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CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
With Independent Auditor's Report

FOR THE YEAR ENDED DECEMBER 31, 2012

Cornman, Bryan, Watts & Elliott, CPAs, PLLC

Certified Public Accountants

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CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT

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FOR THE YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
Crittenden-Livingston County Water District
620 East Main Street
Salem, KY 42078

We have audited the accompanying financial statements of Crittenden-Livingston Water District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Crittenden-Livingston Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Crittenden-Livingston Water District, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 and budgetary comparison information on pages 3–5 and 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crittenden-Livingston Water District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Cornman, Bryan, Watts & Elliott, CPAs, PLLC

Grand Rivers, KY
June 27, 2013

CRITTENDEN LIVINGSTON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

The Crittenden Livingston Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2012. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

The assets of the District exceeded its liabilities by \$8,721,857 at December 31, 2012. Of this amount \$663,738 is restricted and \$7,322,649 is invested in capital assets net of the related debt, leaving unrestricted net assets of \$735,470.

The District's net assets increased for the year by \$159,185.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Crittenden Livingston Water District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The District's basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. In addition, this report contains other supplementary information to provide the reader additional information about the District.

Fund Financial Statements - The focus of fund financial statements is directed to specific activities of a governmental entity rather than the entity as a whole. The District, like other state and local governments, uses fund accounting. All activities of the District are reported in the enterprise fund, a proprietary fund type.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Because the District consists of only a proprietary fund, reconciliations of the fund financial statements to government-wide financial statements are not necessary.

The basic proprietary fund financial statements can be found on pages 6 - 9 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 10 - 18 of this report.

Supplementary Information – Supplementary information can be found on page 19 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$8,721,857 at December 31, 2012.

During 2012, the District's net capital assets decreased \$252,282 and total long-term debt decreased by \$146,364. These changes were accompanied by an increase in unrestricted net assets of \$156,758. The District's overall financial position and results of operations for the past two years are summarized as follows, based on the information included in the financial statements.

	Business-type Activities	
	2012	2011
Assets:		
Current assets	\$ 1,034,774	\$ 933,304
Capital assets	21,054,190	21,306,471
Restricted assets	\$ 178,418	\$ 160,718
Other assets	281,432	295,442
Total assets	<u>22,548,814</u>	<u>22,695,935</u>
Liabilities:		
Long-term liabilities	13,250,320	13,396,684
Other liabilities	576,637	655,778
Total liabilities	<u>13,826,957</u>	<u>14,052,462</u>
Net assets:		
Invested in capital, net of debt	7,322,649	7,359,804
Restricted	663,738	704,957
Unrestricted	735,470	578,712
Total net assets	<u>\$ 8,721,857</u>	<u>\$ 8,643,473</u>
Operating income	\$ 2,206,049	\$ 2,034,089
Operating expenses	1,617,884	1,613,578
Operating income	<u>588,165</u>	<u>420,511</u>
Tap-on fees	44,000	33,600
Grant receipts	123,250	-
Interest revenue	1,222	1,639
Interest expense	(597,452)	(615,963)
Change in net assets	<u>159,185</u>	<u>(160,213)</u>
Net assets, beginning of year	8,562,672	8,803,686
Net assets, end of year	<u>\$ 8,721,857</u>	<u>\$ 8,643,473</u>

A portion of the District's net assets (\$7,322,649) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the board anticipated operating revenues of \$2,104,000 and operating expenses of \$1,671,525. Actual operating revenues were over-budget

\$102,049, actual operating expenses were under-budget by \$53,641. Actual non-operating revenues and expenses were under-budget \$137,866 for a total positive budget variance of \$293,556.

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2012 was \$21,054,190. During the year ended December 31, 2012, the District capitalized new meters. There were no other significant asset purchases during 2012.

