### **Todd County Water District**

A Component Unit of Todd County, Kentucky

**Financial Statements** 

December 31, 2017 and 2016



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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"), a component unit of Todd County, Kentucky, as of and for the years ended December 31, 2017 and 2016, 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.

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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, 2017 and 2016, and the respective changes in financial position and, its' cash flows 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 4 through 8 and select pension information on pages 34 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018, 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 solely 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 the effectiveness of the District's 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.

Can, Rigge & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC Bowling Green, Kentucky June 25, 2018

# **FINANCIAL STATEMENTS**

## **Todd County Water District**

#### A Component Unit of Todd County, Kentucky Management's Discussion and Analysis Years Ended December 31, 2017 and 2016

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, 2017 and 2016. 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 \$5,119,502 compared to \$5,341,918 in the 2016 fiscal year. Of this amount, \$914,482 may be used to meet the District's ongoing obligations to citizens and creditors, as compared to \$1,019,562 for the 2016 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 \$301,026 for 2017 compared to \$135,327 in 2016. Of this amount, \$288,167 for 2017 is from pension related deferred outflows related to GASB 68, as compared to \$121,647 in 2016. Total deferred inflows of resources were \$73,704 for 2017. This is from a new account in the current year related to GASB 68.
- The District has \$5,875,269, in long-term debt, net of current portion, as compared to \$5,836,039 for the 2016 fiscal year. Of this amount, \$799,269 in 2017 is related to the net pension liability related to GASB 68, as compared to \$594,539 in 2016.

#### • 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 9 through 14 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 15 through 33 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 \$5,119,502 as compared with \$5,341,918 for the 2016 fiscal year.

	2017	2016
Current assets	2,306,181	2,070,634
Capital and other assets	10,340,187	9,319,742
Total Assets	12,646,368	11,390,376
Deferred amount of debt refundings	12,859	13,680
Pension related	288,167	121,647
Total Deferred Outflows of Resources	301,026	135,627
Long-term liabilities	5,875,269	5,836,039
Other liabilities (current)	1,878,919	347,746
Total Liabilities	7,754,188	6,183,785
Pension related	73,704	
Total Deferred Inflows of Resources	73,704	-
Net Position		
Net investment in capital assets	3,864,098	4,114,205
Restricted	340,922	208,151
Unrestricted	914,482	1,019,562
Total Net Position	5,119,502	5,341,918

#### Net Position as of December 31, 2017 and 2016

By far the largest portion of the District's net position in the amount of \$3,864,098 reflects its investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). This is a decrease from \$4,114,205 for the 2016 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 \$914,482 may be used to meet the District's ongoing obligation to customers and creditors. This is a decrease from \$1,019,562 from the 2016 fiscal year. The remaining restricted net position is for replacement reserves for future years.

Deferred Outflows of Resources increased to \$301,026 in 2017 from \$135,327 in 2016. This increase included \$288,167 in pension related outflows.

Total deferred inflows of resources were \$73,704 for 2017. This is from a new account in the current year related to GASB 68.

At December 31, 2017, and 2016, the District is able to report positive balances in all categories of net assets.

	2017	2016
Revenues		
Water service revenues	2,160,666	2,037,106
Other revenues	37,308	43,574
Total Operating Revenues	2,197,974	2,080,680
Expenses		
Water operations	2,261,360	2,189,158
Total Operating Expenses	2,261,360	2,189,158
Net Operating Loss	(63,386)	(108,478)
Non-operating revenue (expenses), net	(191,062)	(193,649)
Loss Before Capital Contributions	(254,448)	(302,127)
Capital contributions	32,032	23,445
Change in Net Position	(222,416)	(278,682)
Net Position – Beginning of Year, as previously reported	5,341,918	5,620,600
Net Position – End of Year	5,119,502	5,341,918

#### **Changes in Net Position**

### Revenues

**Water sold** is the Water District's primary source of revenue. For the fiscal year of 2017 revenue from water sold was \$2,127,946 an increase from \$2,007,944 in the 2016 year.

**Capital grants and contributions** totaled \$32,032 for fiscal year 2017. These funds were received from customers for tap on fees. This is an increase from the \$23,445 for the fiscal year of 2016.

**Unrestricted investment earnings** totaled \$3,782 for fiscal year 2016 and increased to \$3,795 for the 2017 fiscal year. The District earned its investment revenues by placing idle cash in Certificates of Deposits and Reserve Funds.

**Other operating revenues** totaled \$70,028 for the fiscal year 2017 which was a decrease from the prior year. The 2016 total for Other Operating Revenue was \$72,736.

### • Expenses

**Operating expenses** totaled \$2,261,360 for fiscal year 2017 which was an increase from the 2016 amount of \$2,189,158. These expenses relate directly to the everyday operations of the District such as payroll, transmission and distribution, and purchased water.

