)	3,562
Prepayments	(1,407)	(324)
Accounts payable	(105,454)	86,704
Other current liabilities	(4,121)	255
<hr/>		
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 599,635</b>	<b>\$ 652,511</b>

See accompanying notes to the financial statements.

**Note 1:      Organization and Summary of Significant  
Accounting Policies**

• ***Nature of Business***

The Todd County Water District (the "District") was chartered in 1971. It is a distributor of water under the authority of the Public Service Commission of Kentucky. The District provides service to customers in Todd County and a small area in Logan and Muhlenberg Counties.

• ***Reporting Entity***

The District is governed by a five-member board (the "Board"). The criteria for determining the District as a component unit of Todd County, Kentucky, the primary government, is financial accountability. As set forth in GASB 14, *The Financial Reporting Entity*, a primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to impose its will on that organization. The majority of the Commissioners of the Board are appointed by the Todd County Judge Executive subject to the approval of the Todd County Fiscal Court. Todd County is able to impose its will on the District through the ability to remove appointed members of the Board at will and the ability to modify or approve the budget of the District.

• ***Basis of Presentation***

The records of the District are maintained on the accrual method of accounting. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds 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 (expenses, 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.

**Note 1:        Organization and Summary of Significant  
Accounting Policies (Continued)**

Proprietary fund financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (revenues) and decreases (expenses) in total net assets.

Operating revenues within the proprietary fund are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

Net assets are classified into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- ▶ *Invested in Capital Assets, Net of Related Debt* — This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
  
- ▶ *Restricted* — This component of net assets consists of constraints placed on net asset use through external 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.

**Note 1:      Organization and Summary of Significant  
Accounting Policies (Continued)**

- ▶ *Unrestricted Net Assets* — This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

• ***Estimates***

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

• ***Investments***

Investments consist of certificates of deposit and are recorded at cost. The cost of investments approximates their fair value. KRS 66.480 permits the District to invest in U.S. Treasury obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit and the Commonwealth of Kentucky investment pool.

• ***Accounts Receivable***

Accounts receivable are stated at the amount billed to customers. The District’s operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 10<sup>th</sup> of each month. Accounts unpaid on the 25<sup>th</sup> of each month are considered delinquent and service is disconnected. The District provides no allowance for doubtful accounts due to the historical nature of the accounts receivable and the District’s ability to disconnect service. Delinquent receivables are written off. New service is denied until all outstanding balances have been settled.

• ***Supplies***

Operating supplies is stated at the lower of cost, determined by first-in first-out (“FIFO”) method, or market.

**Note 1:      Organization and Summary of Significant  
Accounting Policies *(Continued)***

• ***Utility Plant***

Expenditures for utility plant with an original cost of \$500 or more are capitalized at cost, while maintenance and repairs are charged to operations when incurred. Depreciation is recorded on the straight-line method over the estimated useful life. Interest costs for utility plant asset construction are capitalized.

• ***Income Taxes***

The District is exempt from federal and state income taxes under Section 501 of the Internal Revenue Code.

• ***Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

• ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through March 18, 2013, which was the date the financial statements were made available.

• ***Recently Issued Accounting Standards***

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA pronouncements*, effective for periods beginning after December 15, 2011, incorporated in GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. The District intends to implement the new requirements for the fiscal year 2012–13 financial statements.

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Notes to Financial Statements (Continued)**

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**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

GASB Statement No. 66, *Technical Corrections-2012: An Amendment of GASB Statement No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District intends to implement the new requirements for the fiscal year 2013–14 financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions: An Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014, improves information provided by state and local governmental employers about financial support for pensions, which is provided by other entities. The District plans to implement the new requirements for fiscal year 2014–2015. The effects of this statement on the District are unknown.

**Note 2: Cash and Investments**

• **Deposits**

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2012 and 2011, respectively, the carrying amounts of the District's deposits were \$2,388,095 and \$2,305,868 and the bank balances were \$2,400,021 and \$2,309,332. Of the bank balances, \$2,400,021 and \$2,111,678 were covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name. At December 31, 2012 and 2011, \$0 and \$197,654, respectively, was uninsured and uncollateralized.