	<u>2012</u>	<u>2011</u>
Land	\$ 60,969	\$ 60,969
Machinery	27,938,283	27,707,526
Buildings	58,828	51,928
Furniture & fixtures	44,999	46,383
Less: Accumulated depreciation	<u>(7,048,889)</u>	<u>(6,560,335)</u>
Total capital assets	<u>\$ 21,054,190</u>	<u>\$ 21,306,471</u>

LONG-TERM DEBT

The District's long-term debt at December 31, 2012 was \$13,731,540. A schedule of the District's long-term debt at December 31, 2012 follows:

	<u>2012</u>	<u>2011</u>
Revenue Bond Series 1995A	\$ 688,000	\$ 705,000
Revenue Bond Series 2000A	1,711,000	1,743,000
Revenue Bond Series 2000B	1,487,000	1,514,000
Revenue Bond Series 2000C	599,000	610,000
Revenue Bond Series 2004	4,050,000	4,222,000
Revenue Bond Series 2008C	1,565,000	1,660,000
KIA Loan	862,373	932,666
KIA Loan - Radio-read meters	300,000	-
KACO Loan	2,469,167	2,560,000
Total long-term debt	<u>\$ 13,731,540</u>	<u>\$ 13,946,666</u>

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Crittenden Livingston Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Ronnie Slayden, Superintendent, Crittenden Livingston Water District, 620 East Main Street, Salem, KY 42078.

Crittenden Livingston Water District
Statement of Net Assets - Proprietary Fund
December 31, 2012

Assets

Current Assets:

Cash and cash equivalents	\$ 219,659
Accounts receivable	293,859
Other receivables	22,954
Prepaid expenses	12,983
Restricted cash	77,201
Restricted investments	<u>408,118</u>

Total current assets 1,034,774

Noncurrent assets:

Restricted cash	<u>178,418</u>
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Capital assets:

Land	60,969
Machinery	27,938,283
Buildings	58,828
Furniture and fixtures	44,999
Less accumulated depreciation	<u>(7,048,889)</u>
Total capital assets	<u>21,054,190</u>

Other assets:

Bond issue costs	441,789
Less accumulated amortization	<u>(160,357)</u>
Total other assets	<u>281,432</u>

Total noncurrent assets 21,514,040

Total assets \$ 22,548,814

Crittenden Livingston Water District
Statement of Net Assets - Proprietary Fund
December 31, 2012

Liabilities

Current Liabilities:

Current maturities of long-term debt	\$ 404,700
Accounts payable trade	20,004
Construction Payable	2,000
Payroll liabilities	21,873
Tenant deposits payable	12,360
Interest payable	115,700
Total current liabilities	<u>576,637</u>

Noncurrent liabilities:

Notes payable	3,503,840
Bonds payable	9,823,000
Deferred Bond Costs	(76,520)
Total noncurrent liabilities	<u>13,250,320</u>

Total liabilities 13,826,957

Net Assets

Net assets invested in capital assets, net of related debt	7,322,649
Net assets restricted for debt service	663,738
Unrestricted net assets	735,470
Total net assets	<u><u>\$ 8,721,857</u></u>

Crittenden Livingston Water District
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund
Year Ended December 31, 2012

Operating Revenues	
Charges for services	\$ 2,154,452
Other income	51,597
Total operating revenue	2,206,049
Operating Expenses	
Salary expenses	581,253
Water treatment expenses	203,098
Maintenance expenses	54,902
General operating expenses	135,755
Depreciation	628,865
Amortization	14,011
Total operating expenses	1,617,884
Operating income	588,165
Nonoperating Revenue (Expenses)	
Interest revenue	1,222
Interest expense	(597,452)
Total nonoperating expenses	(596,230)
Capital Contributions	
Tap-on fees	44,000
Proceeds from grants	123,250
Total capital contributions	167,250
Change in net assets	159,185
Net assets, beginning of year, restated	8,562,672
Net assets, end of year	\$ 8,721,857

See accompanying notes and auditor's report.

