

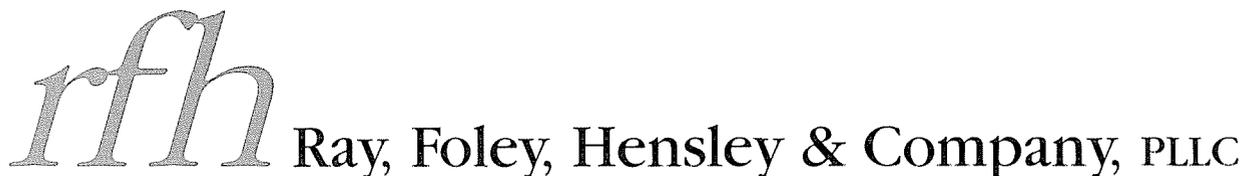
PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH
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**SOUTH WOODFORD COUNTY
WATER DISTRICT
Versailles, Kentucky**

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

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Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

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

J. Carroll Luby, CPA

Board of Commissioners
South Woodford County Water District
Versailles, Kentucky

We have audited the accompanying balance sheet of the South Woodford County Water District as of as of and for the years ended 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 South 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 South 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 21, 2012, 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** 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 21, 2012

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SOUTH WOODFORD COUNTY WATER DISTRICT
BALANCE SHEETS
December 31,

ASSETS	2011	2010
Current assets		
Cash and cash equivalents	\$ 93,096	\$ 135,989
Investments	48,000	48,000
Accounts receivable		
Customers, net	55,660	66,560
Other	58	58
Accrued interest receivable	<u>189</u>	<u>217</u>
Total current assets	<u>197,003</u>	<u>250,824</u>
Restricted assets		
Cash and cash equivalents	170,235	180,042
Investments	<u>20,000</u>	<u>30,000</u>
Fixed assets		
Land	30,699	30,699
Property, plant and equipment	5,387,759	5,328,499
Less accumulated depreciation	<u>(2,177,618)</u>	<u>(2,080,110)</u>
Total fixed assets	<u>3,240,840</u>	<u>3,279,088</u>
Other assets		
Bond closing costs	<u>23,963</u>	<u>25,676</u>
TOTAL ASSETS	<u>\$ 3,652,041</u>	<u>\$ 3,765,630</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 34,966	\$ 52,338
Accrued liabilities	8,097	5,095
Accrued interest payable	7,442	7,610
Customer deposits	28,068	24,469
Current portion of bonds payable	<u>56,000</u>	<u>53,200</u>
Total current liabilities	<u>134,573</u>	<u>142,712</u>
Long-term debt		
Long-term debt, net	<u>1,218,867</u>	<u>1,274,867</u>
Net assets		
Invested in capital assets, net of related debt	1,965,973	1,951,021
Restricted	189,407	198,052
Unrestricted	<u>143,221</u>	<u>198,978</u>
Total net assets	<u>2,298,601</u>	<u>2,348,051</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,652,041</u>	<u>\$ 3,765,630</u>

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

SOUTH 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	\$ 748,487	\$ 806,537
Penalties	<u>16,530</u>	<u>15,864</u>
Total operating income	<u>765,017</u>	<u>822,401</u>
OPERATING EXPENSES		
Water purchase	381,927	395,375
Customer billing/bookkeeping	54,000	54,000
Meter reading	32,503	32,199
Salaries	35,416	35,620
Rent	8,900	8,400
Utilities	30,227	16,581
Repairs	59,518	71,508
Commissioner's fees	10,378	10,800
Payroll taxes	3,503	3,523
Insurance and bonds	14,053	10,995
Office supplies	8,524	11,238
Professional fees	6,310	6,205
Miscellaneous	12,041	13,872
Regulatory commission expenses	<u>1,365</u>	<u>1,221</u>
Total operating expense	<u>658,665</u>	<u>671,537</u>
Operating income before depreciation	106,352	150,864
Depreciation & amortization expense	<u>(99,221)</u>	<u>(98,892)</u>
OPERATING INCOME (LOSS)	7,131	51,972
Non-operating income (expenses)		
Interest income	1,390	1,827
Interest expense	<u>(63,571)</u>	<u>(65,531)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(55,050)	(11,732)
Capital Contributions		
Tap fees	5,600	2,500
Customer contribution	<u>-</u>	<u>705</u>
Change in net assets	(49,450)	(8,527)
Net assets, beginning of year	<u>2,348,051</u>	<u>2,356,578</u>
NET ASSETS, END OF YEAR	<u>\$ 2,298,601</u>	<u>\$ 2,348,051</u>

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,**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 779,516	\$ 817,065
Payments to suppliers	(534,262)	(528,475)
Payments for employee services and benefits	<u>(132,798)</u>	<u>(136,008)</u>
Net cash provided by operating activities	<u>112,456</u>	<u>152,582</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	5,600	3,205
Purchases of capital assets	(65,235)	(51,488)
Principal paid on capital debt	(53,200)	(50,100)
Interest paid on capital debt	<u>(63,739)</u>	<u>(65,680)</u>
Net cash (used) by capital and related financing activities	<u>(176,574)</u>	<u>(164,063)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificate of deposit	10,000	-
Interest income	<u>1,418</u>	<u>2,022</u>
Net cash provided by investing activities	<u>11,418</u>	<u>2,022</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(52,700)	(9,459)
Cash and cash equivalents at beginning of year	<u>316,031</u>	<u>325,490</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 263,331</u>	<u>\$ 316,031</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 7,131	\$ 51,972
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	97,508	97,179
Change in assets and liabilities:		
Receivables, net	10,900	(7,045)
Other assets	1,713	1,713
Accounts and other payables	(11,397)	6,920
Accrued liabilities	3,002	134
Customer deposits	<u>3,599</u>	<u>1,709</u>
Net cash provided by operating activities	<u>\$ 112,456</u>	<u>\$ 152,582</u>

The accompanying notes are an integral
part of the financial statements

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

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 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 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 \$12,463 at December 31, 2011 and \$12,731 at December 31, 2010.