**Interest expense** totaled \$197,431 for fiscal year 2016 and decreased to \$194,857 for the 2017 fiscal year.

Change in net position for 2016 was (\$278,682) as compared to 2017 which was (\$222,416).

### **Capital Assets and Debt Administration**

#### Capital Assets

The District's investment in capital assets at December 31, 2017 amounts to \$10,290,187 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles. This is an increase from \$9,269,742 for the 2016 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 \$5,875,269 at December 31, 2017, an increase from \$5,836,039 for the 2016 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. The net pension liability caused by GASB 68 totaled \$799,269 for 2017 which was an increase compared to \$594,539 in 2016.

#### • 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 GASB 68. These effects are noted beginning on page 26 "Employee Retirement Plan" thru page 32.

#### • 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 \$310,178. This is a change (increase) from the 2016 balance of \$288,962.

### 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,	2017	2016
Assets		
Current assets		
Cash	\$ 310,178	\$ 288,962
Short-term investments	1,058,404	930,793
Accounts receivable — billed	190,473	178,839
Accounts receivable — unbilled	83,455	148,822
Supplies	61,973	61,935
Prepaid expenses	21,995	17,849
Total current assets	1,726,478	1,627,200
Cash — restricted	579,703	443,434
Investments	50,000	50,000
litility alout		
Utility plant Utility plant in service	18,630,861	17,098,183
Less: accumulated depreciation	(8,340,674	
Net utility plant	10,290,187	9,269,742
Total assets	12,646,368	11,390,376
Deferred outflows of resources	13 050	10 000
Deferred amount on debt refundings Pension related	12,859 288,167	
Total deferred outflows of resources	301,026	135,327

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

December 31,	2017	2016
Liabilities		
Current liabilities	460 750	77 702
Accounts payable	168,750	77,702
Accrued liabilities	7,046	10,116
Accrued interest payable	101,394	96,928
Short term notes payable	1,436,229	-
Current portion of notes payable	165,500	163,000
Total current liabilities	1,878,919	347,746
Long-term liabilities		
Long-term debt, net of current portion	5,076,000	5,241,500
Net pension liability	799,269	594,539
Total long-term liabilities	5,875,269	5,836,039
Total liabilities	7,754,188	6,183,785
Deferred Inflows of Resources		
Pension related	73,704	-
Total deferred inflows of resources	73,704	-
Net Position		
Net investment in capital assets	3,864,098	4,114,205
Restricted	340,922	208,151
Unrestricted	914,482	1,019,562
Total net position	\$ 5,119,502	\$ 5,341,918

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

Years Ended December 31,	2017		2016
Operating Revenues			
Water revenue	\$ 2,127,946	\$	2,007,944
Late charges	32,720	Ŧ	29,162
Other	37,308		43,574
Total operating revenues	2,197,974		2,080,680
Operating Expenses			
Payroll	345,342		306,347
Retirement	175,573		131,682
Health insurance	20,901		23,690
Payroll taxes	25,891		21,772
Purchased water	870,925		917,227
Transmission and distribution	76,735		65,145
Contract services	24,482		22,716
Utilities	24,945		23,371
Telephone	4,750		6,678
Dues and subscriptions	5,000		11,850
Professional fees	12,111		11,678
Insurance	30,983		31,634
Commissioners' fees	18,000		18,000
Taxes and licenses	4,145		6,883
Office supplies and postage	36,416		35,051
Depreciation	512,233		515,894
Travel	19,309		14,722
Bad debts	48,556		22,697
Miscellaneous	5,063		2,121
Total operating expenses	2,261,360		2,189,158
Operating loss	(63,386)		(108,478)

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

Years Ended December 31,	<b>2017</b> 2016		
Non-Operating Revenues (Expenses)			
Interest income	3,795	3,782	
Interest expense	(194,857)	(197,431)	
Total non-operating expenses	(191,062)	(193,649)	
Loss before capital contributions	(254,448)	(302,127)	
Capital contributions	32,032	23,445	
Change in net position	(222,416)	(278,682)	
Net position — beginning of year	5,341,918	5,620,600	
Net position — end of year	\$ 5,119,502	\$ 5,341,918	