CRITTENDEN LIVINGSTON WATER DISTRICT
STATEMENT OF CASH FLOWS-PROPRIETARY FUND
Year Ended December 31, 2012

Cash flows from operating activities:	
Cash received from customers	\$ 2,154,339
Cash payments to suppliers for goods and services	(359,254)
Cash payments to employees for services	<u>(583,808)</u>
Net cash provided (used) by operating activities	<u>1,211,277</u>
Cash flows from capital and related financing activities:	
Tap-on fees	44,000
Proceeds from grants	123,250
Acquisition and construction of property, plant and equipment	(457,386)
Principal payments on long-term debt	(515,126)
Loan proceeds for radio-read meters	300,000
Interest paid on long-term debt	<u>(597,620)</u>
Net cash provided (used) for capital and related financing activities	<u>(1,102,882)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,222</u>
Net cash provided (used) by investing activities	<u>1,222</u>
Net increase (decrease) in cash and cash equivalents	109,617
Cash and cash equivalents, beginning of year	<u>773,779</u>
Cash and cash equivalents, end of year	<u>\$ 883,396</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents - current	\$ 219,659
Restricted cash - current	77,201
Restricted cash - noncurrent	178,418
Restricted investments - noncurrent	<u>408,118</u>
	<u>\$ 883,396</u>
Reconciliation of Operating Income to Net Cash Provided by Operations:	
Operating income	\$ 588,165
Adjustments-operating activities	
Depreciation and amortization	642,876
(Increase) decrease in:	
Accounts receivable	(27,437)
Other receivable	(22,953)
Prepaid expenses	40,838
Increase (decrease) in:	
Accounts payable	(8,337)
Construction payable	2,000
Customer deposits	(1,320)
Accrued liabilities	<u>(2,555)</u>
Net cash provided by operating activities	<u>\$ 1,211,277</u>

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Crittenden Livingston Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Salem, Kentucky and primarily serves the Crittenden and Livingston County, Kentucky area.

Principles determining scope of reporting entity - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed equally by the County Judge Executives of Crittenden and Livingston counties, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board and follows all Financial Accounting Standards Board pronouncements issued after November 30, 1989 that are not in conflict with applicable GASB pronouncements. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Accounts receivable - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Crittenden and Livingston counties.

Utility plant - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Buildings – 10 to 50 years	Pumping Equipment – 5 to 10 years
Transmission Lines – 5 to 50 years	Meters – 5 to 10 years
Plant Equipment – 5 to 10 years	Office Equipment – 5 to 10 years
Vehicles – 5 years	

Intangible assets - Financing and bond issue costs are being amortized over the life of the debt on the straight-line basis.

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Use of Restricted/Unrestricted Net Assets – When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to apply restricted assets first.

Revenue Recognition - Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income and are recognized when earned.

Taxes on income - The Crittenden Livingston Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

Budget – The District adopts an annual budget prepared under a basis of accounting in accordance with provisions of the Public Service Regulatory Commission.

Cash and cash equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

2 RESTRICTED CASH AND INVESTMENTS

Crittenden Livingston Water Sinking Fund - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2012 the balance of the Sinking Fund was \$77,201.

Depreciation Reserve - The bond ordinances require Crittenden Livingston Water District to make monthly contributions to this fund after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$1,872 monthly deposits until the Depreciation fund reaches \$224,640 and shall be maintained throughout the life of the bonds. The 1995 bond ordinance amends all previous ordinances. Under the 2000 ordinance the District is to make \$2,115 monthly deposits over the life of the loan in addition to the requirement of all previous ordinances. At December 31, 2012 the balance of the Depreciation Reserve Fund was \$166,058.

Crittenden Livingston Tenant Deposit Fund - This account is set aside to account for customer deposits. At December 31, 2012 the restricted balance of the Crittenden Livingston Tenant Deposit Fund was \$12,360.

Construction Funds – Occasionally, Crittenden Livingston Water District is involved in various on-going construction projects. A bank account has been established for each project referred to as "Phases". Monies deposited to the construction accounts is reserved for construction of the appropriate phase.

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

2 RESTRICTED CASH AND INVESTMENTS (continued)

Regions Sinking Funds – The District maintains sinking accounts with Regions Bank for payments on the 2004 and 2008 bond issuances. A monthly amount is transferred from the Rural Water Sinking Fund to meet the annual principal and interest obligations related to the previously mentioned financing. The balance held at Regions Bank for these purposes at December 31, 2012 was \$408,118.