December 31,	2012	2011
Cash	\$ 255,006	\$ 337,215
Investments	1,511,741	1,400,414
Restricted cash	621,348	568,239
	\$ 2,388,095	\$ 2,305,868

**Note 2: Cash and Investments (Continued)**

• ***Custodial Credit Risk Deposits***

Custodial credit risk 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 formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. As of December 31, 2012 and 2011, \$0 and \$197,654 of the District's bank balance was exposed to custodial credit risk, respectively.

• ***Interest Rate Risk***

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

• ***Credit Risk***

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has an investment policy that requires additional investments to be in the form of a certificate of deposit at a specific bank.

• ***Concentration of Credit Risk***

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2012 and 2011, there are no investments in any one issuer that represents 5% or more of the total investments.

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Notes to Financial Statements (Continued)**

**Note 3: Cash — Restricted**

Restricted cash consists of the following at December 31, 2012 and 2011:

<u>December 31,</u>	<u>2012</u>	<u>2011</u>
Construction	\$ 152,647	\$ 2,473
Depreciation reserve	307,190	269,944
Debt service reserve	161,511	295,822
	<b>\$ 621,348</b>	<b>\$ 568,239</b>

Certain bond agreements require the District to maintain replacement and debt sinking reserves.

**Note 4: Utility Plant**

Utility plant activity as of and for the years ended December 31, 2012 and 2011 is as follows:

<u>December 31, 2012</u>	<u>Capital Cost</u>				<u>End of Year</u>
	<u>Beginning of Year</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Disposals</u>	
Land and land improvements	\$ 85,088	\$ -	\$ -	\$ -	\$ 85,088
Construction in progress	1,051,629	534,177	(1,204,521)	-	381,285
Total non-depreciable cost	1,136,717	534,177	(1,204,521)	-	466,373

Capital assets that are depreciated:

Structures and improvements	34,793	-	-	-	34,793
Wells and springs	41,777	-	-	-	41,777
Distribution reservoirs and standpipes	2,103,473	-	1,204,521	-	3,307,994
Transmission and distribution mains	10,080,597	-	-	-	10,080,597
Meters and installations	1,572,485	16,713	-	-	1,589,198
Hydrants	9,900	-	-	-	9,900
Miscellaneous equipment	183,968	-	-	-	183,968
Office equipment	54,644	-	-	-	54,644
Leasehold improvements	46,067	-	-	-	46,067

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Notes to Financial Statements (Continued)**

**Note 4: Utility Plant (Continued)**

December 31, 2012	Capital Cost				
	Beginning of Year	Additions	Reclassifications	Disposals	End of Year
Power operating equipment	11,038	-	-	-	11,038
Other plant (fence)	24,001	-	-	-	24,001
Communication equipment	2,279	-	-	-	2,279
Total depreciable cost	14,165,022	16,713	1,204,521	-	15,386,256
Accumulated depreciation	(5,600,980)	(457,854)	-	-	(6,058,834)
	8,564,042	(441,141)	1,204,521	-	9,327,422
<b>Utility Plant, Net</b>	<b>\$ 9,700,759</b>	<b>\$ 93,036</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,793,795</b>

December 31, 2011	Capital Cost				
	Beginning of Year	Additions	Reclassifications	Disposals	End of Year
Land and land improvements	\$ 85,088	\$ -	\$ -	\$ -	\$ 85,088
Construction in progress	4,635	1,046,994	-	-	1,051,629
Total non-depreciable cost	89,723	1,046,994	-	-	1,136,717
Capital assets that are depreciated:					
Structures and improvements	34,793	-	-	-	34,793
Wells and springs	41,777	-	-	-	41,777
Distribution reservoirs and standpipes	2,103,473	-	-	-	2,103,473
Transmission and distribution mains	10,049,136	31,461	-	-	10,080,597
Meters and installations	1,546,030	26,455	-	-	1,572,485
Hydrants	9,900	-	-	-	9,900
Miscellaneous equipment	183,968	-	-	-	183,968
Office equipment	53,030	1,614	-	-	54,644
Leasehold improvements	46,067	-	-	-	46,067
Power operating equipment	11,038	-	-	-	11,038
Communication equipment	-	2,279	-	-	2,279
Other plant (fence)	24,001	-	-	-	24,001
Total depreciable cost	14,103,213	61,809	-	-	14,165,022
Accumulated depreciation	(5,146,250)	(454,730)	-	-	(5,600,980)
	8,956,963	(392,921)	-	-	8,564,042
<b>Utility Plant, Net</b>	<b>\$ 9,046,686</b>	<b>\$ 654,073</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,700,759</b>

