

Todd County Water District

Class A & B Water Districts & Associations Annual Report to the Public Service Commission of the Commonwealth of Kentucky

For the Year Ended December 31, 2014

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Accountants' Compilation Report

Commissioners
Todd County Water District
Elkton, Kentucky

We have compiled the Class A & B Water District & Association Annual Report ("Annual Report") of Todd County Water District as of and for the year ended December 31, 2014, included in the accompanying prescribed form. We have not audited or reviewed the Annual Report included in the accompanying prescribed form and, accordingly, do not express an opinion or provide any assurance about whether the Annual Report is in accordance with the form prescribed by the Public Service Commission of the Commonwealth of Kentucky.

Management is responsible for the preparation and fair presentation of the Annual Report included in the form prescribed by the Public Service Commission of the Commonwealth of Kentucky and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Annual Report.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements. The Annual Report was compiled by us from financial statements for the same period that we previously audited, as indicated in our report dated February 25, 2015.

The financial statements included in the accompanying prescribed form are presented in accordance with the requirements of the Public Service Commission of the Commonwealth of Kentucky, and are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

Commissioners
Todd County Water District

This report is intended solely for the information and use of the managements of Todd County Water District and the Public Service Commission of the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
February 25, 2015

Todd County Water District

A Component Unit of
Todd County, Kentucky

Financial Statements

December 31, 2014 and 2013

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Todd County Water District
A Component Unit of Todd County, Kentucky
Table of Contents
December 31, 2014 and 2013

TAB: REPORT

Independent Auditors' Report 3

TAB: FINANCIAL STATEMENTS

Required Supplementary Information:

Management's Discussion and Analysis 5

Financial Statements:

Statements of Net Position 10

Statements of Revenues, Expenses and Changes in Net Position..... 12

Statements of Cash Flows 14

Notes to Financial Statements 16

**Independent Auditors' 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*..... 27**

TAB: REQUIRED COMMUNICATIONS

Required Communications 29

Accounting Policies, Judgments, & Sensitive Estimates & CRI Comments on Quality 36

Summary of Audit Adjustments 37

Management Representation Letter 39

TAB: Internal Controls

Internal Controls 45

TAB: THOUGHT LEADERSHIP

Join Our Conversation

The image features a central yellow rectangular area with a subtle gradient and faint, overlapping geometric shapes like triangles and rectangles. This central area is framed by four solid blue horizontal bars: two at the top and two at the bottom. The word "REPORT" is printed in a bold, dark blue, sans-serif font on the right side of the yellow area.

REPORT



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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, 2014 and 2013, 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 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 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 District'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 District'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, 2014 and 2013, 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 February 25, 2015, on our consideration of the 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 District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
February 25, 2015



FINANCIAL STATEMENTS

Todd County Water District

A Component Unit of Todd County, Kentucky Management's Discussion and Analysis Years Ended December 31, 2013 and 2014

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, 2014 and 2013. 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 and deferred outflows of resources of the District exceeded its total liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$6,266,130 compared to \$6,381,780 in the 2013 fiscal year. Of this amount, \$1,459,234 may be used to meet the District's ongoing obligations to citizens and creditors, as compared to \$2,185,666 for the 2013 fiscal year. It is the District's intent to use these assets to operate the District. The restricted net position is earmarked for unbudgeted repairs and maintenance cost and debt service of the District.
- The District has \$5,561,000, in long-term debt, net of current portion, as compared to \$5,715,000 for the 2013 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 position presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference 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 and 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 can be found on pages 10 through 15 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 16 through 26 of this report.

• **Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,266,130, as compared with \$6,381,780 for the 2013 fiscal year.

Net Position as of December 31, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012 (Restated)</u>
Current assets	2,034,527	2,703,161	2,637,495
Capital and other assets	<u>10,205,591</u>	<u>9,708,718</u>	<u>9,883,795</u>
Total Assets	<u>12,240,118</u>	<u>12,411,879</u>	<u>12,521,290</u>
Deferred amount of debt refundings	<u>15,322</u>	<u>16,143</u>	<u>16,964</u>
Total Deferred Outflows of Resources	<u>15,322</u>	<u>16,143</u>	<u>16,964</u>
Long-term liabilities	5,561,000	5,715,000	5,861,500
Other liabilities (current)	<u>428,310</u>	<u>331,242</u>	<u>256,279</u>
Total Liabilities	<u>5,989,310</u>	<u>6,046,242</u>	<u>6,117,779</u>
Net Position			
Investment in capital assets	4,455,913	3,813,361	3,857,259
Restricted	350,983	382,753	621,348
Unrestricted	<u>1,459,234</u>	<u>2,185,666</u>	<u>1,941,868</u>
Total Net Position	<u>6,266,130</u>	<u>6,381,780</u>	<u>6,420,475</u>

