RECEIVED
APR 1 2013
PUBLIC SERVICE
COMMISSION

SOUTH WOODFORD COUNTY WATER DISTRICT
Versailles, Kentucky

FINANCIAL STATEMENTS
December 31, 2012 and 2011

CONTENTS

Independent Auditors' Report 1-2

Financial Statements

Statements of Net Position 3

Statements of Revenues, Expenses and Changes in Net Position 4

Statements of Cash Flows 5

Notes to Financial Statements 6-9

Report in Accordance With **Government Auditing Standards** 10-12

Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA
Mark R. Wadlington, CPA, CGMA
Gwendolyn B. Young, CPA, CVA

Independent Auditors' Report

Board of Commissioners
South Woodford County Water District
Versailles, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326
Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299
www.rfhco.com

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Woodford County Water District, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with **Government Auditing Standards**, we have also issued our report dated March 18, 2013 on our consideration of the South Woodford County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering South Woodford Water District's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
Lexington, Kentucky
March 18, 2013

SOUTH WOODFORD COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31,

ASSETS	2012	2011
Current assets		
Cash and cash equivalents	$ 99,450	$ 93,096
Investments	48,000	48,000
Accounts receivable		
Customers, net	60,893	55,660
Other	5,511	58
Accrued interest receivable	80	189
Total current assets	213,934	197,003
Restricted assets		
Cash and cash equivalents	202,556	170,235
Investments	20,000	20,000
Fixed assets		
Land	30,699	30,699
Property, plant and equipment	5,429,847	5,387,759
Less accumulated depreciation	(2,269,735)	(2,177,618)
Total fixed assets	3,190,811	3,240,840
Other assets		
Bond closing costs	22,250	23,963
TOTAL ASSETS	$ 3,649,551	$ 3,652,041
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 43,404	$ 34,966
Accrued liabilities	6,261	8,097
Accrued interest payable	22,289	7,442
Customer deposits	31,859	28,068
Current portion of bonds payable	58,000	56,000
Total current liabilities	161,813	134,573
Long-term debt		
Long-term debt, net	1,179,867	1,218,867
Net position		
Net invested in capital assets	1,952,944	1,965,973
Restricted	221,722	189,407
Unrestricted	133,205	143,221
Total net position	2,307,871	2,298,601
TOTAL LIABILITIES AND NET POSITION	$ 3,649,551	$ 3,652,041

The accompanying notes are an integral
part of the financial statements.

SOUTH WOODFORD COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended December 31,

	2012	2011
OPERATING INCOME		
Water sales	$ 792,581	$ 748,487
Penalties	14,383	16,530
Other income	1,929	-
Total operating income	808,893	765,017
OPERATING EXPENSES		
Water purchase	383,984	381,927
Customer billing/bookkeeping	54,000	54,000
Meter reading	32,478	32,503
Salaries	35,779	35,416
Rent	9,600	8,900
Utilities	25,393	30,227
Repairs	56,472	59,518
Commissioner's fees	10,800	10,378
Payroll taxes	3,563	3,503
Insurance and bonds	12,838	14,053
Office supplies	7,844	8,524
Professional fees	10,448	8,691
Computer expenses	2,810	2,765
Miscellaneous	8,086	6,895
Regulatory commission expenses	1,342	1,365
Total operating expense	655,437	658,665
Operating income before depreciation	153,456	106,352
Depreciation & amortization expense	(93,830)	(99,221)
OPERATING INCOME (LOSS)	59,626	7,131
Non-operating income (expenses)		
Interest income	402	1,390
Interest expense	(60,398)	(63,571)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(370)	(55,050)
Capital Contributions		
Tap fees	9,640	5,600
Change in net position	9,270	(49,450)
Net position, beginning of year	2,298,601	2,348,051
NET POSITION, END OF YEAR	$ 2,307,871	$ 2,298,601

The accompanying notes are an integral part of the financial statements.

