

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

MAR 30 2012

RECEIVED
EXAMINED BY _____

**NORTHEAST WOODFORD COUNTY
WATER DISTRICT
Versailles, Kentucky**

—————
**FINANCIAL STATEMENTS
December 31, 2011 and 2010**

CONTENTS

Independent Auditors' Report	1
Financial Statements	
Balance Sheets	2
Statements of Revenue, Expenses and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5-8
Report in Accordance With Government Auditing Standards	9-11

rfh Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Northeast Woodford County Water District
Versailles, Kentucky

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

We have audited the accompanying balance sheet of the Northeast Woodford County Water District as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Northeast Woodford County Water District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northeast Woodford County Water District, as of December 31, 2011 and 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated March 28, 2012, on our consideration of the Northeast 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** and should be considered in assessing the results of our audit.

Management has omitted the 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.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 28, 2012

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

NORTHEAST WOODFORD COUNTY WATER DISTRICT
BALANCE SHEETS
December 31,

ASSETS	2011	2010
Current Assets		
Cash	\$ 164,753	\$ 247,668
Investments	508,464	502,568
Accounts receivable	40,727	51,912
Grants receivable	101,514	60,562
Other receivables	2,090	6,019
Accrued interest receivable	989	1,027
Inventory	<u>7,767</u>	<u>12,805</u>
	<u>826,304</u>	<u>882,561</u>
Restricted Assets		
Cash	<u>218,678</u>	<u>217,048</u>
Fixed Assets		
Land and land rights	2,000	2,000
Property, plant and equipment	2,662,733	2,078,727
Less accumulated depreciation	(1,061,320)	(1,006,117)
Construction in progress	<u>-</u>	<u>217,173</u>
	<u>1,603,413</u>	<u>1,291,783</u>
TOTAL ASSETS	<u>\$ 2,648,395</u>	<u>\$ 2,391,392</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 139,142	\$ 129,667
Payroll liabilities	1,347	1,688
Amounts payable to commissioners	364	234
Customer deposits	<u>5,905</u>	<u>5,626</u>
	<u>146,758</u>	<u>137,215</u>
Long-term Debt		
Bonds payable	<u>412,000</u>	<u>422,000</u>
Net Assets		
Invested in capital assets, net of debt	1,191,413	869,783
Restricted	217,646	212,121
Unrestricted	<u>680,578</u>	<u>750,273</u>
	<u>2,089,637</u>	<u>1,832,177</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,648,395</u>	<u>\$ 2,391,392</u>

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

**NORTHEAST WOODFORD COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
for the years ended December 31,**

	2011	2010
OPERATING INCOME		
Water sales	\$ 512,692	\$ 571,716
Penalties	<u>13,814</u>	<u>15,542</u>
Total operating income	<u>526,506</u>	<u>587,258</u>
OPERATING EXPENSES		
Water purchased	327,750	388,730
Customer billing and bookkeeping	28,441	29,233
Meter reading	38,162	35,784
Utilities	12,937	10,545
Repairs	37,060	25,140
Commissioners' fees	18,200	18,200
Payroll taxes	1,373	1,395
Insurance and bonds	5,570	5,587
Telephone	692	705
Professional services	6,843	6,700
Computer expenses	629	5,259
PSC assessment	898	982
Other expense	<u>3,723</u>	<u>4,156</u>
Total operating expense	<u>482,278</u>	<u>532,416</u>
Operating income before depreciation	44,228	54,842
Depreciation expense	<u>(55,203)</u>	<u>(48,707)</u>
OPERATING INCOME (LOSS)	(10,975)	6,135
Non-operating income (expenses)		
Interest income	8,441	21,334
Interest expense	<u>(24,264)</u>	<u>(24,783)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(26,798)	2,686
Capital Contributions		
Grants	277,703	215,913
Tap fees	5,828	1,700
Contributions by customers	<u>727</u>	<u>272</u>
Change in net assets	257,460	220,571
Net assets, beginning	<u>1,832,177</u>	<u>1,611,606</u>
NET ASSETS - ENDING	<u>\$ 2,089,637</u>	<u>\$ 1,832,177</u>

