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Todd County Water District

**A Component Unit of
Todd County, Kentucky**

Financial Statements

December 31, 2013 and 2012



Todd County Water District
A Component Unit of Todd County, Kentucky
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December 31, 2013 and 2012

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Independent Auditor's Report

Commissioners
Todd County Water District
Elkton, Kentucky

We have audited the accompanying financial statements of Todd County Water District (the "District") as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 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, 2013 and 2012, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, 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, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
March 14, 2014

Required Supplementary Information

Management's Discussion and Analysis

Todd County Water District

A Component Unit of Todd County, Kentucky Management's Discussion and Analysis Years Ended December 31, 2013 and 2012

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, 2013 and 2012. 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 \$6,381,780 compared to \$6,420,475 in the 2012 fiscal year. Of this amount, \$1,967,921 may be used to meet the District's ongoing obligations to citizens and creditors, as compared to \$1,941,868 for the 2012 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 \$5,715,000, in long-term debt, net of current portion, as compared to \$5,861,500 for the 2012 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 14 through 19 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 20 through 32 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 \$6,381,780, as compared with \$6,420,475 for the 2012 fiscal year.

Net Position as of December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012 (Restated)</u>	<u>2011</u>
Current assets	2,703,161	2,637,495	2,571,495
Capital and other assets	9,708,718	9,883,795	9,700,759
Total Assets	<u>12,411,879</u>	<u>12,521,290</u>	<u>12,272,254</u>
Deferred amount of debt refundings	16,143	16,964	-
Total Deferred Outflows of Resources	<u>16,143</u>	<u>16,964</u>	<u>-</u>
Long-term liabilities	5,715,000	5,861,500	4,933,800
Other liabilities (current)	331,242	256,279	1,338,218
Total Liabilities	<u>6,046,242</u>	<u>6,117,779</u>	<u>6,272,018</u>

Net Position

Investment in capital assets, net of related debt	3,813,361	3,857,259	3,735,415
Restricted	600,498	621,348	568,239
Unrestricted	<u>1,967,921</u>	<u>1,941,868</u>	<u>1,696,582</u>
Total Net Position	<u>6,381,780</u>	<u>6,420,475</u>	<u>6,000,236</u>

By far the largest portion of the District's net position in the amount of \$3,813,361 reflects its investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). This is a decrease from \$3,857,259 for the 2012 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 \$1,967,921 may be used to meet the District's ongoing obligation to customers and creditors. This is an increase from \$1,941,868 from the 2012 fiscal year. The remaining restricted net position is for replacement reserves for future years.

Deferred outflows of resources decreased from \$16,964 in 2012 to \$16,143 in 2013.

At December 31, 2013, 2012 and 2011, the District is able to report positive balances in all categories of net position.

Changes in Net Position

	<u>2013</u>	<u>2012 (Restated)</u>	<u>2011</u>
Revenues			
Water service revenues	1,834,599	1,951,355	1,919,293
Other revenues	<u>113,509</u>	<u>76,242</u>	<u>65,505</u>
Total Operating Revenues	<u>1,948,108</u>	<u>2,027,597</u>	<u>1,984,798</u>
Expenses			
Water operations	<u>1,878,426</u>	<u>1,870,660</u>	<u>1,815,536</u>
Total Operating Expenses	<u>1,878,426</u>	<u>1,870,660</u>	<u>1,815,536</u>

Net Operating Income	69,682	156,937	169,262
Non-operating revenue (expenses), net	<u>(198,866)</u>	<u>(208,160)</u>	<u>(206,592)</u>
Income Before Capital Contributions	(129,184)	(51,223)	(37,330)
Capital contributions	90,489	340,745	105,559
Change in Net Position	(38,695)	289,522	68,229
Net Position – Beginning of Year, as previously reported	6,420,475	6,000,236	5,932,007
Prior Period Adjustment – Record Unbilled Water Sales	<u>-</u>	<u>130,717</u>	<u>-</u>
Net Position – Beginning of Year, as restated	<u>6,420,475</u>	<u>6,130,953</u>	<u>5,932,007</u>
Net Position – End of Year	<u>6,381,780</u>	<u>6,420,475</u>	<u>6,000,236</u>

● Revenues

Water sold is the Water District's primary source of revenue. For the fiscal year of 2013 revenue from water sold was \$1,834,599, a decrease from \$1,951,355 in the 2012 year and \$1,919,293 in 2011.

Capital grants and contributions totaled \$90,489 for fiscal year 2013. These funds were received from customers for tap on fees and a grant from Rural Development. This is a decrease from the \$340,745 for the fiscal year of 2012 and from the \$105,559 for the fiscal year 2011.