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Notes to Financial Statements (Continued)**

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**Note 5: Short-Term Debt**

Short-term debt provides financing for construction. On January 25, 2012, the District issued bonds in the amount of \$994,000 with an interest rate of 3.25% maturing in 2051 for construction of a water tank. The bonds issued retired the short-term debt used to fund the construction project during the construction phase.

The following is a summary of changes in short-term debt for the years ended December 31, 2012 and 2011:

<u>December 31,</u>	<u>2012</u>	<u>2011</u>
Balance, January 1	\$ 938,044	\$ -
Increases	55,956	938,044
Decreases	(994,000)	-
<b>December 31,</b>	<b>\$ -</b>	<b>\$ 938,044</b>

**Note 6: Long-Term Debt**

Long-term debt consists of the following at December 31, 2012 and 2011:

<u>December 31,</u>	<u>2012</u>	<u>2011</u>
Revenue bonds, payable in annual principal installments, plus interest at 5.0%, refinanced in August 2012	\$ -	\$ 417,000
Revenue bonds, payable in annual principal installments, plus interest at 5.0%, refinanced in August 2012	-	463,000
Revenue bonds, payable in annual principal installments, plus interest at 5.0%, refinanced in August 2012	-	158,800

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Notes to Financial Statements (Continued)**

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**Note 6: Long-Term Debt (Continued)**

<u>December 31,</u>	<u>2012</u>	<u>2011</u>
Revenue bonds, payable in annual principal installments, plus interest at 4.875%, refinanced in August 2012	-	445,000
Revenue bonds, payable in annual principal installments, plus interest at 4.75%, refinanced in August 2012	-	714,000
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2045	1,036,000	1,050,000
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2048	1,758,500	1,779,500
Revenue bonds, payable in annual principal installments, plus interest at 3.00%, maturing in January 2050	994,000	-
Revenue bonds, payable in annual principal installments, plus interest at 2.875%, maturing in August 2033	2,165,000	
	5,953,500	5,027,300
Less: deferred amount on refunded bonds	(16,964)	-
	5,936,536	5,027,300
Less: current portion	(92,000)	(93,500)
	<b>\$ 5,844,536</b>	<b>\$ 4,933,800</b>

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Notes to Financial Statements (Continued)**

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**Note 6: Long-Term Debt (Continued)**

Maturities of long-term debt are as follows for the year ended December 31:

Year	Principal	Interest	Total Debt Service
2013	\$ 92,000	\$ 199,963	\$ 291,963
2014	146,500	201,603	348,103
2015	154,000	197,674	351,674
2016	156,500	193,548	350,048
2017	163,000	189,345	352,345
2018–2022	893,500	870,292	1,763,792
2023–2027	1,047,500	711,954	1,759,454
2028–2032	970,000	534,351	1,504,351
2033–2037	599,500	385,533	985,033
2038–2042	718,000	258,414	976,414
2043–2047	753,500	106,568	860,068
2048–2050	259,500	9,350	268,850
	<b>\$ 5,953,500</b>	<b>\$ 3,858,595</b>	<b>\$ 9,812,095</b>

On August 29, 2012, the District issued bonds in the amount of \$2,165,000 with an interest rate of 2.875% maturing in 2033 to refund \$2,139,300 of outstanding series 1987, 1990, 1992, 1996 and 2000 bonds with an average interest rate of 4.93%. The net proceeds of \$2,156,538 (after payment of \$8,462 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide debt service payments on the series 1987, 1990, 1992, 1996 and 2000 bonds, thereby retiring the outstanding bond issues. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$17,238. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2033 using the effective-interest method. The District completed the refunding to reduce its total debt service payments over the next 21 years by \$607,985 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$350,056.