By far the largest portion of the District's net position in the amount of \$4,455,913 reflects its

investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). This is an increase from \$3,813,361 for the 2013 fiscal year. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Unrestricted net position in the amount \$1,459,234 may be used to meet the District's ongoing obligation to customers and creditors. This is a decrease from \$1,967,921 from the 2013 fiscal year. The remaining restricted net position is for replacement reserves for future years.

Deferred outflows of resources decreased from \$16,143 in 2013 to \$15,322 in 2014.

At December 31, 2014, 2013 and 2012, the District is able to report positive balances in all categories of net position.

Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012 (Restated)</u>
Revenues			
Water service revenues	2,017,008	1,834,599	1,951,355
Other revenues	39,820	113,509	76,242
Total Operating Revenues	<u>2,056,828</u>	<u>1,948,108</u>	<u>2,027,597</u>
Expenses			
Water operations	2,006,417	1,878,426	1,870,660
Total Operating Expenses	<u>2,006,417</u>	<u>1,878,426</u>	<u>1,870,660</u>
Net Operating Income	50,411	69,682	156,937
Non-operating revenue (expenses), net	<u>(191,015)</u>	<u>(198,866)</u>	<u>(208,160)</u>
Income Before Capital Contributions	(140,604)	(129,184)	(51,223)
Capital contributions	24,954	90,489	340,745
Change in Net Position	(115,650)	(38,695)	289,522
Net Position – Beginning of Year, as previously reported	6,381,780	6,420,475	6,000,236
Prior Period Adjustment – Record Unbilled Water Sales	<u>-</u>	<u>-</u>	<u>130,717</u>
Net Position – Beginning of Year, as restated	<u>6,381,780</u>	<u>6,420,475</u>	<u>6,130,953</u>
Net Position – End of Year	<u>6,266,130</u>	<u>6,381,780</u>	<u>6,420,475</u>

• Revenues

Water sold is the Water District's primary source of revenue. For the fiscal year of 2014 revenue from water sold was \$1,979,176, an increase from \$1,834,599 in the 2013 year and \$1,951,355 in 2012.

Capital grants and contributions totaled \$24,954 for fiscal year 2014. These funds were received from customers for tap on fees and a grant from Rural Development. This is a decrease from the \$90,489 for the fiscal year 2013 and from the \$340,745 for the fiscal year of 2012.

Unrestricted investment earnings totaled \$9,604 for fiscal year 2013 and decreased to \$5,289 for the 2014 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 \$77,652 for the fiscal year 2014 which was a decrease from the prior year. The 2013 total for Other Operating Revenue was \$113,500.

• Expenses

Operating expenses totaled \$2,006,417 for fiscal year 2014 which was an increase from the 2013 amount of \$1,878,426 and also an increase from \$1,870,660 for the 2012 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 \$208,470 for fiscal year 2013 and decreased to \$202,984 for the 2014 fiscal year.

Change in net position for 2013 was (\$38,695) as compared to 2012 which was \$289,522. In the 2014 fiscal year the change in net position was (\$115,650).

• Capital Assets and Debt Administration

▶ Capital Assets

The District's investment in capital assets at December 31, 2014 amounts to \$10,155,591 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles. This is an increase from \$9,658,718 for the 2013 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 \$5,561,000 at December 31, 2014, a decrease from \$5,715,000 for the 2013 fiscal year. Outstanding debt at year-end was to finance the District's infrastructure. The only activity for debt was the servicing requirements and borrowing for the expansion projects.

▶ **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 continually monitor as they have the most direct impact on the operations of the District.

During the current fiscal year, the Operation and Maintenance account balance decreased to \$289,274. This is a change (decrease) from the 2013 balance of \$302,420.

• **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.