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

Years Ended December 31,	2017	2016
Cash Flows from Operating Activities		
Cash received from customers	\$ <b>2,251,707</b> \$	2,058,853
Cash payments to suppliers for goods and services	(987,795)	(1,122,859)
Cash paid to employees	(565,624)	(479,532)
Net cash flows provided by operating activities	698,288	456,462
Cash Flows from Capital and Related Financing Activities		
Interest paid on debt	(189,570)	(199,049)
Purchase of capital assets	(1,532,678)	(81,858)
Proceeds from short-term debt	1,436,229	(01,000)
Principal payments on long-term debt	(163,000)	(156,500)
Capital contributions	32,032	23,445
Net cash flows used in capital and related financing activities	(416,987)	(413,962)
Cash Flows from Investing Actvities		
Interest income	3,795	3,782
Purchase of investments	(127,611)	(102,577)
Net cash flows used in investing activities	(123,816)	(98,795)
Net increase (decrease) in cash	157,485	(56,295)
Cash - beginning of year	 732,396	788,691
Cash - end of year	\$ <b>889,881</b> \$	732,396

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

Years Ended December 31,	<b>2017</b> 2		2016
Reconciliation of Operating Loss to Net Cash Provided by			
Operating Activities			
Operating loss	\$	<b>(63,386)</b> \$	(108,478)
Adjustments to reconcile operating loss to net cash	Ŧ	(00)000) +	(),, .,
provided by operating activities:			
Depreciation		512,233	515,894
Pension contributions in excess of pension expense		111,914	78,144
Change in:		,	,
Accounts receivable		53,733	(21,827)
Supplies		(38)	875
Prepayments		(4,146)	(1,733)
Accounts payable		91,048	(9,268)
Other current liabilities		(3,070)	2,855
Net cash provided by operating activities	\$	<b>698,288</b> \$	456,462

#### 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. Restricted assets will be reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*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, 2017 and 2016. The District's operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 10<sup>th</sup> of each month. Accounts unpaid on the 25<sup>th</sup> 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 deferred outflows of resources reported in this year's financial statements include (1) deferred amount arising from the refunding of bonds, (2) a deferred outflow of resources for contributions made to the District's defined benefit pension plan between the measurement date of the net pension pension liabilities from the plan and the end of the District's fiscal year, (3) and deferred outflows of resources related to the differences between the expected and actual demographics for the cost sharing defined benefit plan. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amounts related to the actuarial assumptions for demographic factors in the cost sharing pension plan will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

#### **Deferred Inflows of Resources**

The District's financial statements report 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. Deferred inflows of resources also include changes in the proportion and differences between employee contributions and the proportion share of contributions in the cost sharing plan and are amortized over the expected remaining service lives of the employees participating in the plan.

#### **Net Pension Liability**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The District proportionate share of pension amounts were further allocated to each participating employer based on the salaries paid by each employer. Pension investments are reported at fair value. Note 8 provides further detail on the net pension liability.

#### NOTE 1: 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 June 25, 2018, which was the date the financial statements were made available.

#### Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to address accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement becomes effective for employer fiscal years beginning after June 15, 2017. The District is evaluating the requirements of this Statement.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District is evaluating the requirements of this Statement.

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Recent Accounting Pronouncements (Continued)

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District is evaluating the requirements of this Statement.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for insubstance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District is evaluating the requirements of this Statement.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is evaluating the requirements of this Statement.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Recent Accounting Pronouncements (Continued)

information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District is evaluating the requirements of this Statement.

#### 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, 2017 and 2016, respectively, the carrying amounts of the District's deposits were \$1,998,285 and \$1,713,189 and the bank balances were \$2,013,257 and \$1,715,666. Of the bank balance, \$2,013,257 and \$1,715,666 were covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name.

December 31,	2017		
Cash	\$ 310,178	\$	288,962
Investments	1,108,404		980,793
Restricted cash	579,703		443,434
	\$ 1,998,285	\$	1,713,189

#### **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, 2017 and 2016.

#### NOTE 2: CASH AND INVESTMENTS (CONTINUED)

#### 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, 2017 and 2016, 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,	<b>2017</b> 2016		2016
Construction Depreciation reserve Debt service reserve	\$	72,464 \$ 268,458 238,781	1,229 206,922 235,283
	\$	<b>579,703</b> \$	443,434

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

#### **NOTE 4: UTILITY PLANT**

Utility plant activity is as follows:

		Caj	pital Cost	
December 31, 2017	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Capital assets that are not				
depreciated:	\$ 98,632	č	\$-	\$ 98,632
Land and land improvements	\$ 98,032	•	Ş -	
Construction in progress	-	1,458,429	-	1,458,429
Total non-depreciable cost	98,632	1,458,429	-	1,557,061
Capital assets that are depreciated:				
Structures and Improvements	1,092,120	-	-	1,092,120
Distribution reservoirs and				
standpipes	3,233,074	-	-	3,233,074
Transmission and distribution				
mains	10,729,348	31,159	-	10,760,507
Meters and installations	1,685,361	33,001	-	1,718,362
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	179,798	8,165	-	187,963
Office equipment	64,575	1,924	-	66,499
Power operating equipment	2,500	-	-	2,500
Communication equipment	2,875	-	-	2,875
Total depreciable historical cost	16,999,551	74,249	-	17,073,800
Accumulated depreciation	(7,828,441)	(512,233)	-	(8,340,674)
	9,171,110	(437,984)		8,733,126
Utility plant, net	\$ 9,269,742	\$ 1,020,445	\$-	\$ 10,290,187