3 DEPOSITS

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the district, includes disclosure of the following:

Risks related to custodial credit risk of bank deposits;

- Risks related to custodial credit risk of deposits;
- Risks related to custodial credit risk of investments;
- Interest rate risk; and
- Deposit and investment policies related to those risks.

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure.

As of December 31, 2012, the carrying amount of District's deposits was \$883,247 and the bank balance of \$886,673 was categorized as follows:

Insured by FDIC	\$	500,000
Uninsured and collateralized with securities held by the pledging financial institution in the district's name		386,673
Total	\$	886,673

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

Cash on deposit at Regions Bank is held in a AAA money market fund at Regions Bank. The investments serve as the bond sinking fund for the 2004 and 2008 bond series. Investments are held in the Federated Government Obligation Fund which is comprised solely of U.S. Treasuries and Securities that backed by the U.S. Government until required for debt payment. The short-term investments consist of the following:

	Category			Carrying Amount	Market Value
	1	2	3		
Treasury Obligations	\$ 408,119	\$ -	\$ -	\$ 408,119	\$ 408,119

The district's investments are categorized to give an indication of the level of risk assumed by the district at December 31, 2012. The categories are described as follows:

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

3 DEPOSITS (continued)

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the unit's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, in its trust department or agent but not in the entity's name.

Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- (b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- (c) Savings and loan associations insured by the U. S. government;
- (d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
- (e) Deposit accounts with banking institutions;
- (f) State treasurer investment pool.

The District does not have a deposit or investment policy.

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

4 CAPITAL ASSETS

Capital asset activity for Crittenden Livingston Water District for the year ended December 31, 2012, was as follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Capital assets being depreciated:				
Lake and river intake	\$ 888,411	\$ -	\$ -	\$ 888,411
Pumping equipment	135,132	124,927	-	260,059
Water treatment structure		6,900		6,900
Water treatment equipment	4,402,784	-	-	4,402,784
Transportation equipment	153,114	-	46,233	106,881
Distribution reservoirs and pipe	809,623	-	171,912	637,711
Small equipment	17,779	-	1,055	16,724
Transmission and distribution mains	14,069,114	20,854	-	14,089,968
Lab equipment	6,231	-	-	6,231
Power operated equipment	65,632	-	-	65,632
Services	6,012,089	-	-	6,012,089
Meters and installation	909,221	189,374	-	1,098,595
Communication equipment	9,456	114,800	-	124,256
Hydrants	228,940	-	-	228,940
Office furniture and fixtures	46,383	530	1,914	44,999
Office building	51,928	-	-	51,928
Subtotal	<u>27,805,837</u>	<u>457,385</u>	<u>221,113</u>	<u>28,042,109</u>
Less accumulated depreciation:				
Lake and river intake	(86,779)	(17,768)	-	(104,547)
Pumping equipment	(32,514)	(14,560)	-	(47,073)
Water treatment structure	-	(518)		(518)
Water treatment equipment	(1,186,292)	(88,129)	-	(1,274,420)
Transportation equipment	(150,075)	(2,165)	(46,233)	(106,006)
Distribution reservoirs and pipe	(263,805)	(16,192)	(91,110)	(188,887)
Small equipment	(15,289)	(186)	(1,055)	(14,420)
Transmission and distribution mains	(3,236,943)	(281,452)	-	(3,518,394)
Lab equipment	(4,285)	(108)	-	(4,393)
Power operated equipment	(65,632)	-	-	(65,632)
Services	(1,055,232)	(171,551)	-	(1,226,783)
Meters and installation	(328,477)	(25,978)	-	(354,455)
Communication equipment	(6,402)	(2,939)	-	(9,340)
Hydrants	(64,288)	(4,793)	-	(69,081)
Office furniture and fixtures	(40,649)	(1,132)	(1,914)	(39,867)
Office building	(23,675)	(1,396)	-	(25,071)
Subtotal	<u>(6,560,335)</u>	<u>(628,865)</u>	<u>(140,311)</u>	<u>(7,048,889)</u>
Capital assets being depreciated, net	21,245,502	(171,480)	80,802	20,993,220
Capital assets not being depreciated:				
Land	60,969	-	-	60,969
Capital assets, net	<u>\$ 21,306,471</u>	<u>\$ (171,480)</u>	<u>\$ 80,802</u>	<u>\$ 21,054,189</u>

Depreciation charged to income was \$628,865 during the year ending December 31, 2012.