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

December 31,	2014	2013
Assets		
Current Assets		
Cash	\$ 289,274	\$ 302,420
Short-term investments	825,530	1,469,273
Accounts receivable — billed	164,518	132,412
Accounts receivable — unbilled	133,864	148,143
Supplies	31,014	33,658
Prepaid expenses	12,497	16,757
Total current assets	1,456,697	2,102,663
Cash — restricted	577,830	600,498
Investments	50,000	50,000
Utility Plant		
Utility plant in service	17,141,347	16,172,565
Less: accumulated depreciation	(6,985,756)	(6,513,847)
Net utility plant	10,155,591	9,658,718
Total assets	12,240,118	12,411,879
Deferred Outflows of Resources		
Deferred amount on debt refundings	15,322	16,143
Total deferred outflows of resources	15,322	16,143

See accompanying notes to the financial statements.

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

December 31,	2014	2013
Liabilities		
Current Liabilities		
Accounts payable	169,726	71,518
Accrued liabilities	5,121	9,963
Accrued interest payable	99,463	103,261
Current portion of notes payable	154,000	146,500
Total current liabilities	428,310	331,242
Long-Term Debt, net of current portion	5,561,000	5,715,000
Total liabilities	5,989,310	6,046,242
Net Position		
Net investment in capital assets	4,455,913	3,813,361
Restricted	350,983	382,753
Unrestricted	1,459,234	2,185,666
Total Net Position	\$ 6,266,130	\$ 6,381,780

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 Position

Years Ended December 31,	2014	2013
Operating Revenues		
Water revenue	\$ 1,979,176	\$ 1,834,599
Late charges	37,832	34,734
Other	39,820	78,775
Total operating revenues	2,056,828	1,948,108
Operating Expenses		
Payroll	275,800	262,824
Retirement	50,517	51,595
Health insurance	11,566	14,248
Payroll taxes	20,191	19,857
Purchased water	855,317	738,591
Transmission and distribution	57,570	53,975
Contract services	25,344	38,701
Utilities	29,609	30,085
Telephone	8,714	9,012
Dues and subscriptions	2,701	3,127
Professional fees	20,031	23,398
Insurance	36,505	29,535
Commissioners' fees	18,000	18,000
Taxes and licenses	7,605	3,610
Office rent	12,000	7,500
Office supplies and postage	33,810	29,798
Depreciation	495,150	484,161
Travel	22,564	29,593
Bad debts	19,495	23,297
Miscellaneous	3,928	7,519
Total operating expenses	2,006,417	1,878,426
Operating income	50,411	69,682

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 Position

Years Ended December 31,	2014	2013
Non-Operating Revenues (Expenses)		
Gain on sale of assets	6,680	-
Interest income	5,289	9,604
Interest expense	(202,984)	(208,470)
Total non-operating revenues (expenses)	(191,015)	(198,866)
Loss before capital contributions	(140,604)	(129,184)
Capital Contributions	24,954	90,489
Change in net position	(115,650)	(38,695)
Net Position — Beginning of Year	6,381,780	6,420,475
Net Position — End of Year	\$ 6,266,130	\$ 6,381,780

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,	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,039,001	\$ 1,949,535
Cash payments to suppliers for goods and services	(1,049,731)	(1,019,207)
Cash paid to employees	(361,266)	(350,838)
Net cash flows provided by operating	628,004	579,490
Cash Flows from Capital and Related Financing Activities		
Interest paid on debt	(205,961)	(203,981)
Purchase of capital assets	(992,023)	(349,506)
Proceeds from sale of capital assets	6,680	-
Principal payments on long-term debt	(146,500)	(92,000)
Capital contributions	24,954	90,489
Net cash flows used in capital and related financing activities	(1,312,850)	(554,998)
Cash Flows from Investing Activities		
Interest income	5,289	9,604
Maturity of investments	646,966	-
Purchase of investments	(3,223)	(7,532)
Net cash flows provided by investing	649,032	2,072
Net Increase (Decrease) In Cash	(35,814)	26,564
Cash - Beginning of Year	902,918	876,354
Cash - End of Year	\$ 867,104	\$ 902,918

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,	2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 50,411	\$ 69,682
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	495,150	484,161
Other	-	422
Change in:		
Accounts receivable	(17,827)	1,427
Supplies	2,644	8,855
Prepayments	4,260	(1,852)
Accounts payable	98,208	12,405
Other current liabilities	(4,842)	4,390
Net Cash Provided by Operating Activities	\$ 628,004	\$ 579,490

See accompanying notes to the financial statements.