Unrestricted investment earnings totaled \$15,398 for fiscal year 2012 and decreased to \$9,604 for the 2013 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 \$113,509 for the fiscal year 2013 which was an increase from the prior year. The 2012 total for Other Operating Revenue was \$76,242.

● Expenses

Operating expenses totaled \$1,878,426 for fiscal year 2013 which was an increase from the 2012 amount of \$1,870,660 and also an increase from \$1,815,536 for the 2011 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 \$223,558 for fiscal year 2012 and decreased to \$208,470 for the 2013 fiscal year.

Change in net position for 2012 was \$289,522 as compared to 2011 which was \$68,229. In the 2013 fiscal year the change in net position was (\$38,695).

• **Capital Assets and Debt Administration**

▶ **Capital Assets**

The District's investment in capital assets at December 31, 2013 amounts to \$9,658,718 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles. This is a decrease from \$9,793,795 for the 2012 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 \$5,861,500 at December 31, 2013, a decrease from \$5,953,500 for the 2012 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 increased to \$302,420. This is a change increase from the 2012 balance of \$255,006.

- **Requests for Information**

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

Financial Statements

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

December 31,	2013	2012 (Restated)
Assets		
Current Assets		
Cash	\$ 302,420	\$ 255,006
Short-term investments	1,469,273	1,421,741
Accounts receivable — billed	132,412	146,036
Accounts receivable — unbilled	148,143	135,946
Supplies	33,658	42,513
Prepaid expenses	16,757	14,905
Total current assets	2,102,663	2,016,147
Cash — Restricted	600,498	621,348
Investments	50,000	90,000
Utility Plant		
Utility plant in service	16,172,565	15,852,629
Less: accumulated depreciation	(6,513,847)	(6,058,834)
Net utility plant	9,658,718	9,793,795
Total assets	12,411,879	12,521,290
Deferred Outflows of Resources		
Deferred amount on debt refundings	16,143	16,964
Total deferred outflows of resources	16,143	16,964

December 31,	2013	2012 (Restated)
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 71,518	\$ 59,113
Accrued liabilities	9,963	5,573
Accrued interest payable	103,261	99,593
Current portion of notes payable	146,500	92,000
Total current liabilities	331,242	256,279
Long-Term Debt, net of current portion	5,715,000	5,861,500
Total liabilities	6,046,242	6,117,779
Net Position		
Invested in capital assets, net of related debt	3,813,361	3,857,259
Restricted	600,498	621,348
Unrestricted	1,967,921	1,941,868
Total Net Position	\$ 6,381,780	\$ 6,420,475

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,	2013	2012 (Restated)
Operating Revenues		
Water revenue	\$ 1,834,599	\$ 1,951,355
Late charges	34,734	35,368
Other	78,775	40,874
Total operating revenues	1,948,108	2,027,597
Operating Expenses		
Payroll	262,824	258,851
Retirement	51,595	50,453
Payroll taxes	19,857	19,294
Purchased water	738,591	775,227
Transmission and distribution	53,975	49,987
Contract services	38,701	22,455
Utilities	30,085	27,692
Telephone	9,012	8,129
Dues and subscriptions	3,127	2,471
Professional fees	23,398	21,132
Insurance	43,783	27,586
Commissioners' fees	18,000	18,000
Taxes and licenses	3,610	3,481
Bond issuance cost	-	37,475
Office rent	7,500	6,000
Office supplies and postage	29,798	30,707
Depreciation	484,161	457,856
Travel	29,593	26,115
Bad debts	23,297	26,707
Miscellaneous	7,519	1,042
Total operating expenses	1,878,426	1,870,660
Operating income	69,682	156,937

Years Ended December 31,	2013	2012 (Restated)
Non-Operating Revenues (Expenses)		
Interest income	9,604	15,398
Interest expense	(208,470)	(223,558)
Total non-operating revenues (expenses)	(198,866)	(208,160)
Loss before capital contributions	(129,184)	(51,223)
Capital Contributions	90,489	340,745
Change in net position	(38,695)	289,522
Net Position — Beginning of Year, as previously reported	6,420,475	6,000,236
Prior Period Adjustment - Record Unbilled Water Sales	-	130,717
Net Position - Beginning of Year, as restated	6,420,475	6,130,953
Net Position — End of Year	\$ 6,381,780	\$ 6,420,475