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

Activity in long-term debt for 2012 and 2011 is as follows:

December 31,	2012			
	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	\$ 5,027,300	\$ 3,159,000	\$ 2,232,800	\$ 5,953,500
Deferred amount on refunded bonds	-	(17,238)	(274)	(16,964)
<b>Total Loans</b>	<b>\$ 5,027,300</b>	<b>\$ 3,141,762</b>	<b>\$ 2,232,526</b>	<b>\$ 5,936,536</b>

December 31,	2011			
	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	\$ 5,115,500	\$ -	\$ 88,200	\$ 5,027,300
<b>Total Loans</b>	<b>\$ 5,115,500</b>	<b>\$ -</b>	<b>\$ 88,200</b>	<b>\$ 5,027,300</b>

**Note 7: Water Agreement**

The District has entered into a water purchase contract with the Logan/Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the District and the rates the District will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed upon by the Commission and the District. Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Notes to Financial Statements (Continued)**

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**7: Water Agreement (Continued)**

from the Commission in March 2003; therefore, the Commission is the sole provider of water to the District. The agreement does require the District to purchase minimum quantities of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages. At December 31, 2012 and 2011, minimum levels have been met.

**8: Leases**

The District has an operating lease agreement with the City of Elkton for office space. The lease is for a period of ten years and the District has the option to renew the lease for an additional ten years after the initial expiration of the lease. The lease was renewed August 11 for an additional ten years. The lease requires monthly payments of \$500. The minimum lease payments are as follows:

<u>December 31,</u>	
2013	\$ 6,000
2014	6,000
2015	6,000
2016	6,000
2017	6,000
Thereafter	21,500
	<hr/> <b>\$ 51,500</b> <hr/>

**9: Retirement Plans**

**Plan Descriptions**

Todd County Water District participates in the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual

**Note 9: Retirement Plans (Continued)**

cost-of-living adjustments and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of the Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. The CERS report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

**► Funding Policy**

CERS plan members are required to contribute 5.00% of their covered salary (6.00% for new hires effective July 1, 2008). The District is required to contribute to the CERS. The contribution rate is actuarially determined. The 2012 and 2011 rates for CERS are 19.55% and 18.96% of annual covered payroll, respectively. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended December 31, 2012 and 2011 were \$50,453 and \$44,269, respectively, equal to the required contributions for each year.

**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; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, unemployment insurance, errors and omissions, property and general liability coverage, the District participates in the Kentucky Association of Counties (KACo) insurance fund. This public entity risk pool operates as a common risk management and insurance program for political subdivisions in the State of Kentucky. The District, along with other participating entities, contributes annual premiums determined by KACo. The amount of the premium is based on actuarial evaluations, rating plans and other analyses of the amounts necessary for the payment of claims. If, in the opinion of KACo's Board, the assets of the Trust are insufficient to enable the Trust to discharge its legal liabilities and other obligations and to maintain required reserves, the Trust's Board may require certain participating members to contribute supplementary contributions. The District is not aware of any additional assessments payable to the Trust to cover claims. The District's claims are submitted to and paid by KACo. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years.

# Supplementary Information



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**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***

**Independent Auditors' Report**

Commissioners  
Todd County Water District  
Elkton, Kentucky

We have audited, 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, the financial statements as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Todd County Water District's (the "District") basic financial statements, and have issued our report thereon dated March 18, 2013.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

*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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2012-1 to be a material weakness. 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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated March 18, 2013.

### **Todd County Water District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 result 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.

*Carr, Riggs & Ingram, LLC*

Carr, Riggs & Ingram, LLC  
Russellville, Kentucky  
March 18, 2013

• **Section II – Financial Statement Findings**

▪ **2012–1 Financial Reporting**

*Criteria:* The internal control structure should be such that misstatements in the District's financial statements are prevented, or detected and corrected, on a timely basis. Significant proposed audit adjustments were made to cash, capital assets, accounts payable, accrued liabilities, long-term debt, short-term debt, retained earnings, revenues and expenses.

*Cause:* Certain internal controls were not in place to prevent, or detect and correct, material misstatements.

*Effect:* Financial statements could contain material undetected errors.

*Audit Recommendation:* We recommend controls over the financial close process be reviewed to ensure significant amounts are reported correctly and timely in the District's financial statements.

*Management Response:* The officer manager will, in the future, have a closer review of the year end closing process and ask for technical guidance in areas that are needed in the year end financial close process.