SOUTH WOODFORD COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 801,998	$ 779,516
Payments to suppliers	(509,034)	(534,262)
Payments for employee services and benefits	(138,456)	(132,798)
Net cash provided by operating activities	154,508	112,456
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	9,640	5,600
Purchases of capital assets	(43,433)	(65,235)
Principal paid on capital debt	(37,000)	(53,200)
Interest paid on capital debt	(45,551)	(63,739)
Net cash (used) by capital and related financing activities	(116,344)	(176,574)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificate of deposit	-	10,000
Interest income	511	1,418
Net cash provided by investing activities	511	11,418
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,675	(52,700)
Cash and cash equivalents at beginning of year	263,331	316,031
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 302,006	$ 263,331
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 59,626	$ 7,131
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	92,117	97,508
Change in assets and liabilities:		
Receivables, net	(10,686)	10,900
Other assets	1,713	1,713
Accounts and other payables	9,783	(11,397)
Accrued liabilities	(1,836)	3,002
Customer deposits	3,791	3,599
Net cash provided by operating activities	$ 154,508	$ 112,456

The accompanying notes are an integral
part of the financial statements

1. ORGANIZATION AND ACCOUNTING POLICIES

The South Woodford County Water District was created and organized as a public body incorporated in Woodford County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Woodford County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The South Woodford County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibilities. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The entities included in the financial statements are the general operations of the South Woodford County Water District.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

The District 's financial statements are presented in conformity with GASB Statement No. 34, ***Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments***. The District has not prepared the Management's Discussion and Analysis required by GASB 34.

The District maintains its accounting records on the cash basis during the year. Adjustments are made to the accrual basis from memorandum records at year end.

Fixed assets are recorded at cost or estimates of costs. Interest costs incurred during construction are capitalized as a cost of the project. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

Reserve for accounts receivable represents accounts past due more than thirty days that are thought to be uncollectible. The reserve balances were $17,200 at December 31, 2012 and $12,463 at December 31, 2011.

When both restricted and unrestricted resources are available for use, the District considers restricted fund to have been spent first.

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

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

Investments consist of certificates of deposit, with maturities greater than 90 days, and are valued at cost, which approximates fair value.

The District has evaluated and considered the need to recognize or disclose subsequent events through March 18, 2013; which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2012, have not been evaluated by the District.

2. CASH AND INVESTMENTS

The South Woodford County Water District deposits and investments at December 31, 2012 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

The District maintains several bank accounts and investment accounts in accordance with the Bond Resolution. The following schedule presents the detail by account:

	2012	2011
Revenue Fund		
Cash – checking	$ 81,872	$ 74,512
Operation and Maintenance Fund		
Cash – checking	3,997	5,017
Customer Credit		
Cash – savings	13,581	13,567
Total cash and cash equivalents - unrestricted	$ 99,450	$ 93,096
Investments - unrestricted	$ 48,000	$ 48,000
Bond and Interest Reserve Fund		
Cash – savings	$ 34,594	$ 858
Cash – checking	575	2,257
Cash – money market	38,614	38,178
Cash – KRW 2007	20,466	20,748
Cash-construction	834	828
Depreciation Reserve Fund		
Cash-savings	107,473	107,366
Total cash and cash equivalents - restricted	$ 202,556	$ 170,235
Investments - restricted	$ 20,000	$ 20,000

Statement of Cash Flows

The proprietary fund type Statement of Cash Flows includes as cash and cash equivalents the following:

Cash and cash equivalents	$ 99,450	$ 93,096
Restricted cash and cash equivalents	202,556	170,235
	$ 302,006	$ 263,331

3. FIXED ASSETS

Portions of the District's fixed assets have been recorded at estimated cost. The District assumed ownership of extension lines constructed during 1974 through 1977 that were financed by the customers. Cost records were unavailable; therefore the extensions have been recorded at $117,500 which is the total funds borrowed to finance the construction.