#### NOTE 4: UTILITY PLANT (CONTINUED)

		Caj	pital Cost	
	Beginning		Retirements/	Ending
December 31, 2016	Balance	Additions	Reclassifications	Balance
Capital assets that are not				
depreciated:				
Land and land improvements	\$ 98,632	\$-	\$ -	\$ 98,632
Total non-depreciable cost	98,632	-	-	98,632
Capital assets that are depreciated:				
Structures and Improvements	1,084,962	7,158	-	1,092,120
Distribution reservoirs and		,		, ,
standpipes	3,233,074	-	-	3,233,074
Transmission and distribution				
mains	10,725,048	4,300	-	10,729,348
Meters and installations	1,663,941	21,420	-	1,685,361
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	142,608	37,190	-	179,798
Office equipment	52,785	11,790	-	64,575
Power operating equipment	2,500	-	-	2,500
Communication equipment	2,875	-	-	2,875
Total depreciable historical cost	16,917,693	81,858	-	16,999,551
Accumulated depreciation	(7,312,547)	(515,894)	-	(7,828,441)
	9,605,146	(434,036)	_	9,171,110
Utility plant, net	\$ 9,703,778	\$ (434,036)	\$-	\$ 9,269,742

#### NOTE 5: SHORT-TERM DEBT

Short-term debt provides interim financing for capital construction activities. On August 4, 2017, the District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (RD) to provide financing for a construction project. The agreement provides interim financing of up to \$3,068,000, at an interest rate of 2.95% maturing October 1, 2018, to complete the construction project. Once the construction project is complete, the agreement further states the U.S. Department of Agriculture acting through RD will provide a permanent loan commitment up to \$3,068,000 to retire the interim financing by the District by issuing revenue bond, Series 2017 on or before October 1, 2018.

The following is a summary of changes in short-term debt for the years ended December 31, 2017 and 2018:

December 31,	2017	2016
Balance, January 1 Increases	\$ - 1,436,229	\$ - -
Decreases	-	
Balance, December 31	\$ 1,436,229	\$-

#### NOTE 6: LONG-TERM DEBT

Long-term debt consists of the following:

December 31,	2017	2016
Revenue bonds, payable in annual principal installments, plus		
interest at 4.125%, maturing in January 2045	\$ <b>956,000</b> \$	973,000
Revenue bonds, payable in annual principal installments, plus		
interest at 4.125%, maturing in January 2048	1,638,500	1,664,500
Revenue bonds, payable in annual principal installments, plus		
interest at 3.00%, maturing in January 2050	937,000	952,000
Revenue bonds, payable in annual principal installments, plus		
interest at 2.875%, maturing in August 2033	1,710,000	1,815,000
	5,241,500	5,404,500
Less: current portion	(165,500)	(163,000)
	\$ <b>5,076,000</b> \$	5,241,500

#### NOTE 6: LONG-TERM DEBT (CONTINUED)

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

Year	Principal		Interest	-	Total Debt Service
2018	\$	165,500	\$ 186,675	\$	352,175
2019		173,000	181,935		354,935
2020		181,000	176,150		357,150
2021		183,500	170,107		353,607
2022		190,500	163,977		354,477
2023-2027		1,047,500	720,504		1,768,004
2028-2032		970,000	542,901		1,512,901
2033-2037		599,500	394,083		993,583
2038-2042		718,000	266,964		984,964
2043-2047		753,500	115,118		868,618
2048-2051		259,500	16,190		275,690
	\$	5,241,500	\$ 2,934,604	\$	8,176,104

Activity in long-term debt is as follows:

December 31, 2017

	Beginning of						
		Year	Increases	D	ecreases	E	nd of Year
Revenue bonds	\$	5,404,500	\$ -	\$	163,000	\$	5,241,500
	\$	5,404,500	\$ -	\$	163,000	\$	5,241,500
December 31, 2016							
	B	eginning of					
		Year	Increases	D	ecreases	Ε	nd of Year
Revenue bonds	\$	5,561,000	\$ _	\$	156,500	\$	5,404,500
	\$	5,561,000	\$ _	\$	156,500	\$	5,404,500

#### NOTE 7: WATER AGREEMENT

The District has entered into a water purchase contract with the Logan/Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the District and the rates the District will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed upon by the Commission and the District. Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing water from the Commission in March 2003; therefore, the Commission is the sole provider of water to the District. The agreement does require the District to purchase minimum levels of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages. At December 31, 2017 and 2016 minimum levels have been met.

