Todd County Water District

A Component Unit of
Todd County, Kentucky

Financial Statements

December 31, 2015

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A Component Unit of Todd County, Kentucky
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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 year ended December 31, 2015, 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 audit. We conducted our audit 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27 and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement 68. Our opinion is not modified with respect to this matter.

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 6 through 10 and select pension information on pages 32 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, 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
June 30, 2016

FINANCIAL STATEMENTS

Todd County Water District

A Component Unit of Todd County, Kentucky
Management's Discussion and Analysis
Years Ended December 31, 2015 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, 2015 and 2014. 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 $5,620,600 compared to $6,266,130 in the 2014 fiscal year. Of this amount, $1,315,274 may be used to meet the District's ongoing obligations to citizens and creditors, as compared to $1,459,234 for the 2014 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. Total deferred outflows of resources were $134,015 for 2015 compared to $15,322 in 2014. Of this amount, $119,514 is from a new account in the current year related to the implementation of GASB 68.

- The District has $5,918,762, in long-term debt, net of current portion, as compared to $5,561,000 for the 2014 fiscal year. Of this amount, $514,262 is related to the net pension liability formed by the implementation of GASB 68.

▸ 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 11 through 16 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 17 through 31 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 $5,620,600 as compared with $6,266,130 for the 2014 fiscal year.

Net Position as of December 31, 2015 and 2014

	2015	2014
Current assets	2,011,667	2,034,527
Capital and other assets	9,743,778	10,205,591
Total Assets	11,755,445	12,240,118
Deferred amount of debt refundings	14,501	15,322
Pension related	119,514	—
Total Deferred Outflows of Resources	134,015	15,322
Long-term liabilities	5,918,762	5,561,000
Other liabilities (current)	350,098	428,310
Total Liabilities	6,268,860	5,989,310
Net Position		
Net investment in capital assets	4,157,279	4,455,913
Restricted	148,047	350,983
Unrestricted	1,315,274	1,459,234
Total Net Position	**5,620,600**	**6,266,130**

By far the largest portion of the District's net position in the amount of $4,157,279 reflects its investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). This is a decrease from $4,455,913 for the 2014 fiscal year. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Unrestricted net assets in the amount $1,315,274 may be used to meet the District's ongoing obligation to customers and creditors. This is a decrease from $1,459,234 from the 2014 fiscal year. The remaining restricted net position is for replacement reserves for future years.

Deferred Outflows of Resources increased to $134,015 in 2015 from $15,322 in 2014. This increase included $119,514 in pension related outflows.

At December 31, 2015, and 2014, the District is able to report positive balances in all categories of net assets.

Changes in Net Position

	2015	2014
Revenues		
Water service revenues	1,982,556	2,017,008
Other revenues	39,147	39,820
Total Operating Revenues	2,021,703	2,056,828
Expenses		
Water operations	2,073,450	2,006,417
Total Operating Expenses	2,073,450	2,006,417
Net Operating Loss	(51,747)	50,411
Non-operating revenue (expenses), net	(243,574)	(191,015)
Loss Before Capital Contributions	(295,321)	(140,604)
Capital contributions	31,858	24,954
Change in Net Position	(263,463)	(115,650)
Net Position – Beginning of Year, as previously reported	6,266,130	6,381,780
Effect of adoption of GASB 68	(382,067)	—
Net Position – End of Year	5,620,600	6,266,130

• Revenues

Water sold is the Water District's primary source of revenue. For the fiscal year of 2015 revenue from water sold was $1,950,217 a decrease from $1,979,176 in the 2014 year.

Capital grants and contributions totaled $31,858 for fiscal year 2015. These funds were received from customers for tap on fees. This is an increase from the $24,954 for the fiscal year of 2014.

Unrestricted investment earnings totaled $5,289 for fiscal year 2014 and decreased to $3,909 for the 2015 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 $71,486 for the fiscal year 2015 which was a decrease from the prior year. The 2014 total for Other Operating Revenue was $77,652.

• Expenses

Operating expenses totaled $2,073,450 for fiscal year 2015 which was an increase from the 2014 amount of $2,006,417. These expenses relate directly to the everyday operations of the District such as payroll, transmission and distribution, and purchased water.

Interest expense totaled $202,984 for fiscal year 2014 and decreased to $202,605 for the 2015 fiscal year.

Change in net position for 2014 was ($115,650) as compared to 2015 which was ($263,463).

