

Todd County Water District

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

For the Year Ended December 31, 2014

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Accountants' Compilation Report

Commissioners
Todd County Water District
Elkton, Kentucky

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

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

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

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

Commissioners
Todd County Water District

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

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

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

Todd County Water District

A Component Unit of
Todd County, Kentucky

Financial Statements

December 31, 2014 and 2013

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MAR 26 2015

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Todd County Water District
A Component Unit of Todd County, Kentucky
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Join Our Conversation

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

REPORT



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Independent Auditors' Report

Commissioners
Todd County Water District
Elkton, Kentucky

● Report on the Financial Statements

We have audited the accompanying financial statements of Todd County Water District (the "District") as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

● Management's Responsibility for the Financial Statements

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

● Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

• **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Todd County Water District, as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

• **Other Matters**

Required Supplementary Information

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

• **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, LLC

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



FINANCIAL STATEMENTS

Todd County Water District

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

The Todd County Water District's discussion and analysis is designed to offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2014 and 2013. Readers are encouraged to read the Management's Discussion and Analysis included in the audit and the District's financial statements.

• Financial Highlights

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

▶ Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) Financial Statements; and 2) Notes to the Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

▶ Financial Statements

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

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

The statement of revenues and expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The financial statements can be found on pages 10 through 15 of this report.

► **Notes to the Financial Statements**

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 26 of this report.

• **Financial Analysis**

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

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

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

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

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

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

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

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

Changes in Net Position

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

• Revenues

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

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

Unrestricted investment earnings totaled \$9,604 for fiscal year 2013 and decreased to \$5,289 for the 2014 fiscal year. The District earned its investment revenues by placing idle cash in Certificates of Deposits and Reserve Funds.

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

Other operating revenues totaled \$77,652 for the fiscal year 2014 which was a decrease from the prior year. The 2013 total for Other Operating Revenue was \$113,500.

• Expenses

Operating expenses totaled \$2,006,417 for fiscal year 2014 which was an increase from the 2013 amount of \$1,878,426 and also an increase from \$1,870,660 for the 2012 fiscal year. These expenses relate directly to the everyday operations of the District such as payroll, transmission and distribution, and purchased water.

Interest expense totaled \$208,470 for fiscal year 2013 and decreased to \$202,984 for the 2014 fiscal year.

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

• Capital Assets and Debt Administration

▶ Capital Assets

The District's investment in capital assets at December 31, 2014 amounts to \$10,155,591 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles. This is an increase from \$9,658,718 for the 2013 fiscal year.

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

▶ **Long-Term Debt**

Long-term debt, including current portion, totaled \$5,561,000 at December 31, 2014, a decrease from \$5,715,000 for the 2013 fiscal year. Outstanding debt at year-end was to finance the District's infrastructure. The only activity for debt was the servicing requirements and borrowing for the expansion projects.

▶ **Operation and Maintenance Budgetary Highlights**

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

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

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

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

The costs of water and line loss are areas the District continually monitor as they have the most direct impact on the operations of the District.

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

• **Requests for Information**

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

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

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

See accompanying notes to the financial statements.

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

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

See accompanying notes to the financial statements.

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

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

See accompanying notes to the financial statements.

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

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

See accompanying notes to the financial statements.

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

| Years Ended December 31, | 2014 | 2013 |
|---|--------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Cash received from customers | \$ 2,039,001 | \$ 1,949,535 |
| Cash payments to suppliers for goods and services | (1,049,731) | (1,019,207) |
| Cash paid to employees | (361,266) | (350,838) |
| Net cash flows provided by operating | 628,004 | 579,490 |
| Cash Flows from Capital and Related Financing Activities | | |
| Interest paid on debt | (205,961) | (203,981) |
| Purchase of capital assets | (992,023) | (349,506) |
| Proceeds from sale of capital assets | 6,680 | - |
| Principal payments on long-term debt | (146,500) | (92,000) |
| Capital contributions | 24,954 | 90,489 |
| Net cash flows used in capital and related financing activities | (1,312,850) | (554,998) |
| Cash Flows from Investing Activities | | |
| Interest income | 5,289 | 9,604 |
| Maturity of investments | 646,966 | - |
| Purchase of investments | (3,223) | (7,532) |
| Net cash flows provided by investing | 649,032 | 2,072 |
| Net Increase (Decrease) In Cash | (35,814) | 26,564 |
| Cash - Beginning of Year | 902,918 | 876,354 |
| Cash - End of Year | \$ 867,104 | \$ 902,918 |

See accompanying notes to the financial statements.