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,	2013	2012 (Restated)
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,949,535	\$ 2,018,696
Cash payments to suppliers for goods and services	(1,019,207)	(1,108,074)
Cash paid to employees	(350,838)	(348,462)
Net cash flows provided by operating activities	579,490	562,160
Cash Flows from Capital and Related Financing Activities		
Interest paid on debt	(203,981)	(256,104)
Purchase of capital assets	(349,506)	(550,890)
Debt proceeds	-	2,203,718
Principal payments on long-term debt	(92,000)	(2,232,800)
Capital contributions	90,489	340,745
Net cash flows used in capital and related financing activities	(554,998)	(495,331)
Cash Flows from Investing Activities		
Interest income	9,604	15,398
Purchase of investments	(7,532)	(111,327)
Net cash flows provided by (used in) investing activities	2,072	(95,929)
Net Increase (Decrease) In Cash	26,564	(29,100)
Cash - Beginning of Year	876,354	905,454
Cash - End of Year	\$ 902,918	\$ 876,354

Noncash Financing Transaction

District refinanced short-term debt into long-term debt	\$	-	\$ 994,000
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Years Ended December 31,	2013	2012 (Restated)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 69,682	\$ 156,937
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	484,161	457,854
Gain on disposal of assets	422	-
Change in:		
Accounts receivable	1,427	59,851
Supplies	8,855	(1,500)
Prepayments	(1,852)	(1,407)
Accounts payable	12,405	(105,454)
Other current liabilities	4,390	(4,121)
Net Cash Provided by Operating Activities	\$ 579,490	\$ 562,160

See accompanying notes to the financial statements.

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

• ***Nature of Business***

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

• ***Reporting Entity***

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

• ***Basis of Presentation***

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

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

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.

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net 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: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- ▶ *Invested in Capital Assets, Net of Related Debt* — This component of net 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 invested in capital assets, net of related debt. 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.

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

- ▶ *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.

• ***Estimates***

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

• ***Investments***

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

• ***Accounts Receivable***

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, 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.

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

• **Utility Plant**

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

• **Income Taxes**

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

• **Contributions of Capital**

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

• **Subsequent Events**

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through March 14, 2014, which was the date the financial statements were made available.

• **New Accounting Pronouncements**

Recently Issued and Adopted Accounting Pronouncements

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements.

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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the District's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position."

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The District has implemented the new requirements of this statement for fiscal year ended December 31, 2013. The implementation of GASB 65 resulted in the restatement of the accompanying financial statements for 2012. The restatement resulted in the bond issuance costs being expensed in the fiscal year ended December 31, 2012 in the amount of \$36,880.

GASB Statement No. 66, *Technical Corrections-2012: An Amendment of GASB Statements No. 10 and No. 62*, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports.

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.

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

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, 2013 and 2012, respectively, the carrying amounts of the District's deposits were \$2,422,191 and \$2,388,095 and the bank balances were \$2,434,535 and \$2,400,021. Of the bank balances, \$2,434,535 and \$2,400,021 were covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name.

December 31,	2013	2012
Cash	302,420	\$ 255,006
Investments	1,519,273	1,511,741
Restricted cash	600,498	621,348
	\$ 2,422,191	\$ 2,388,095

• **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, 2013 and 2012.

• **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.

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

Note 2: Cash and Investments (Continued)

• **Concentration of Credit Risk**

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2013 and 2012, there are no investments in any one issuer that represents 5% or more of the total investments.

Note 3: Cash — Restricted

Restricted cash consists of the following at:

December 31,	2013	2012
Construction	39,087	\$ 152,647
Depreciation reserve	343,666	307,190
Debt service reserve	217,745	161,511
	\$ 600,498	\$ 621,348

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

Note 4: Utility Plant

Utility plant activity is as follows:

December 31, 2013	Capital Cost				
	Beginning of Year	Additions	Reclassifications	Disposals	End of Year
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

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				
	Beginning of Year	Additions	Reclassifications	Disposals	End of Year
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
Other plant (fence)	24,001	-	-	-	24,001
Communication equipment	2,279	-	-	-	2,279
Total depreciable cost	15,386,256	72,677	598,114	(29,570)	16,027,477
Accumulated depreciation	(6,058,834)	(484,161)	-	29,148	(6,513,847)
	9,327,422	(411,484)	598,114	(422)	9,513,630
Utility Plant, Net	\$ 9,793,795	\$ (134,655)	\$ -	\$ (422)	\$ 9,658,718