• Capital Assets and Debt Administration

▸ Capital Assets

The District's investment in capital assets at December 31, 2015 amounts to $9,703,778 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles. This is a decrease from $10,155,591 for the 2014 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, net of current portion, totaled $5,918,762 at December 31, 2015, an increase from $5,561,000 for the 2014 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. Due to the implementation of GASB 68 in the current year, the District added a $514,262 net pension liability.

▸ 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.

Also now having Budgetary Influence on the Water District are the effects of the adoption of GASB 68. These effects are noted beginning on page 26 "Employee Retirement Plan" thru page 31.

▸ 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 $410,606. This is a change (increase) from the 2014 balance of $289,274.

• 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
Statement of Net Position

December 31,		2015
Assets		
Current assets		
Cash	$	410,606
Short-term investments		838,216
Accounts receivable — billed		166,334
Accounts receivable — unbilled		139,500
Supplies		62,810
Prepaid expenses		16,116
Total current assets		1,633,582
Cash — restricted		378,085
Investments		40,000
Utility plant		
Utility plant in service		17,016,325
Less: accumulated depreciation		(7,312,547)
Net utility plant		9,703,778
Total assets		11,755,445
Deferred outflows of resources		
Deferred amount on debt refundings		14,501
Pension related		119,514
Total deferred outflows of resources		134,015

See accompanying notes to the financial statements.

December 31,	2015
Liabilities	
Current liabilities	
Accounts payable	86,970
Accrued liabilities	7,261
Accrued interest payable	99,367
Current portion of notes payable	156,500
Total current liabilities	350,098
Long-term liabilities	
Long-term debt, net of current portion	5,404,500
Net pension liability	514,262
Total long-term liabilities	5,918,762
Total liabilities	6,268,860
Net Position	
Net investment in capital assets	4,157,279
Restricted	148,047
Unrestricted	1,315,274
Total net position	$ 5,620,600

See accompanying notes to the financial statements.

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

Year Ended December 31,		2015
Operating Revenues		
Water revenue	$	1,950,217
Late charges		32,339
Other		39,147
Total operating revenues		2,021,703
Operating Expenses		
Payroll		289,555
Retirement		61,732
Health insurance		6,001
Payroll taxes		20,826
Purchased water		906,357
Transmission and distribution		28,803
Contract services		36,869
Utilities		32,100
Telephone		9,332
Dues and subscriptions		2,702
Professional fees		16,376
Insurance		29,872
Commissioners' fees		18,000
Taxes and licenses		3,910
Office supplies and postage		62,328
Depreciation		505,256
Travel		19,506
Bad debts		21,321
Miscellaneous		2,604
Total operating expenses		2,073,450
Operating loss		(51,747)

See accompanying notes to the financial statements.

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

Year Ended December 31,		2015
Non-Operating Revenues (Expenses)		
Loss on sale of assets		(44,878)
Interest income		3,909
Interest expense		(202,605)
Total non-operating revenues (expenses)		(243,574)
Loss before capital contributions		(295,321)
Capital contributions		31,858
Change in net position		(263,463)
Net position — beginning of year		6,266,130
Effect of adoption of GASB 68		(382,067)
Net position — end of year	$	5,620,600

See accompanying notes to the financial statements.

Statement of Cash Flows

Year Ended December 31,		2015
Cash Flows from Operating Activities		
Cash received from customers	$	2,014,251
Cash payments to suppliers for goods and services		(1,277,494)
Cash paid to employees		(394,050)
Net cash flows provided by operating activities		342,707
Cash Flows from Capital and Related Financing Activities		
Interest paid on debt		(201,880)
Purchase of capital assets		(143,308)
Proceeds from sale of capital assets		44,987
Principal payments on long-term debt		(154,000)
Capital contributions		31,858
Net cash flows used in capital and related financing activities		(422,343)
Cash Flows from Investing Actvities		
Interest income		3,909
Purchase of investments		(2,686)
Net cash flows provided by investing activities		1,223
Net decrease in cash		(78,413)
Cash - beginning of year		867,104
Cash - end of year	$	788,691

See accompanying notes to the financial statements.

Year Ended December 31,		2015
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	$	(51,747)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		505,256
Pension contributions in excess of pension expense		12,681
Change in:		
Accounts receivable		(7,452)
Supplies		(31,796)
Prepayments		(3,619)
Accounts payable		(82,756)
Other current liabilities		2,140
Net cash provided by operating activities	$	342,707

See accompanying notes to the financial statements.