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

| Years Ended December 31, | 2014 | 2013 |
|---|-------------------|-------------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 50,411 | \$ 69,682 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 495,150 | 484,161 |
| Other | - | 422 |
| Change in: | | |
| Accounts receivable | (17,827) | 1,427 |
| Supplies | 2,644 | 8,855 |
| Prepayments | 4,260 | (1,852) |
| Accounts payable | 98,208 | 12,405 |
| Other current liabilities | (4,842) | 4,390 |
| Net Cash Provided by Operating Activities | \$ 628,004 | \$ 579,490 |

See accompanying notes to the financial statements.

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

Note 1: Organization and Summary of Significant Accounting Policies

Nature of Business

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

Reporting Entity

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

Basis of Presentation

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

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

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

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

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

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

- ▶ *Net Investments in Capital Assets* — This component of net position consists of the District's total investment in capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of the net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- ▶ *Restricted* — This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- ▶ *Unrestricted Net Position* — This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

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

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

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

Estimates

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

Investments

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

Accounts Receivable

Billed receivables are stated at the amount billed to customers. Unbilled receivables are recorded for services provided for which customers have not been billed at December 31, 2014 and 2013. The District's operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 10th of each month. Accounts unpaid on the 25th of each month are considered delinquent and service is disconnected. The District provides no allowance for doubtful accounts due to the historical nature of the accounts receivable and the District's ability to disconnect service. Delinquent receivables are written off. New service is denied until all outstanding balances have been settled.

Supplies

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

Utility Plant

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

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

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

Income Taxes

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

Contributions of Capital

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

Subsequent Events

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through February 25, 2015, which was the date the financial statements were made available.

New Accounting Pronouncements

Recently Issued Accounting Pronouncements

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

Note 2: Cash and Investments

Deposits

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2014 and 2013, respectively, the carrying amounts of the District's deposits were \$1,742,634 and \$2,422,191 and the bank balances were \$1,752,101 and \$2,434,535. Of the bank balances, \$1,752,101 and \$2,434,535 were covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name.

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

Note 2: Cash and Investments (Continued)

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

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute for bank deposits to be collateralized. The District does not have any custodial credit risk at December 31, 2014 and 2013.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2014 and 2013, there are no investments in any one issuer that represents 5% or more of the total investments.

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

Note 3: Cash — Restricted

Restricted cash consists of the following at:

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

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

Note 4: Utility Plant

Utility plant activity is as follows:

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

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

Note 4: Utility Plant (Continued)

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

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

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

Note 4: Utility Plant (Continued)

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

Note 5: Long-Term Debt

Long-term debt consists of the following:

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

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

Note 5: Long-Term Debt (Continued)

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

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

Activity in long-term debt is as follows:

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

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

Note 6: Water Agreement

The District has entered into a water purchase contract with the Logan/Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the District and the rates the District will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed upon by the Commission and the District. Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing water from the Commission in March 2003; therefore, the Commission is the sole provider of water to the District. The agreement does require the District to purchase minimum levels of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages. At December 31, 2014 and 2013, minimum levels have been met.

Note 7: Retirement Plans

Plan Descriptions

The Todd County Water District participates in the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of the Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. The CERS report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy

CERS plan members are required to contribute 5.00% of their covered salary (6.00% for new hires effective July 1, 2008). The District is required to contribute to the CERS. The contribution rate is actuarially determined. The 2014 and 2013 rate for CERS is 18.89% of annual covered payroll, respectively. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended December 31, 2014 and 2013 were \$50,517 and \$51,595, respectively, equal to the required contributions for each year.

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

Note 8: Risk Management

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

Note 9: Subsequent Events

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



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**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Commissioners
Todd County Water District
Elkton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Todd County Water District's (the "District") basic financial statements and have issued our report thereon dated February 25, 2015.

● **Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

● **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

● **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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