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

5 LONG-TERM DEBT

Bonds Payable

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series A) were issued in the amount of \$884,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series A) in the amount of \$2,000,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series B) in the amount of \$1,725,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.75%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series C) in the amount of \$700,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2004 (Series D) in the amount of \$4,998,000 were issued to finance the cost of the Phase 9 construction project (system additions). The bond maturity dates are January 1, 2004-2029. This issue was purchased by Morgan, Keegan and Company, Inc. Interest rates are shown below:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
January 1, 2005	3.120%	January 1, 2018	4.120%
January 1, 2006	3.120%	January 1, 2019	4.120%
January 1, 2007	3.120%	January 1, 2020	4.120%
January 1, 2008	3.220%	January 1, 2021	4.250%
January 1, 2009	3.370%	January 1, 2022	4.250%
January 1, 2010	3.370%	January 1, 2023	4.620%
January 1, 2011	3.370%	January 1, 2024	4.620%
January 1, 2012	3.620%	January 1, 2025	4.620%
January 1, 2013	4.120%	January 1, 2026	4.620%
January 1, 2014	4.120%	January 1, 2027	4.620%
January 1, 2015	4.120%	January 1, 2028	4.620%
January 1, 2016	4.120%	January 1, 2029	4.620%
January 1, 2017	4.120%		

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

5 LONG-TERM DEBT (continued)

In May 2008 Crittenden Livingston Water District issued Waterworks Revenue Bonds of 2008 (Series C) in the amount of \$1,920,000 to current refund revenue bonds 1998, 1991, 1994 & 1996 issuances. The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements.

The bond maturity dates are January 1, 2009-2030. This issue was purchased by Morgan, Keegan and Company, Inc. Interest rates are shown below:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
January 1, 2009	2.350%	January 1, 2022	4.175%
January 1, 2010	2.550%	January 1, 2023	4.175%
January 1, 2011	3.050%	January 1, 2024	4.300%
January 1, 2012	3.050%	January 1, 2025	4.300%
January 1, 2013	3.300%	January 1, 2026	4.300%
January 1, 2014	3.300%	January 1, 2027	4.425%
January 1, 2015	3.550%	January 1, 2028	4.425%
January 1, 2016	3.550%	January 1, 2029	4.550%
January 1, 2017	4.050%	January 1, 2030	4.550%
January 1, 2018	4.050%		
January 1, 2019	4.050%		
January 1, 2020	4.050%		
January 1, 2021	4.050%		

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

Notes Payable

Notes payable consisted of the following at December 31, 2012:

Kentucky Infrastructure Authority (KIA) note dated November 1, 2001, at 1.8%, payable in 40 semiannual payments including principal and interest. Loan funds advanced are used on an interim basis to finance the construction of extensions, additions, and improvements to the existing waterworks system.

The Fiscal Court of Livingston County, Kentucky, in an Ordinance passed and adopted on August 24, 2010, authorized a plan to payoff a short term note of the Crittenden Livingston Water District in the amount of \$2,500,000 with funds provided to the County by the Kentucky Association of Counties Finance Corporation through a financing agreement between the county and KACO. The amount of \$2,560,000 carries a variable interest rate of 4.15% - 5.00% and matures on February 1, 2039.

In August 2011, Crittenden-Livingston Water District was approved for a loan to replace all existing meters with meters utilizing radio-read technology. The total cost of the project is not to exceed \$300,000 and will be financed by the Kentucky Infrastructure Authority under a loan bearing interest at 2%. As of December 31, 2012, the District had received \$277,044. The remaining \$22,956 was recorded as a receivable.