NOTE 1: 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.

NOTE 1: 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 investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

> *Net Investment 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.

NOTE 1: 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, 2015. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of the financial statements. The only deferred outflows of resources reported in this year's financial statements are a deferred amount arising from the refunding of bonds, a pension related deferral, and for contributions made to the District's defined benefit pension plan between the measurement date of the net pension liabilities from the plan and the end of the District's fiscal year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

Deferred Inflows of Resources

The District's financial statements reflect a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the District's financial statement of net position for gains on refunding bond amounts and for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of 5 years, including the current year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

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 June 30, 2016, which was the date the financial statements were made available.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

Recently Issued Accounting Pronouncements

GASB issued 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. The District has implemented the new requirements of this statement for the year ended December 31, 2015. The implementation of GASB 68 resulted in the reduction of beginning net position by $382,067.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement 68* improves financial accounting and financial reporting by addressing an issue in GAS8 Statement No. 68 concerning transition provisions related to pension contributions made by employers and nonemployer contributing entities to defined benefit pension plans after the measurement date of the government's beginning net pension liability and prior to implementation of Statement No. 68. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The District has implemented the new requirements of this statement for the year ended December 31, 2015. The implementation of GAS8 71 resulted in the recording of deferred outflows of resources of $49,051 from the current year pension contributions.

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, 2015, the carrying amount of the District's deposits was $1,666,907 and the bank balance was $1,662,956. Of the bank balance, $1,662,956 was covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name.

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

December 31,		2015
Cash	$	410,606
Investments		878,216
Restricted cash		378,085
	$	1,666,907

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, 2015.

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, 2015, 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,		2015
Construction	$	1,299
Depreciation reserve		146,748
Debt service reserve		230,038
	$	378,085

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:

	Capital Cost			
December 31, 2015	**Beginning Balance**	**Additions**	**Retirements/ Reclassifications**	**Ending Balance**
Capital assets that are not depreciated:				
Land and land improvements	$ 145,089	$ -	$ (46,457)	$ 98,632
Construction in progress	961,183	106,124	(1,067,307)	-
Total non-depreciable cost	1,106,272	106,124	(1,113,764)	98,632
Capital assets that are depreciated:				
Structures and Improvements	34,793	1,059,808	(9,639)	1,084,962
Wells and springs	41,777	-	(41,777)	-

NOTE 4: UTILITY PLANT (CONTINUED)

	Capital Cost			
December 31, 2015	**Beginning Balance**	**Additions**	**Retirements/ Reclassifications**	**Ending Balance**
Distribution reservoirs and standpipes	3,307,994	-	(74,920)	3,233,074
Transmission and distribution mains	10,678,711	-	46,337	10,725,048
Meters and installations	1,639,631	24,310	-	1,663,941
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	195,624	3,350	(56,366)	142,608
Office equipment	48,760	16,427	(12,402)	52,785
Leasehold improvements	46,067	-	(46,067)	-
Power operating equipment	5,538	-	(3,038)	2,500
Other plant (fence)	24,001	-	(24,001)	-
Communication equipment	2,279	596	-	2,875
Total depreciable historical cost	16,035,075	1,104,491	(221,873)	16,917,693
Accumulated depreciation	(6,985,756)	(505,256)	178,465	(7,312,547)
	9,049,319	599,235	(43,408)	9,605,146
Utility plant, net	$ 10,155,591	$ 705,359	$ (1,157,172)	$ 9,703,778

NOTE 5: LONG-TERM DEBT

Long-term debt consists of the following:

December 31,		2015
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2045	$	990,000
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2048		1,689,500
Revenue bonds, payable in annual principal installments, plus interest at 3.00%, maturing in January 2050		966,500
Revenue bonds, payable in annual principal installments, plus interest at 2.875%, maturing in August 2033		1,915,000
		5,561,000
Less: current portion		(156,500)
	$	5,404,500

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

Year		Principal		Interest		Total Debt Service
2016	$	156,500	$	194,373	$	350,873
2017		163,000		190,170		353,170
2018		165,500		185,790		351,290
2019		173,000		181,060		354,060
2020		181,000		175,265		356,265
2021-2025		977,500		782,779		1,760,279
2026-2030		1,048,500		609,723		1,658,223
2031-2035		714,500		442,093		1,156,593
2036-204		664,500		316,337		980,837
2041-2045		809,000		172,565		981,565
2046-2050		463,000		38,086		501,086
2051		45,000		824		45,824
	$	5,561,000	$	3,289,065	$	8,850,065

NOTE 5: LONG-TERM DEBT (CONTINUED)

Activity in long-term debt is as follows:

December 31, 2015

	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	$ 5,715,000	$ -	$ 154,000	$ 5,561,000
	$ 5,715,000	$ -	$ 154,000	$ 5,561,000

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, 2015, minimum levels have been met.