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

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

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 541,899	\$ 586,877
Payments to suppliers	(401,259)	(432,864)
Payments for commissioners' fees and contract labor	<u>(85,014)</u>	<u>(83,058)</u>
Net cash provided by operating activities	<u>55,626</u>	<u>70,955</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	243,306	157,323
Purchases of capital assets	(353,574)	(193,606)
(Increase) decrease in inventory	5,038	15,332
Principal paid on capital debt	(10,000)	(9,000)
Interest paid on capital debt	<u>(24,264)</u>	<u>(24,783)</u>
Net cash (used) by capital and related financing activities	<u>(139,494)</u>	<u>(54,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>8,479</u>	<u>22,742</u>
Net cash provided by investing activities	<u>8,479</u>	<u>22,742</u>
Net increase (decrease) in cash and cash equivalents	(75,389)	38,963
Balances-beginning of the year	<u>967,284</u>	<u>928,321</u>
BALANCES-END OF THE YEAR	<u>\$ 891,895</u>	<u>\$ 967,284</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (10,975)	\$ 6,135
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	55,203	48,707
Change in assets and liabilities:		
Receivables, net	15,114	(5,037)
Accounts and other payables	(3,784)	16,335
Payroll liabilities	(211)	159
Customer deposits	<u>279</u>	<u>4,656</u>
Net cash provided by operating activities	<u>\$ 55,626</u>	<u>\$ 70,955</u>
Non-cash capital additions	<u>\$ 13,259</u>	<u>\$ 82,993</u>

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

NORTHEAST WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

1. ORGANIZATION AND ACCOUNTING POLICIES

The Northeast 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 fiscal court of Woodford County to operate a water distribution system.

The Northeast Woodford County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. 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 Northeast Woodford County Water District.

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

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. Depreciation has been provided using the straight-line method over the estimated useful life of the asset. Interest costs incurred during construction are capitalized as a cost of the constructed asset.

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

Inventories are stated at cost.

The District charges all uncollectible accounts directly against earnings. The reserve for accounts receivable represents accounts past due more than ninety days that are thought to be uncollectible. The reserve balances were \$10,560 at December 31, 2011 and \$10,560 at December 31, 2010.

The District's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board 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 applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

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 defines cash and cash equivalents to include cash on hand, cash in banks and certificates of deposit.

The District has evaluated and considered the need to recognize or disclose subsequent events through March 28, 2012 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, 2011, have not been evaluated by the District.

NORTHEAST WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

2. DETAIL OF CASH AND INVESTMENTS

The Northeast Woodford County Water District's deposits and investments at December 31, 2010 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, deposits in national or state chartered banks 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.

	2011	2010
Revenue Fund		
Cash-checking	\$ 40,614	\$ 46,766
Operation and Maintenance Fund		
Cash-checking	77,600	161,684
Construction Fund		
Cash-checking	9,875	8,519
Customer Credit		
Cash-savings	<u>36,664</u>	<u>30,699</u>
	<u>\$ 164,753</u>	<u>\$ 247,668</u>
Operation and Maintenance Fund		
Certificates of deposit	\$ 461,575	\$ 456,415
Customer Credit		
Certificates of deposit	<u>46,889</u>	<u>46,153</u>
	<u>\$ 508,464</u>	<u>\$ 502,568</u>
Bond and Interest Reserve Fund		
Cash-checking	\$ 144,402	\$ 139,324
Construction Fund		
Cash-checking	1,032	4,927
Depreciation Reserve Fund		
Cash-savings	<u>73,244</u>	<u>72,797</u>
	<u>\$ 218,678</u>	<u>\$ 217,048</u>

Statement of Cash Flows

The Statement of Cash Flows includes the following:

	2011	2010
Cash	\$ 164,753	\$ 247,668
Investments	508,464	502,568
Restricted Cash	<u>218,678</u>	<u>217,048</u>
	<u>\$ 891,895</u>	<u>\$ 967,284</u>

**NORTHEAST WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

3. 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 \$495 until a balance of \$59,400 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 at December 31, 2011 was \$73,244 and December 31, 2010 was \$72,797.