**Todd County Water District
A Component Unit of Todd County, Kentucky
Notes to 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.

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

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

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

Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position.

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 position is classified into three components: net investments in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- ▶ *Net Investments in Capital Assets* — This component of net position consists of the District's total investment in capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. 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 the net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- ▶ *Restricted* — This component of net position consists of constraints placed on net position 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.
- ▶ *Unrestricted Net Position* — This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

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

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

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 non-brokered 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

Billed receivables are stated at the amount billed to customers. Unbilled receivables are recorded for services provided for which customers have not been billed at December 31, 2014 and 2013. The District's operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 10th of each month. Accounts unpaid on the 25th 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.

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.

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

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

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 February 25, 2015, which was the date the financial statements were made available.

New Accounting Pronouncements

Recently Issued Accounting Pronouncements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions: An Amendment of GASB Statement No. 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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, 2014 and 2013, respectively, the carrying amounts of the District's deposits were \$1,742,634 and \$2,422,191 and the bank balances were \$1,752,101 and \$2,434,535. Of the bank balances, \$1,752,101 and \$2,434,535 were covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name.

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

Note 2: Cash and Investments (Continued)

<u>December 31,</u>	<u>2014</u>		<u>2013</u>	
Cash	\$	289,274	\$	302,420
Investments		875,530		1,519,273
Restricted cash		577,830		600,498
	\$	1,742,634	\$	2,422,191

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 for bank deposits to be collateralized. The District does not have any custodial credit risk at December 31, 2014 and 2013.

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, 2014 and 2013, 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:

<u>December 31,</u>	<u>2014</u>		<u>2013</u>	
Construction	\$	262,170	\$	39,087
Depreciation reserve		88,813		343,666
Debt service reserve		226,847		217,745
	\$	577,830	\$	600,498

Certain bond agreements require the District to maintain replacement and debt sinking reserves. The construction amount is for the District's new office building.

Note 4: Utility Plant

Utility plant activity is as follows:

<u>December 31, 2014</u>	<u>Capital Cost</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Capital assets that are not depreciated:				
Land and land improvements	\$ 145,089	\$ -	\$ -	\$ 145,089
Construction in progress	-	961,183	-	961,183
Total non-depreciable cost	145,089	961,183	-	1,106,272
Capital assets that are depreciated:				
Structures and Improvements	34,793	-	-	34,793
Wells and springs	41,777	-	-	41,777
Distribution reservoirs and standpipes	3,307,994	-	-	3,307,994
Transmission and distribution mains	10,678,711	-	-	10,678,711
Meters and installations	1,614,576	25,055	-	1,639,631
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	218,865	-	(23,241)	195,624
Office equipment	42,975	5,785	-	48,760

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

Note 4: Utility Plant (Continued)

December 31, 2014	Capital Cost			Ending Balance
	Beginning Balance	Additions	Retirements/ Reclassifications	
Leasehold improvements	46,067	-	-	46,067
Power operating equipment	5,538	-	-	5,538
Other plant (fence)	24,001	-	-	24,001
Communication equipment	2,279	-	-	2,279
Total depreciable historical cost	16,027,476	30,840	(23,241)	16,035,075
Accumulated depreciation	(6,513,847)	(495,150)	23,241	(6,985,756)
	9,513,629	(464,310)	-	9,049,319
Utility Plant, Net	\$ 9,658,718	\$ 496,873	\$ -	\$10,155,591

December 31, 2013	Capital Cost			Ending Balance
	Beginning Balance	Additions	Retirements/ Reclassifications	
Capital assets that are not depreciated:				
Land and land improvements	\$ 85,088	\$ 60,000	\$ -	\$ 145,088
Construction in progress	381,285	216,829	(598,114)	-
Total non-depreciable cost	466,373	276,829	(598,114)	145,088
Capital assets that are depreciated:				
Structures and Improvements	34,793	-	-	34,793
Wells and springs	41,777	-	-	41,777
Distribution reservoirs and standpipes	3,307,994	-	-	3,307,994
Transmission and distribution mains	10,080,597	-	598,114	10,678,711
Meters and installations	1,589,198	25,380	-	1,614,578
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	183,968	40,887	(5,991)	218,864
Office equipment	54,644	6,410	(18,079)	42,975
Leasehold improvements	46,067	-	-	46,067
Power operating equipment	11,038	-	(5,500)	5,538