#### **NOTE 8: EMPLOYEES' RETIREMENT PLANS**

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

#### **Plan Description**

The District contributes to the Non-Hazardous CERS plan, a cost-sharing multiple-employer defined benefit pension plan that covers 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. CERS is administered by the Board of Trustees of the Kentucky Retirement System. CERS issues a publicly available financial report that can be obtained at <u>www.kyret.ky.gov</u>.

#### **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. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011.

#### NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

- Tier 1 Non-Hazardous Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.
- Tier 2 Non-Hazardous Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute a total of 6% of their annual creditable compensation, while 1% of these contributions are deposited in an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. 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(h) account is non-refundable and is forfeited.
- Tier 3 Non-Hazardous Tier 3 plan members who began participating on, or after, January 1, 2014, are 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. 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 (401(h) account) which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Trustees 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. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

#### Contributions

Employers participating in the CERS 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 KRS Board of Trustees on the basis of an annual valuation last preceding the July 1 of a new biennium. The KRS Board of Trustees 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 KRS Board of Trustees. For the fiscal years ended June 30, 2017 and 2016, participating employers contributed 13.95% and 12.42%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the KRS Board of Trustees for the fiscal years ended June 30, 2017 and 2016 were 13.95% and 12.42%, respectively.

#### NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Administrative costs of KRS are financed through employer contributions and investment earnings.

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

At December 31, 2017 and 2016, the District reported a liability of \$799,269 and \$594,539, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, 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 2017 and 2016 contributions to the pension plan relative to the 2017 and 2016 contributions of all participating employers, actuarially determined. At June 30, 2017 and 2016, the District's proportion was 0.013655% and 0.012075%, respectively.

For the years ended December 31, 2017 and 2016, the District recognized pension expense of \$160,419 and \$86,150, respectively. At December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2	017	2016			
	Deferred Outflows of	Deferred Inflows of	Deferred Outflows of	Deferred Inflows of		
Differences between expected and actual experience	Resources \$ 991	Resources \$ 20,289	<b>Resources</b> \$ 2,595	<b>Resources</b> \$ -		
Net difference between projected and actual investment earnings on pension plan investments	63,301	53,415	55,893	-		
Change of assumptions	147,487	-	31,496	-		
Changes in proportion and differences between employer contributions and proportionate share of contribution	51,512	-	8,913	-		
District contributions subsequent to the measurement date	24,876		22,750			
Total	\$ 288,167	\$ 73,704	\$ 121,647	\$-		

#### NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

The \$24,876 and \$22,750 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 years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, 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:				
2018	\$	83,436		
2019		80,053		
2020		36,361		
2021		(10,263)		
Thereafter		-		

#### **Actuarial Assumptions**

The total pension liability and net pension liability were determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Amortization Period	28 years, closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment Rate of Return	7.50%
Salary Increases	4.00%, average
Inflation Rate	3.25%

The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward form the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. The actuary did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as

#### NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

of that date. The roll-forward is based on the results of the actuary's replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017 (measurement date), which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

Inflation	2.30%
Salary Increases	3.05%, average
Investment Rate of Return	6.25%

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ended June 30, 2017:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Amortization Period	28 years, closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market
	value of assets and the expected actuarial
	value of assets is recognized
Inflation	3.25%
Salary Increases	4.00%, average
Investment Rate of Return	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.
# Todd County Water District A Component Unit of Todd County, Kentucky Notes to Financial Statements

## NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

#### **Discount Rate**

The projection of cash flows used to determine the discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the KRS plan's CAFR.

# 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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

			Current			
		1% Decrease         Discount Rate           (5.25%)         (6.25%)		1% Increase (7.25%)		
District's proportionate share of the						
net pension liability	\$	1,008,051	\$	799,269	\$	624,625

# **Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS plan's CAFR.

# **Deferred Compensation Plans**

The District offers its employees to defer compensation in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permit them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities in the financial statements.