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

5 LONG-TERM DEBT (continued)

A detail of the Crittenden Livingston Water District Waterworks long-term debt is as follows:

	Balance January 1, 2012	Proceeds	Repayments	Balance December 31, 2012	Current Amount Due
Crittenden Livingston					
Waterworks revenue bonds:					
1995 Issue (Series A)	705,000	-	17,000	688,000	-
2000 Issue (Series A)	1,743,000	-	32,000	1,711,000	-
2000 Issue (Series B)	1,514,000	-	27,000	1,487,000	-
2000 Issue (Series C)	610,000	-	11,000	599,000	-
2004 Issue	4,222,000	-	172,000	4,050,000	177,000
2008 Bonds	1,660,000	-	95,000	1,565,000	100,000
Notes payable:					
KIA	932,666	-	70,293	862,373	71,564
KIA-Radio-read meters	-	300,000	-	300,000	6,137
KACO Lease Agreement	2,560,000	-	90,833	2,469,167	50,000
Total	\$ 13,946,666	\$ 300,000	\$ 515,126	\$ 13,731,540	\$ 404,701

Annual debt service requirements for long-term debt to maturity are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 404,701	\$ 376,314
2014	512,316	470,314
2015	530,467	551,844
2016	557,480	531,500
2017	569,689	510,165
2018-2022	3,105,738	2,193,079
2023-2027	3,083,506	1,533,146
2028-2032	2,308,596	876,229
2033-2037	1,800,130	430,541
2038-2040	858,917	64,417
	<u>\$ 13,731,540</u>	<u>\$ 7,537,549</u>

6 RETIREMENT PLAN

The Crittenden Livingston Water District is a participant in the County Employees Retirement System (CERS), a cost-sharing, multi-employer public employee retirement system. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the state legislature. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 12600 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-4646.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at three (3) percent compounded annually

CRITTENDEN LIVINGSTON WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

6 RETIREMENT PLAN (continued)

through June 30, 1980, six (6) percent thereafter through June 30, 1986, and four (4) percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

Employees are required to contribute 5% of their creditable compensation by State statute. The district is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. Employer contributions rates are set July 1 for the upcoming fiscal year. Employer rates were set at 16.93% effective July 1, 2010, 18.96% effective July 1, 2011 and 19.55% effective July 1, 2012. Contributions for the County Employees Retirement System are as follows:

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contribution
December 31, 2012	\$ 80,482	\$ 80,482	100%
December 31, 2011	\$ 72,757	\$ 72,757	100%
December 31, 2010	\$ 83,058	\$ 83,058	100%

7 COMPENSATED ABSENCE

In 2010, the Board of Commissioners changed the policy for compensated absence. Employees were allowed to carry-over to the following year the amount of accrued vacation they had as of January 1, 2010. The balance of compensated absence as of December 31, 2012 was \$5,694 and was considered to be a current liability.

8 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

9 INTEREST EXPENSE

The District incurred interest cost in 2012 of \$597,452. The entire amount has been recognized as a current nonoperating expense.

10 GENERATOR INITIATIVE GRANT

In May 2011, Crittenden-Livingston Water District was approved for a grant to install a generator at the Crittenden-Livingston Water Treatment Facility. The total project cost is \$123,000 with a federal share of \$92,250. The non-federal share of \$30,750 is to be provided by the Kentucky Division of Emergency Management and the Crittenden County Fiscal Court. The amount received in 2012 was \$123,250.

11 PRIOR PERIOD ADJUSTMENT

In 2012 District personnel realized that a water tank placed in service during Phase 9 construction had been removed from service and disassembled in a prior year. A prior period adjustment was made to Retained Earnings at December 31, 2012 to remove the tank from the depreciation schedule. The adjustment totaled \$80,802 is reflected as restated net assets on the financial statements.