	Balance 12/31/11	Additions	Deductions	Balance 12/31/12
Capital assets not depreciated:				
Land	$ 30,699	$ -	$ -	$ 30,699
Capital assets that are depreciated:				
Cost of System	5,387,759	42,088	-	5,429,847
Less Accumulated Depreciation	2,177,618	92,117	-	2,269,735
Totals	3,210,141	(50,029)	-	3,160,112
Capital Assets, net	$ 3,240,840	$ (50,029)	$ -	$ 3,190,811

4. COMPLIANCE WITH BOND RESOLUTION

The bond resolution requires the District to maintain certain reserves as follows:

Reserve Fund - This reserve is to receive a monthly transfer of $890 until a balance of $106,800 is accumulated. In addition, this reserve is to receive all proceeds collected from potential customers to aid construction of extensions and any property damage insurance proceeds. Funds may be used only for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. The balance of this reserve was $107,473 at December 31, 2012, and was $107,366 at December 31, 2011.

Bond and Interest Sinking Fund - This component of the Reserve Fund is to receive a monthly transfer of 1/6 of the next interest due and 1/12 of the next principal due. This reserve can only be used to pay debt service on the bond issue. The balance of this reserve was $114,249 at December 31, 2012, and was $82,041 at December 31, 2011.

5. LONG TERM DEBT

The District issued $328,000 of "Waterworks System Revenue Bonds" dated January 1, 1997. The bonds bear interest at the rate of 5.5% and interest is payable on January 1 and July 1 of each year. Bonds mature serially on January 1 of each year. The U.S. Department of Agriculture, Rural Development holds all the bonds.

The District issued $118,000 "Waterworks System Revenue Bonds," Series 1996 Series A dated January 1, 1997. The bonds bear interest at the rate of 5.375% and interest is payable on January 1 and July 1 of each year. Bonds mature serially on January 1 of each year. The U.S. Department of Agriculture, Rural Development holds all the bonds.

The District issued $346,000 "Waterworks System Revenue Bonds", Series 1999 Series A and B dated January 1, 1999. The bonds bear interest at the rate of 4.375% and interest is payable on January 1 and July 1 of each year. Bonds mature serially on January 1 of each year. The U.S. Department of Agriculture, Rural Development holds all the bonds.

5. LONG TERM DEBT, continued

On January 30, 2007, the District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation for a $490,000 loan to help finance their Phase IV construction project. The loan bears interest at a rate of 4.050% – 4.425%. Issuance costs of $19,123 are being amortized over the life of the loan.

The following schedule presents the total debt service requirements over the remaining life of the issues:

Fiscal Year	Principal	Interest & Fees	Total
2013	$ 58,000	$ 59,080	$ 117,080
2014	61,300	56,131	117,431
2015	64,500	53,037	117,537
2016	67,900	49,752	117,652
2017	73,100	46,295	119,395
2018-2022	294,867	181,150	476,017
2023-2027	288,300	113,458	401,758
2028-2032	201,700	53,623	255,323
2033-2037	76,800	21,669	98,469
2038-2040	51,400	4,353	55,753
	$ 1,237,867	$ 638,548	$ 1,876,415

The following is a summary of long term debt for the year ended December 31, 2012:

	Balance January 1, 2011	Issued	Principal Payments	Balance December 31, 2012
Series 1996-A	$ 235,000	$ -	$ -	$ 235,000
Series 1996-B	76,000	-	-	76,000
Series 1999-A	255,000	-	-	255,000
Series 1999-B	45,700	-	-	45,700
Series 2001	222,167	-	23,000	199,167
Series 2007	441,000	-	14,000	427,000
	$ 1,274,867	$ -	$ 37,000	$ 1,237,867

6. 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. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances as previously reported.

Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

SOUTH WOODFORD COUNTY WATER DISTRICT
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

Independent Auditors' Report

Board of Commissioners
South Woodford County Water District
Versailles, Kentucky

We have audited 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, the financial statements of the South Woodford County Water District (the "District") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the South Woodford County Water District's basic financial statements, and have issued our report thereon dated March 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Woodford County Water 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 South Woodford County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Woodford County Water District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying *schedule of findings and responses* to be a material weakness (2012-1).

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.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326
Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299
www.rfhco.com

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

SOUTH WOODFORD COUNTY WATER DISTRICT
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

Compliance and Other Matters

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

South Woodford County Water District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
Lexington, Kentucky
March 18, 2013

SOUTH WOODFORD COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2012

FINDING:
2012-1

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.