Bond and Interest Sinking Fund - This reserve is to receive a monthly transfer of 1/6 of the next interest due and 1/12 of the next principal due. In addition, this reserve is to receive any excess revenues at the close of each year after provision of anticipated operating expenses for a two-month period. This reserve can only be used to pay debt service on the bond issue. The balance of this reserve at December 31, 2011 was \$144,402 and December 31, 2010 was \$139,324.

4. BONDS PAYABLE

The District issued \$611,000 of Waterworks Revenue Bonds in 1995. These bonds bear interest at the rate of 5.75% with the interest payable each January 1 and July 1 of each year. The bonds mature serially on January 1 of each year. The U.S. Department of Agriculture, Rural Economic & Community Development (formerly Farmers Home Administration) holds the bonds.

Principal amounts due in each of the next five years are as follows:

<u>Year</u>	<u>Issued</u>		<u>Total Requirement For Year</u>	<u>Bonds Outstanding End of Year</u>
	<u>Principal</u>	<u>Interest</u>		
2012	\$ 10,000	\$ 11,845	\$ 11,845	\$ 412,000
2013	10,000	23,403	33,403	402,000
2014	11,000	22,799	33,799	391,000
2015	12,000	22,138	34,138	379,000
2016	12,000	21,448	33,448	367,000
2017-2021	76,000	95,048	171,048	291,000
2022-2026	103,000	69,604	172,604	188,000
2027-2031	141,000	34,816	175,816	47,000
2032-2034	<u>47,000</u>	<u>2,097</u>	<u>49,097</u>	-0-
Totals	<u>\$ 412,000</u>	<u>\$ 303,198</u>	<u>\$ 715,198</u>	

The following is a summary of long term debt for the year ended December 31, 2011:

	Balance December 1, 2010	Issued	Principal Payments	Balance December 31, 2011
Series 1995	<u>\$ 422,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 412,000</u>

NORTHEAST WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

5. 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

6. 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.

**NORTHEAST 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**

Board of Commissioners
Northeast Woodford County Water District
Versailles, Kentucky

We have audited the financial statements of the Northeast Woodford County Water District (the "District"), as of and for the year ended December 31, 2011 and have issued our report thereon dated March 28, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 entity'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 (2011-1).

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (2011-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

We noted certain other matters that we reported to management of the Northeast Woodford County Water District in a separate letter dated March 28, 2012.

The Northeast Woodford County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

**NORTHEAST 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, CONTINUED**

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 28, 2012

NORTHEAST WOODFORD COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011

FINDING:

2011-1

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.

FINDING:

2011-2

The District is required to have internal controls in place to ensure that all grant funded expenditures are properly authorized and recorded and all reimbursement requests are initiated, approved and received timely. The controls should incorporate proper matching of expenses to revenue in the same period.

The District has failed to properly track grant expenditures and reimbursements resulting in several issues. The District has not paid engineering invoices for work performed during 2010. The engineering invoices were reimbursed by a grant in 2010 but remain outstanding through December 31, 2011. The District has not requested reimbursements for other approved project expenses that were paid during 2010 and 2011.

We recommend management review their procedures for handling grant funded projects to ensure that all projects are managed in accordance with grant agreements. The District should pay all outstanding invoices as soon as possible and request reimbursement on all project expenses that are not yet requested.

RESPONSE:

District management will review procedures for handling grant funded projects to ensure that all projects are managed in accordance with grant agreements.

The District will pay all outstanding invoices as soon as possible and request reimbursement on all project expenses that are not yet requested.