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

Note 4: Utility Plant (Continued)

December 31, 2013	Capital Cost			Ending Balance
	Beginning Balance	Additions	Retirements/ Reclassifications	
Other plant (fence)	24,001	-	-	24,001
Communication equipment	2,279	-	-	2,279
Total depreciable	15,386,256	72,677	568,544	16,027,477
Accumulated depreciation	(6,058,834)	(484,161)	29,148	(6,513,847)
	9,327,422	(411,484)	597,692	9,513,630
Utility Plant, Net	\$ 9,793,795	\$(134,655)	\$ (422)	\$ 9,658,718

Note 5: Long-Term Debt

Long-term debt consists of the following:

December 31,	2014	2013
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2045	\$ 1,006,000	\$ 1,021,000
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2048	1,713,500	1,736,500
Revenue bonds, payable in annual principal installments, plus interest at 3.00%, maturing in January 2050	980,500	994,000
Revenue bonds, payable in annual principal installments, plus interest at 2.875%, maturing in August 2033	2,015,000	2,110,000
	5,715,000	5,861,500
Less: current portion	(154,000)	(146,500)
	\$ 5,561,000	\$ 5,715,000

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

Note 5: Long-Term Debt (Continued)

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

Year	Principal	Interest	Total Debt Service
2015	154,000	198,079	\$ 352,079
2016	156,500	193,953	350,453
2017	163,000	189,750	352,750
2018	165,500	185,370	350,870
2019	173,000	180,630	353,630
2020-2024	949,000	812,452	1,761,452
2025-2029	1,051,500	643,376	1,694,876
2030-2034	804,000	469,683	1,273,683
2035-2039	638,000	339,544	977,544
2040-2044	777,500	201,792	979,292
2045-2049	595,000	55,225	650,225
2050-2051	88,000	2,160	90,160
	\$ 5,715,000	\$ 3,472,014	\$ 9,187,014

Activity in long-term debt is as follows:

December 31,	2014			
	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	\$ 5,861,500	\$ -	\$ 146,500	\$ 5,715,000
	\$ 5,861,500	\$ -	\$ 146,500	\$ 5,715,000
December 31,	2013			
	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	\$ 5,953,500	\$ -	\$ 92,000	\$ 5,861,500
	\$ 5,953,500	\$ -	\$ 92,000	\$ 5,861,500

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

Note 6: 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 water 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 levels of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages. At December 31, 2014 and 2013, minimum levels have been met.

Note 7: Retirement Plans

Plan Descriptions

The 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 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 2014 and 2013 rate for CERS is 18.89% 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, 2014 and 2013 were \$50,517 and \$51,595, respectively, equal to the required contributions for each year.

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

Note 8: 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 four years.

Note 9: Subsequent Events

The District moved into their new office January 5, 2015. The previous leased office space was vacated on January 23, 2015. Leasehold improvements will be written off in 2015. The lease space was on a month to month basis.



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**Independent Auditors' 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***

Commissioners
Todd County Water District
Elkton, 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 as of and for the year ended December 31, 2014, 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 February 25, 2015.

● **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.

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 District'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

● **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

● **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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, LLC



REQUIRED COMMUNICATIONS



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February 25, 2015

Commissioners
Todd County Water District
Elkton, Kentucky

We are pleased to present the results of our audit of the December 31, 2014 financial statements of the Todd County Water District (the "District").

This report to the Commissioners and management summarizes our audit, the report issued and various analyses and observations related to the District's accounting and reporting. The document also contains the communications required by our professional standards.

Our GAAP audit was designed, primarily, to express an opinion on the District's December 31, 2014 financial statements. We considered the District's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you expect. We received the full support and assistance of the District's personnel.

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This report is intended solely for the use of the Commissioners and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate this opportunity to work with you. If you have any questions or comments, please contact me at 270-782-0700 or lwhite@cricpa.com.

Very truly yours,

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC

Required Communications

As discussed with the Commissioners and management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the District. Specifically, we planned and performed our audit to:

- Perform audit services, as requested by the District, in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*; in order to express an opinion on the District's financial statements for the year ended December 31, 2014.
- Communicate directly with District management and the Commissioners regarding the results of our procedures;
- Address with District management and the Commissioners any accounting and financial reporting issues;
- Anticipate and respond to concerns of District management and Commissioners; and
- Other audit-related projects as they arise and upon request.