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

#### **NOTE 9: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, unemployment insurance, errors and omissions, property and general liability coverage, the District participates in the Kentucky Association of Counties (KACo) insurance fund. This public entity risk pool operates as a common risk management and insurance program for political subdivisions in the State of Kentucky. The District, along with other participating entities, contributes annual premiums determined by KACo. The amount of the premium is based on actuarial evaluations, rating plans and other analyses of the amounts necessary for the payment of claims. If, in the opinion of KACo's Board, the assets of the Trust are insufficient to enable the Trust'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 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 I	Net Pension Li	iability - CERS	
As of December 31,		2017	2016	2015
District's proportion of the net pension liability		0.013655%	0.012075%	0.011961%
District's proportionate share of the net pension liability	\$	799,269	\$ 594,539	\$ 514,262
District's covered payroll	\$	332,266	\$ 288,056	\$ 279,064
District's proportionate share of the net pension liability as a percentage of its covered payroll		240.55%	206.40%	184.28%
Plan fiduciary net position as a percentage of the total pension liability		53.30%	55.50%	59.97%
Schedule of District's Cont	ributior	n - CERS		
For the Year Ended December 31,		2017	2016	2015
Contractually required contribution	\$	48,505	\$ 40,238	\$ 36,211
Contributions in relation to the contractually required				
contribution		48,505	40,238	36,211
Contribution deficiency (excess)	\$	-	\$-	\$ -
District's covered payroll (1)	\$	341,178	\$ 303,889	\$ 286,477
Contributions as a percentage of covered payroll		14.22%	13.24%	12.64%

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

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

# **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:

2017: No changes in benefit terms.

# **Changes of Assumptions**

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

2017: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

# Todd County Water District A Component Unit of Todd County, Kentucky Schedule of Expenditures of Federal Awards

		Pass-Through		
Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture				
Passed-Through Kentucky Rural Development:				
Water and Waste Disposal Systems for Rural				
Communities	10.760	-	-	\$ 1,458,429
Total U.S. Department of Agriculture				1,458,429
Total Expenditures of Federal Awards				\$ 1,458,429

# Todd County Water District A Component Unit of Todd County, Kentucky Notes to the Schedule of Expenditures of Federal Awards

### **NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Todd County Water District (the "District") under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

#### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

#### **NOTE 3: SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

# NOTE 4: LOANS AND LOAN GUARANTEES

The District did not have any loans or loan guarantee programs required to be reported on the schedule.

#### NOTE 5: INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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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 of Todd County Water District (the "District"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 25, 2018.

# **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 such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as 2017-001.

## **Compliance and Other Matters**

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

### **Todd County Water District's Response to Findings**

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

### **Purpose of this Report**

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

Can, Rigge & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC Bowling Green, Kentucky June 25, 2018



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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Commissioners Todd County Water District Elkton, Kentucky

### **Report on Compliance for Each Major Federal Program**

We have audited Todd County Water District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2017. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

# Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal* Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2017.

### **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Can, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC Bowling Green, Kentucky June 25, 2018

# Todd County Water District Schedule of Findings and Questioned Costs

# Section I — Summary of Auditors' Results

#### **Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

Material weakness(es) identified?	□ Yes	☑ No
Significant deficiency(ies) identified?	🗹 Yes	□ None reported
Noncompliance material to financial statements noted?	□ Yes	⊠ No
Federal Awards		
Internal control over major programs:		
Material weakness(es) identified?	□ Yes	☑ No
Significant deficiency(ies) identified?	□ Yes	☑ None reported
Type of auditors' report issued on compliance for major programs: unmodified		
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance (2 CFR 200.516(a))?	□ Yes	⊠ No

Identification of major federal programs:

	Name of Federal Program
CFDA Numbers	or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities
Dollar threshold used to distingui between type A and type B progr	
Auditee qualified as low-risk audi	tee? 🗆 Yes 🗹 No

# Todd County Water District A Component Unit of Todd County, Kentucky Schedule of Findings and Questioned Costs

#### Section II — Financial Statement Findings

### 2017-001 General Ledger

*Criteria and Condition:* During our audit procedures, we noted instances in which the general ledger was not being maintained appropriately, leading to several audit adjustments in the areas of cash, construction in progress, accounts payable, debt and revenue. The majority of these instances related to improper recording of the Water and Waste Disposal program loan money received, which is an infrequent transaction in occurrence. Also, cash reconciliations were not being performed for the Regions bank account and one cash account relating to the construction project was not on the District's general ledger.

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

*Effect:* Misstatements could be left undetected and uncorrected in financial statements.

*Recommendation:* We recommend current procedures be reviewed and that internal control procedures are implemented, including monitoring and recording infrequent transactions. We also recommend that the Regions bank accounts be reconciled quarterly and all cash accounts be recorded on the District's general ledger.

*Views of Responsible Officials and Planned Corrective Actions:* Management concurs with the finding, see corrective action plan.

# Section III — Federal Award Findings and Questioned Costs

None reported.

Todd County Water District A Component Unit of Todd County, Kentucky Summary Schedule of Prior Audit Findings

None reported.

# Todd County Water District A Component Unit of Todd County, Kentucky Corrective Action Plan



# **REQUIRED COMMUNICATIONS**

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June 25, 2018

Commissioners Todd County Water District Elkton, Kentucky

**RIGGS &** 

We are pleased to present the results of our audit of the December 31, 2017 financial statements of the Todd County Water District (the "District").