NOTE 7: EMPLOYEES' RETIREMENT PLANS

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan Description

All regular full-time members of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the plan are covered by the CERS – a cost-sharing multiple-employer defined benefit pension plan administered by the Board of Trustees of the Kentucky Retirement System, under the provisions of KRS Section 61.645. CERS issues a publicly available financial report that can be found on the CERS website.

NOTE 7: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Benefits Provided

CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, Cost of Living Adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Contributions

Plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. Participating employers contributed 17.67% for the period July 1, 2014 through June 30, 2015 and 17.06% for the period July 1, 2015 through June 30, 2016 of each employee's creditable compensation. The actuarially determined rate is set by the Board.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. 5% of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(b) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

NOTE 7: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the District reported a liability of $514,262 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers, for the period July 1, 2014 through June 30, 2015, actuarially determined. At June 30, 2015, the District's proportion was .011961%.

For the year ended December 31, 2015, the District recognized pension expense of $61,732. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,274	$ -
Changes of assumptions	51,858	-
Net difference between projected & actual earnings on pension plan investments	4,610	-
Changes in proportion and differences between employer contributions and proportionate share of contribution	9,721	-
District contributions subsequent to the measurement date	49,051	-
Total	$ 119,514	$ -

NOTE 7: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

The amount $49,051 was reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2016	$	17,616
2017		17,616
2018		17,616
2019		17,616
Thereafter		-

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Investment rate of return	7.50% net of pension plan investment expense, including inflation
Projected salary increases	4.00%, average, including inflation
Inflation rate	3.25%
Discount rate	7.50%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

NOTE 7: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

NOTE 7: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	$ 656,525	$ 514,262	$ 392,434

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

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.

Todd County Water District
A Component Unit of Todd County, Kentucky
Schedule of the District's Proportionate Share of the Net Pension Liability and
Schedule of the District's Contributions
County Employee Retirement System

Schedule of the District's Proportionate Share of the Net Pension Liability - CERS

		2015
District's proportion of the net pension liability		0.011961%
District's proportionate share of the net pension liability	$	514,262
District's covered - employee payroll (1)	$	273,365
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		53.16%
Plan fiduciary net position as a percentage of the total pension liability		59.97%

Schedule of District Contribution - CERS

		2015
Contractually required contribution	$	49,051
Contributions in relation to the contractually required contribution		49,051
Contribution deficiency (excess)	$	-
District's covered-employee payroll (1)	$	286,477
Contributions as a percentage of covered-employee payroll		17.12%

(1) The amount presented was determined as of the calendar year end that accrued within the fiscal year.

Changes of Benefit Terms

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Changes of Assumptions

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015

- The assumed investment rate of return was decreased from 7.75% to7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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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, 2015, 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 June 30, 2016.

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

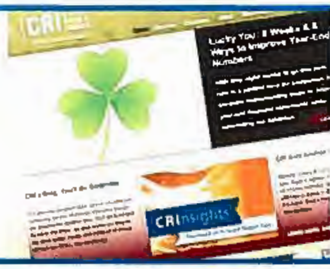
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in 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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
June 30, 2016

THOUGHT LEADERSHIP

Join Our Conversation



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CRI's website features financial calculators, current tax and estate tax guides, a record retention schedule, glossary of common financial terms, and hundreds of articles with topics ranging from current legislation to industry-specific news.

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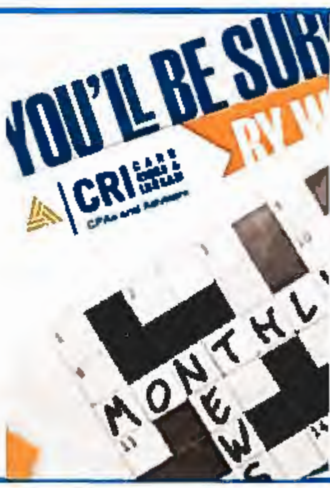

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- Navigating Alternative Minimum Tax (AMT)
- Key Considerations of Health Care Law
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