Required Communications

We have audited the financial statements of the Todd County Water District for the year ended December 31, 2014, and have issued our report thereon dated February 25, 2015. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p>Auditors' responsibility under Generally Accepted Auditing Standards</p>	<p>We have audited the financial statements of the District for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated December 3, 2014. Professional standards also require that we communicate to you the following information related to our audit.</p>
<p>Client's responsibility</p>	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
<p>Planned scope and timing of the audit</p>	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
<p>Management judgments and accounting estimates <i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditors' conclusion regarding the reasonableness of those estimates.</i></p>	<p>Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality."</p>
<p>Potential effect on the financial statements of any significant risks and exposures <i>Major risks and exposures facing the District and how they are disclosed.</i></p>	<p>No such risks or exposures were noted.</p>

Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditors' judgment about the quality of accounting principles</p> <ul style="list-style-type: none"> • <i>The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</i> • <i>The auditor should also discuss the auditors' judgment about the quality, not just the acceptability, of the District's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures. Critical accounting policies and practices applied by the District in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations;</i> • <i>Alternative treatments within GAAP for accounting policies and practices related to material items, including recognition, measurement, presentation and disclosure alternatives, that have been discussed with client management during the current audit period, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor. Furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.</i> 	<p>None noted during the audit that was not within the GAAP reporting framework.</p>

Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p>Significant difficulties encountered in the audit <i>Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.</i></p>	None noted.
<p>Disagreements with management <i>Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditors' report. This does not include those that came about based on incomplete facts or preliminary information.</i></p>	None noted.
<p>Other findings or issues <i>Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.</i></p>	None noted.
<p>Matters arising from the audit that were discussed with, or the subject of correspondence with, management <i>Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.</i></p>	The District has been evaluating the impact of the adoption of GASB Statement No. 68. Please see Note 1 for further disclosure.
<p>Corrected and uncorrected misstatements <i>All significant audit adjustments arising from the audit, whether or not recorded by the District, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Commissioners about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.</i></p>	Please see the following section titled "Summary of Audit Adjustments."
<p>Major issues discussed with management prior to retention <i>Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.</i></p>	None noted.

Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p>Consultations with other accountants <i>When management has consulted with other accountants about significant accounting or auditing matters.</i></p>	None of which we are aware.
<p>Written representations <i>A description of the written representations the auditor requested (or a copy of the representation letter).</i></p>	See "Management Representation Letter" section.
<p>Internal control deficiencies <i>Any significant deficiencies or material weaknesses in the design or operation of internal control that come to the auditors' attention during the audit.</i></p>	See reports in the "Financial Statements" section.
<p>Fraud and illegal acts <i>Fraud involving senior management of the District or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditors' attention involving senior management and any other illegal acts, unless clearly inconsequential.</i></p>	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
<p>Other information in documents containing audited financial statements <i>The external auditors' responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.</i></p>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> • Such information is materially inconsistent with the financial statements; and • We believe such information represents a material misstatement of fact. <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>

Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p>Other Matters <i>Required supplementary information and supplementary information that will accompany the basic financial statements.</i></p>	<p>We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.</p>

Accounting Policies, Judgements, & Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the District's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Commissioners may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Fixed Assets	The District's capital assets are capitalized at cost and depreciated on the straight-line method.	X	Depreciation computed on straight-line method over the assets' useful life based on the District's capitalization policy.	The District's policies are in accordance with all applicable accounting guidelines.

Summary of Audit Adjustments

During the course of our audit, we accumulate differences between amounts recorded by the District and amounts that we believe are required to be recorded under GAAP. Those adjustments are either recorded (corrected) by the District or passed (uncorrected).

The schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the District's financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the District's financial statements taken as a whole.

QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the District's operating environment that has been identified as playing a significant role in the District's operations or viability.
- Whether the difference affects compliance with regulatory requirements.
- Whether the difference has the effect of increasing management's compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.
- Whether the difference involves concealment of an unlawful transaction.