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 21, 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.

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

2. CASH AND INVESTMENTS

The South Woodford County Water District deposits and investments at December 31, 2011 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:

	2011	2010
Revenue Fund		
Cash-checking	\$ 74,512	\$ 121,277
Operation and Maintenance Fund		
Cash-checking	5,017	1,174
Customer Credit		
Cash-savings	<u>13,567</u>	<u>13,538</u>
Total cash and cash equivalents - unrestricted	<u>\$ 93,096</u>	<u>\$ 135,989</u>
Investments - unrestricted	<u>\$ 48,000</u>	<u>\$ 48,000</u>
Bond and Interest Reserve Fund		
Cash-savings	\$ 858	\$ 364
Cash-checking	2,257	2,824
Cash- money market	38,178	37,716
Cash – KRW 2007	20,748	20,010
Cash-construction	828	930
Cash – KRW proceeds	-	11,060
Depreciation Reserve Fund		
Cash-savings	<u>107,366</u>	<u>107,138</u>
Total cash and cash equivalents - restricted	<u>\$ 170,235</u>	<u>\$ 180,042</u>
Investments - restricted	<u>\$ 20,000</u>	<u>\$ 30,000</u>

Statement of Cash Flows

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

Cash and cash equivalents	\$ 93,096	\$ 135,989
Restricted cash and cash equivalents	<u>170,235</u>	<u>180,042</u>
	<u>\$ 263,331</u>	<u>\$ 316,031</u>

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

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 12/31/10	Additions	Deductions	Balance 12/31/11
Capital assets not depreciated:				
Land	\$ 30,699	\$ -	\$ -	\$ 30,699
Capital assets that are depreciated:				
Personal Property & Equipment	5,328,499	59,260	-	5,387,759
Less Accumulated Depreciation	2,080,110	97,508	-	2,177,618
Totals	3,248,389	(38,248)	-	3,210,141
Capital Assets, net	\$ 3,279,088	\$ (38,248)	\$ -	\$ 3,240,840

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 \$107,366 at December 31, 2011, and was \$107,138 at December 31, 2010.

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 \$82,041 at December 31, 2011, and was \$90,914 at December 31, 2010.

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.

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

5. LONG TERM DEBT, continued

The District issued \$408,000 Kentucky Rural Water Finance Corporation Revenue Bonds Series 2001 A, dated June 2002 to refund the District's outstanding \$392,000 Waterworks Revenue Bonds, Series 1989. The bonds bear interest at a rate of 5.25%. A portion of the proceeds from the bond issue was paid to USDA-Rural Development to retire the bond issue. The refinancing is summarized as follows:

New Issue	\$ 408,000
Old issue-refunded	(392,000)
Net issue costs	(15,425)
Interest expense-old issue	(15,105)
Net Cash	<u>14,530</u>
	<u>\$ -0-</u>

The District completed the current refunding to reduce its total debt service payments over the next 20 years by \$314,600 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$111,325. The prior debt service requirements were \$966,009; the new debt service requirements are \$651,409. Additional cash disbursements paid by the district of \$14,529 resulted in a net present value savings of \$97,541.

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
2012	\$ 56,000	\$ 60,831	\$ 116,831
2013	59,300	58,099	117,399
2014	62,500	55,081	117,581
2015	65,900	51,926	117,826
2016	69,100	48,566	117,666
2017-2021	323,867	189,717	513,584
2022-2026	283,300	118,260	401,560
2027-2031	195,700	59,774	255,474
2032-2036	107,800	22,605	130,405
2037-2039	<u>51,400</u>	<u>4,353</u>	<u>55,753</u>
	<u>\$ 1,274,867</u>	<u>\$ 669,212</u>	<u>\$ 1,944,079</u>

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

	Balance January 1, 2010	Issued	Principal Payments	Balance December 31, 2011
Series 1996-A	\$ 244,500	\$ -	\$ 9,500	\$ 235,000
Series 1996-B	79,900	-	3,900	76,000
Series 1999-A	259,000	-	4,000	255,000
Series 1999-B	46,500	-	800	45,700
Series 2001	244,167	-	22,000	222,167
Series 2007	<u>454,000</u>	<u>-</u>	<u>13,000</u>	<u>441,000</u>
	<u>\$ 1,328,067</u>	<u>\$ -</u>	<u>\$ 53,200</u>	<u>\$ 1,274,867</u>

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

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.

**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**

Board of Commissioners
South Woodford County Water District
Versailles, Kentucky

We have audited the financial statements of the South Woodford County Water District (the "District"), as of and for the year ended December 31, 2011 and have issued our report thereon dated March 21, 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.

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.

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 South Woodford County Water District in a separate letter dated March 21, 2012.

**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 (CONTINUED)**

The South 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.

This report is intended solely for the information and use of management, Board of Commissioners and others within the entity 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 21, 2012

**SOUTH 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.