December 31, 2012	Capital Cost				
	Beginning of Year	Additions	Reclassifications	Disposals	End of Year
Land and land improvements	\$ 85,088	\$ -	\$ -	\$ -	\$ 85,088
Construction in progress	1,051,629	534,177	(1,204,521)	-	381,285
Total non-depreciable cost	1,136,717	534,177	(1,204,521)	-	466,373
Capital assets that are depreciated:					
Structures and Improvements	34,793	-	-	-	34,793
Wells and springs	41,777	-	-	-	41,777
Distribution reservoirs and standpipes	2,103,473	-	1,204,521	-	3,307,994
Transmission and distribution mains	10,080,597	-	-	-	10,080,597
Meters and installations	1,572,485	16,713	-	-	1,589,198
Hydrants	9,900	-	-	-	9,900
Miscellaneous equipment	183,968	-	-	-	183,968
Office equipment	54,644	-	-	-	54,644
Leasehold improvements	46,067	-	-	-	46,067
Power operating equipment	11,038	-	-	-	11,038
Other plant (fence)	24,001	-	-	-	24,001
Communication equipment	2,279	-	-	-	2,279
Total depreciable cost	14,165,022	16,713	1,204,521	-	15,386,256
Accumulated depreciation	(5,600,980)	(457,854)	-	-	(6,058,834)
	8,564,042	(441,141)	1,204,521	-	9,327,422
Utility Plant, Net	\$ 9,700,759	\$ 93,036	\$ -	\$ -	\$ 9,793,795

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

Note 5: Short-Term Debt

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

Note 6: Long-Term Debt

Long-term debt consists of the following:

December 31,	2013	2012
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2045	\$ 1,021,000	\$ 1,036,000
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2048	1,736,500	1,758,500
Revenue bonds, payable in annual principal installments, plus interest at 3.00%, maturing in January 2050	994,000	994,000
Revenue bonds, payable in annual principal installments, plus interest at 2.875%, maturing in August 2033	2,110,000	2,165,000
	<u>5,861,500</u>	<u>5,953,500</u>
Less: current portion	(146,500)	(92,000)
	<u>\$ 5,715,000</u>	<u>\$ 5,861,500</u>

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

Note 6: Long-Term Debt (Continued)

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

Year	Principal	Interest	Total Debt Service
2014	\$ 146,500	\$ 201,603	\$ 348,103
2015	154,000	197,674	351,674
2016	156,500	193,548	350,048
2017	163,000	189,345	352,345
2018	165,500	184,965	350,465
2019-2023	921,000	841,227	1,762,227
2024-2028	1,049,500	676,759	1,726,259
2029-2033	893,500	499,983	1,393,483
2034-2038	614,000	361,831	975,831
2039-2043	747,000	229,739	976,739
2044-2048	721,500	77,968	799,468
2049-2051	129,500	3,990	133,490
	\$ 5,861,500	\$ 3,658,632	\$ 9,520,132

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

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

Note 6: Long-Term Debt (Continued)

Activity in long-term debt is as follows:

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

December 31,	2012			
	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	\$ 5,027,300	\$ 3,159,000	\$ 2,232,800	\$ 5,953,500
	\$ 5,027,300	\$ 3,159,000	\$ 2,232,800	\$ 5,953,500

Note 7: Water Agreement

The District has entered into a water purchase contract with the Logan/Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the District and the rates the District will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed upon by the Commission and the District. Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing 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, 2013 and 2012, minimum levels have been met.

Note 8: 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 2013 and 2012 rates for CERS are 18.89% and 19.55% 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, 2013 and 2012 were \$51,595 and \$50,453, respectively, equal to the required contributions for each year.

Note 9: 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

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

Note 9: Risk Management *(Continued)*

significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years.

Note 10: Prior Period Adjustment

The accompanying financial statements for 2012 have been restated to reflect unbilled water sales at December 31, 2012 and December 31, 2011. Also, the accompanying financial statements for 2012 have been restated to reflect the retroactive effect of the implementation of GASB 65 in fiscal year ended December 31, 2013. Net position at the beginning of 2012 has been adjusted for the effects of the restatement of the 2011 unbilled water sales. The net effect of the restatements was to increase the District's net position and decrease the District's change in net position for 2012 by \$99,066 and \$31,651, respectively.



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**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***

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, 2013, and the related notes to the financial statements, which collectively comprise Todd County Water District's (the "District") basic financial statements and have issued our report thereon dated March 14, 2014.

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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as item 2013-001.

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*.

Todd County Water District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
March 14, 2014

Todd County Water District Schedule of Findings and Responses

- **2013-001 Financial Reporting**

Criteria: The internal control structure should be such that misstatements in the District's financial statements are prevented, or detected and corrected, on a timely basis. Significant audit adjustments were made to accounts receivable, accounts payable and expenses.

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

Effect: Financial statements could contain material undetected errors.

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

Views of Responsible Officials and Planned Corrective Actions: The office manager will, in the future, have a closer review of the year end closing process and ask for technical guidance in areas that are needed in the year end financial close process.