Summary of Audit Adjustments

Description	Amount of Difference	Effect on Financial Statements - Over (Under) Statement					
		Total Assets	Total Liability	Equity	Revenues	Expenses	Net Income
To adjust meter cost to actual as of 12/31/14	4,832	4,832		4,832		(4,832)	4,832
To adjust AP/CIP to actual as of 12/31/14	7,969	7,969	7,969				
NET EFFECT		12,801	7,969	4,832	-	(4,832)	4,832

Management Representation Letter

Phone 270-265-2229



Fax 270-265-2035

Todd County Water District

February 25, 2015

Carr, Riggs & Ingram, LLC
PO Box 104
Bowling Green, KY 42102-0104

This representation letter is provided in connection with your audits of the financial statements of Todd County Water District (the "District"), which comprise the respective financial positions of the business-type activities as of December 31, 2014 and 2013, and the respective changes in financial positions and, where applicable, cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of February 25, 2015, the following representations made to you during your audits.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 3, 2014, including our responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.

Post Office Box 520
2201 New Highway 68 West
Elkton, KY 42220

This institution is an equal opportunity provider and employer.

Management Representation Letter

Carr, Riggs & Ingram, LLC
February 25, 2015
Page 2

- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/ expenses, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
- 9) The effects of all known actual or possible litigation, claims and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Management Representation Letter

Carr, Riggs & Ingram, LLC
February 25, 2015
Page 3

- d) Minutes of the meetings of the Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government – Specific

- 19) We have made available to you all financial records and related data.
- 20) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 21) We have a process to track the status of audit findings and recommendations.

Management Representation Letter

Carr, Riggs & Ingram, LLC

February 25, 2015

Page 4

- 22) We have identified to you any previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
- 23) We have provided our views on reported findings, conclusions and recommendations, as well as our planned corrective actions, for the report.
- 24) The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or equity.
- 25) We are responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
- 26) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 27) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 28) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 29) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 30) As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved and accepted responsibility for those financial statements and related notes.
- 31) The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 32) The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Management Representation Letter

- 33) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 34) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
- 35) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 36) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 37) Investments and land are properly valued.
- 38) Provisions for uncollectible receivables have been properly identified and recorded.
- 39) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 40) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments or contributions to permanent fund principal.
- 41) Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
- 42) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 43) Capital assets, including infrastructure, are properly capitalized, reported, and, if applicable, depreciated.
- 44) We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 45) We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 46) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

Management Representation Letter

- 47) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Stacy Conner

Signature

Signature

Office Manager

Title

Title



INTERNAL CONTROL RECOMMENDATIONS

Internal Control Findings

The Commissioners and Management of
Todd County Water District

In planning and performing our audit of the financial statements of Todd County Water District ("the District") as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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.

We included in the accompanying table control deficiencies and other internal control recommendations for management and the Commissioner's consideration.

This communication is intended solely for the information and use of management and Commissioners, and is not intended to be, and should not be, used by anyone other than these specified parties.

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
February 25, 2015

Internal Control Findings

The following legend should be used in conjunction with reviewing the "Rating" of each of the identified internal control items:

IP = Improvement Point	D = Control Deficiency
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ITEM	RATING	AREA	ITEM NOTED	SUGGESTION	MANAGEMENT ACTION
1	D	Financial Reporting	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. Audit adjustments were made to accounts receivable, accounts payable and expenses.	We recommend controls over the financial close process be reviewed to ensure amounts are reported correctly and timely in the District's financial statements.	The Water District will make an effort to review our closing process with our accountants to correct any misstatements in a timely manner.
2	D	General Procedures	The District does not maintain a revenue fund for the deposit of customer funds. Bond agreements require maintenance of this fund.	We recommend the District establish and maintain a revenue fund.	The Water District will confer with our accountant to establish and maintain a revenue fund.

Internal Control Findings

ITEM	RATING	AREA	ITEM NOTED	SUGGESTION	MANAGEMENT ACTION
3	D	Internal Control	In our review of cash disbursement procedures, we noted a lack of segregation of duties. Management has implemented some compensating controls such as requiring dual signatures on checks; however, one individual prepares checks, signs checks and mails checks while also being responsible for recording the disbursements into the general ledger.	For improved internal control, individuals who have access to the general ledger should not have the ability to sign checks. We recommend that management consider making changes to the cash disbursement process to improve controls in this area.	The Water District Commissioners will look into making the requested changes for improved internal control.



THOUGHT LEADERSHIP

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