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

Our GAAP audit was designed, primarily, to express an opinion on the District's December 31, 2017 financial statements. We considered the District's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you expect. We received the full support and assistance of the District's personnel.

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

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

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

Very truly yours,

Can, Rigge & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC

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

- Perform audit services, as requested by the District, in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*; Single Audit Act Amendments of 1996 and the provisions of Uniform Guidance in order to express an opinion on the District's financial statements for the year ended December 31, 2017.
- Communicate directly with District management and the Commissioners regarding the results of our procedures;
- Address with District management and the Commissioners any accounting and financial reporting issues;
- Anticipate and respond to concerns of District management and Commissioners; and
- Other audit-related projects as they arise and upon request.

We have audited the financial statements of the Todd County Water District for the year ended December 31, 2017, and have issued our report thereon dated June 25, 2018. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Auditors' responsibility under Generally Accepted Auditing Standards	We have audited the financial statements of the District for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, <i>Government Auditing Standards</i> and Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated October 2, 2017. Professional standards also require that we communicate to you the following information related to our audit.
Client's responsibility	Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.
Planned scope and timing of the audit	Our initial audit plan was not significantly altered during our fieldwork.
Management judgments and accounting estimates The process used by management in forming particularly sensitive accounting estimates and the basis for the auditors' conclusion regarding the reasonableness of those estimates.	Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality."
Potential effect on the financial statements of any significant risks and exposures Major risks and exposures facing the District and how they are disclosed.	No such risks or exposures were noted.

# MATTER TO BE COMMUNICATED

Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditors' judgment about the quality of accounting principles

- The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- The auditor should also discuss the auditors' judgment about the quality, not just the acceptability, of the District's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures. Critical accounting policies and practices applied by the District in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations;
- Alternative treatments within GAAP for accounting policies and practices related to material items. including recognition, measurement, presentation and disclosure alternatives, that have been discussed with client management during the current audit period, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor. Furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.

## **AUDITORS' RESPONSE**

No changes to the significant accounting policies in Note 1 were noted during the audit. There were no new adopted standards and no transactions that lacked authoritative guidance or consensus noted during the audit.

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Significant difficulties encountered in the audit Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.	None noted.
<b>Disagreements with management</b> Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditors' report. This does not include those that came about based on incomplete facts or preliminary information.	None noted.
Other findings or issues	None noted.
Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.	
Matters arising from the audit that were discussed with, or the subject of correspondence with, management Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.	None noted.
<b>Corrected and uncorrected misstatements</b> All significant audit adjustments arising from the audit, whether or not recorded by the District, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Commissioners about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.	Please see the following section titled "Summary of Audit Adjustments."

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

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Other Matters Required supplementary information and supplementary information that will accompany the basic financial statements.	We applied certain limited procedures to Management's Discussion and Analysis, and select pension information which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI. We were engaged to report on the Schedule of Expenditures of Federal Awards which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

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

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Fixed	The District's capital assets	Х	Depreciation computed	The District's
Assets	are capitalized at cost and		on straight-line method	policies are in
	depreciated on the straight-		over the assets' useful	accordance with
	line method.		life based on the	all applicable
			District's capitalization	accounting
			policy.	guidelines.
Net	The District follows guidance	Х	Net pension liability is	Guidelines appear
Pension	as defined in GASB		determined by the cost	properly followed.
Liability	Statement No. 68 relating to		sharing plan's actuary	
	pension reporting for		and agreed to the audit	
	employers.		of the net pension	
			allocation.	

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

#### Recorded Adjustments

There were adjustments as a result of our audit procedures in the following areas: deferred outflows, fixed assets, deferred inflows, net pension liability, short-term debt, revenue, and CERS expense.

Tot	Total Net Total Assets Liabilities Positio		Net Position	Revenues	E	Expenses	
\$	913,713	\$ (1,869,163)	\$ 2,782,876		\$ 2,609,822	\$	(173,054)

# Financial Statements - Increase/(Decrease)

#### Passed Adjustments

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

# **QUALITATIVE MATERIALITY CONSIDERATIONS**

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

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

# Summary of Audit Adjustments

		Effect on Financial Statements - Over (Under) Statement						
Description	Amount of Difference	Total Assets	Total Liability	Net Position	Revenues	Expenses	Change in Net Position	
To adjust revenue to actual for the 4 days of 2016 billings included in 2017.	\$ 10,522	\$ -	\$-	\$ -	\$ 10,522	\$ -	\$ 10,522	
To capitalize interest previously expensed on interim financing related to construction.	\$ 8,463	\$ (8,463)	\$-	\$ (8,463)	\$-	\$ 8,463	\$ (8,463)	
	NET EFFECT	\$ (8,463)	\$ -	\$ (8,463)	\$ 10,522	\$ 8,463	\$ 2,059	

#### Management Representation Letter

**Todd County Water District** www.toddcountywater.com

June 25, 2018

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

This representation letter is provided in connection with your audit of the financial statements of Todd County Water District (the "District"), which comprise the financial position of the businesstype activities as of December 31, 2017, and the change in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

We confirm, to the best of our knowledge and belief, as of June 25, 2018, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 2, 2017, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.