CRITTENDEN LIVINGSTON WATER DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND
 BUDGET AND ACTUAL
 For the Year Ending December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 2,050,000	\$ 2,050,000	\$ 2,154,452	\$ 104,452
Other income	54,000	54,000	51,597	(2,403)
Total operating revenues	<u>2,104,000</u>	<u>2,104,000</u>	<u>2,206,049</u>	<u>102,049</u>
Operating expenses:				
Salary expenses	556,700	556,700	581,253	(24,553)
Water treatment expenses	180,000	180,000	203,098	(23,098)
Maintenance expenses	83,000	83,000	54,902	28,098
General operating expenses	152,825	152,825	135,755	17,070
Depreciation	679,000	679,000	628,865	50,135
Amortization	20,000	20,000	14,011	5,989
Total operating expenses	<u>1,671,525</u>	<u>1,671,525</u>	<u>1,617,884</u>	<u>53,641</u>
Operating income	<u>432,475</u>	<u>432,475</u>	<u>588,165</u>	<u>155,690</u>
Non-operating income (expenses):				
Tap-on fees	33,000	33,000	44,000	11,000
Interest revenue	1,500	1,500	1,222	(278)
Proceeds from grants	-	-	123,250	123,250
Donated capital	-	-	-	-
Loss on debt extinguishment	-	-	-	-
Interest expense	(601,346)	(601,346)	(597,452)	3,894
Total non-operating revenue (expenses)	<u>(566,846)</u>	<u>(566,846)</u>	<u>(428,980)</u>	<u>137,866</u>
Change in net assets	<u>\$ (134,371)</u>	<u>\$ (134,371)</u>	<u>159,185</u>	<u>\$ 293,556</u>
Net assets, beginning of year			<u>8,562,672</u>	
Net assets, end of year			<u>\$ 8,721,857</u>	

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

To the Members of the Board of Commissioners
Crittenden-Livingston County Water District
620 East Main Street
Salem, KY 42078

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Crittenden-Livingston County Water District, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Crittenden-Livingston County Water District's basic financial statements and have issued our report thereon dated June 27, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about Crittenden-Livingston County Water 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2012-1.

Crittenden-Livingston County Water District's Response to Findings

Crittenden-Livingston County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Crittenden-Livingston County Water 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cornman, Bryan, Watts & Elliott, CPA, PLLC

Grand Rivers, KY
June 27, 2013

Crittenden-Livingston County Water District

Schedule of Findings and Responses relating to both Internal Controls over Financial Reporting and to Compliance

December 31, 2012

2012-1 Bond Depreciation Fund Deposit Requirements:

CONDITION: The 1995 Bond Ordinance requires the District to make monthly contributions to the Depreciation Fund after observing the priority of the Sinking Fund. Under the 1995 Ordinance the District is to make \$1,872 monthly deposits until the Depreciation Fund reaches \$224,640 and shall be maintained throughout the life of the bonds. In addition, the 2000 Bond Ordinance requires a monthly deposit of \$2,115 over the life of this loan in addition to the requirements of all other ordinances. As of December 31, 2012 the Depreciation Reserve Fund was \$166,058; an increase of \$19,020 in 2012 over the balance of \$147,038 as of December 31, 2011.

CRITERIA: The 1995 Bond Ordinance.

CAUSE OF CONDITION: The District has not complied with the Depreciation Fund deposit requirements.

EFFECT OF CONDITION: The deposits into Depreciation Fund were insufficient to meet the requirements of the 1995 Bond Ordinance.

RECOMMENDATION: The Crittenden-Livingston County Water District should routinely make the deposits required by the covenants of the 1995 Bond Ordinance.

OFFICIAL'S RESPONSE: The District's Chairman of the Board of Commissioners said that the deposits would be made to the Depreciation Fund as sufficient revenues were available each month.

EVALUATION OF OFFICIAL'S COMMENTS: The District is currently pursuing water sales contracts with several neighboring communities' water entities. Success with these sales efforts to other water providers and the 6.2% water rate increase implemented as of January 1, 2013, and the two 5% water rate increases scheduled for March 1, 2014 and May 1, 2015, respectively, which were ordered by the Kentucky Public Service Commission on December 20, 2012, should provide the needed additional revenue to comply with its Depreciation Fund deposit requirement.