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# Todd County Water District

www.tocGatts Riggs & Ingram, LLC June 25, 2018 Page 2

- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable.
- 6) Related party relationships and transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

#### **Information Provided**

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

P O Box 520 2201 New Highway 68 West Elkton, Kentucky 42220

# **Management Representation Letter**

# Todd County Water District

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Page 3

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

#### **Government – Specific**

- There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have a process to track the status of audit findings and recommendations.
- 21) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 22) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

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# Todd County Water District

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- 23) The District has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position.
- 24) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 26) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 27) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 28) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 29) As part of your audit, you assisted with preparation of the financial statements and related notes, PSC report, depreciation schedule, data collection form, schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, PSC report, depreciation schedule, data collection form, and schedule of expenditures of federal awards. In regard to the preparation of the financial statements and related notes, PSC report, depreciation schedule, data collection form, schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards services performed by you, we have—

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# **Management Representation Letter**

# Todd County Water District

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- a) Assumed all management responsibilities.
- b) Designated Kathy Conyea, who has suitable skill, knowledge, or experience to oversee the services.
- c) Evaluated the adequacy and results of the services performed.
- d) Accepted responsibility for the results of the services.
- 30) The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 31) The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 32) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34.
- 34) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 35) Components of net position (net investment in capital assets; restricted; and unrestricted) amounts are properly classified and, if applicable, approved.
- 36) Investments and land are properly valued.
- 37) Provisions for uncollectible receivables have been properly identified and recorded.
- 38) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 39) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 41) Deposits and investment securities are properly classified as to risk and are properly disclosed.

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- Capital assets, including infrastructure, are properly capitalized, reported, and, if applicable, depreciated.
- 43) We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 44) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 45) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 46) With respect to federal award programs:
  - a) We are responsible for understanding and complying with and have complied with, the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards.
  - b) We acknowledge our responsibility for preparing and presenting the schedule of expenditures of federal awards (SEFA) and related notes in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
  - c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

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- d) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e) We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g) We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Compliance Supplement, relating to federal awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.
- j) We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

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- Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E).
- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- Ne have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditors' report.
- r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t) We have charged costs to federal awards in accordance with applicable cost principles.
- u) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- w) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

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# **Management Representation Letter**

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x) We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

Mady Signature

Manager

Dffile Title

Title

Signature

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# **INTERNAL CONTROL RECOMMENDATIONS**



Carr, Riggs & Ingram, LLC

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To the Commissioners and Management of Todd County Water District

In planning and performing our audit of the financial statements of Todd County Water District ("the District") as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Can, Rigge & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC Bowling Green, Kentucky June 25, 2018

# **Internal Control Findings**

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

D = Control Deficiency

**IP = Improvement Point** 

ITEM	RATING	AREA	ITEM NOTED	SUGGESTION	MANAGEMENT ACTION
1	D	Internal	In our review of cash	For improved	The Water District
		Control	disbursement procedures,	internal control,	Commissioners
			we noted a lack of	individuals who	will look into
			segregation of duties.	have access to the	making the
			Management has	general ledger	requested
			implemented some	should not have the	changes for
			compensating controls	ability to sign	improved internal
			such as requiring dual	checks. We	control.
			signatures on checks;	recommend that	
			however, one individual	management	
			prepares checks, signs	consider making	
			checks and mails checks	changes to the cash	
			while also being	disbursement	
			responsible for recording	process to improve	
			the disbursements into the	controls in this area.	
			general ledger.		
2	D	General	The District does not	We recommend the	The Water District
		Procedures	maintain a revenue fund	District establish	will confer with
			for the deposit of	and maintain a	our accountant to
			customer funds. Bond	revenue fund.	establish and
			agreements require		maintain a
			maintenance of this fund.		revenue fund.
3	D	Internal	The District obtains a	We recommend, to	The Water District
		Control	signed "Certification	strengthen the	will verify and
			Regarding Debarment,	control in place,	document that
			Suspension, Ineligibility	that the District	the contractor is
			and Voluntary Exclusion"	verify and	not on the USDA
			USDA from contractors	document that the	suspension and
			submitting bids. However,	contractor is not on	debarment list.
			the District does not	the USDA	
			confirm that the	suspension and	
			contractor is not	debarment list.	
			suspended or debarred by		
			verifying they are not on		
			the USDA suspension and		
			debarrment list.		

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