

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

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**FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

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Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS  
Michael D. Foley, CPA/CGMA  
Lyman Hager, Jr., CPA/PFS  
Bradley J. Hayes, CPA/CGFM  
Jerry W. Hensley, CPA/CGMA  
T. Cory Reitz, CPA/ABV, CVA

## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Northeast Woodford County Water District  
Versailles, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Northeast Woodford County Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Northeast Woodford County Water 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](http://www.rfhco.com)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Northeast Woodford County Water District, as of December 31, 2013 and 2012, and the respective changes in financial position, and 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 the Management 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 15, 2014, on our consideration of 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** in considering Northeast Woodford County Water District's internal control over financial reporting and compliance.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
March 15, 2014

**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION  
December 31,**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
<b>Current Assets</b>		
Cash	\$ 158,643	\$ 165,547
Investments	520,116	516,406
Accounts receivable	44,963	39,560
Grants receivable	-	27,991
Other receivables	-	1,662
Amounts receivable from commissioners	364	-
Accrued interest receivable	538	536
Inventory	<u>5,996</u>	<u>7,287</u>
	<u>730,620</u>	<u>758,989</u>
<b>Restricted Assets</b>		
Cash	<u>226,252</u>	<u>335,593</u>
<b>Fixed Assets</b>		
Land and land rights	2,000	2,000
Property, plant and equipment	2,730,450	2,694,873
Less accumulated depreciation	(1,193,735)	(1,120,473)
Construction in progress	<u>65,322</u>	<u>-</u>
	<u>1,604,037</u>	<u>1,576,400</u>
TOTAL ASSETS	<u>\$ 2,560,909</u>	<u>\$ 2,670,982</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 42,584	\$ 104,615
Deferred revenue	18,196	68,322
Payroll liabilities	1,529	1,149
Customer deposits	<u>6,915</u>	<u>6,103</u>
	<u>69,224</u>	<u>180,189</u>
<b>Long-term Debt</b>		
Bonds payable	<u>391,000</u>	<u>402,000</u>
<b>Net Position</b>		
Net invested in capital assets	1,213,037	1,174,400
Restricted	193,811	218,984
Unrestricted	<u>693,837</u>	<u>695,409</u>
Total net position	<u>2,100,685</u>	<u>2,088,793</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,560,909</u>	<u>\$ 2,670,982</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 POSITION**  
for the years ended December 31,

	<b>2013</b>	<b>2012</b>
<b>OPERATING INCOME</b>		
Water sales	\$ 512,473	\$ 547,122
Penalties	10,620	12,578
Other income	<u>25</u>	<u>1,242</u>
Total operating income	<u>523,118</u>	<u>560,942</u>
<b>OPERATING EXPENSES</b>		
Water purchased	327,714	319,983
Customer billing and bookkeeping	31,060	30,301
Meter reading	35,910	38,160
Utilities	12,017	11,516
Repairs	35,822	37,243
Commissioners' fees	18,200	18,200
Payroll taxes	1,392	1,392
Insurance and bonds	5,593	6,146
Telephone	786	697
Professional services	6,500	20,621
Computer expenses	4,837	4,128
PSC assessment	1,001	923
Other expense	<u>9,206</u>	<u>5,201</u>
Total operating expense	<u>490,038</u>	<u>494,511</u>
Operating income before depreciation	33,080	66,431
Depreciation expense	<u>(73,262)</u>	<u>(59,153)</u>
<b>OPERATING INCOME (LOSS)</b>	(40,182)	7,278
Non-operating income (expenses)		
Interest income	4,095	7,874
Interest expense	<u>(23,115)</u>	<u>(23,977)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(59,202)	(8,825)
Capital Contributions		
Grants	65,623	-
Tap fees	5,471	5,175
Contributions by customers	<u>-</u>	<u>2,806</u>
Change in net position	11,892	(844)
Net position, beginning	<u>2,088,793</u>	<u>2,089,637</u>
<b>NET POSITION - ENDING</b>	<u>\$ 2,100,685</u>	<u>\$ 2,088,793</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,

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 520,189	\$ 562,735
Payments to suppliers	(404,536)	(414,240)
Payments for commissioners' fees and contract labor	<u>(85,154)</u>	<u>(87,223)</u>
Net cash provided by operating activities	<u>30,499</u>	<u>61,272</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	48,959	149,826
Purchases of capital assets	(163,262)	(60,277)
(Increase) decrease in inventory for capital additions	1,291	480
Principal paid on capital debt	(11,000)	(10,000)
Interest paid on capital debt	<u>(23,115)</u>	<u>(23,977)</u>
Net cash provided by capital and related financing activities	<u>(147,127)</u>	<u>56,052</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends	<u>4,093</u>	<u>8,327</u>
Net cash provided by (used by) investing activities	<u>4,093</u>	<u>8,327</u>
Net increase (decrease) in cash and cash equivalents	(112,535)	125,651
Balances-beginning of the year	<u>1,017,546</u>	<u>891,895</u>
 <b>BALANCES-END OF THE YEAR</b>	 <u>\$ 905,011</u>	 <u>\$ 1,017,546</u>
 <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (40,182)	\$ 7,278
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	73,262	59,153
Change in assets and liabilities:		
Receivables, net	(3,741)	1,595
Accounts and other payables	332	(6,390)
Payroll liabilities	16	(562)
Customer deposits	<u>812</u>	<u>198</u>
Net cash provided by operating activities	<u>\$ 30,499</u>	<u>\$ 61,272</u>
Non-cash changes in capital assets	<u>\$ (62,063)</u>	<u>\$ (28,137)</u>

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

**NORTHEAST WOODFORD COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

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**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.

Deferred revenue consists of unearned grant income.

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, 2013 and \$10,560 at December 31, 2012.

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 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 15, 2014; 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, 2013, have not been evaluated by the District.



**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

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**2. DETAIL OF CASH AND INVESTMENTS**

The Northeast Woodford County Water District's deposits and investments at December 31, 2013 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.

	<b>2013</b>	<b>2012</b>
Revenue Fund		
Cash-checking	\$ 48,319	\$ 48,617
Operation and Maintenance Fund		
Cash-checking	57,355	70,519
Construction Fund		
Cash-checking	12,990	8,189
Customer Credit		
Cash-savings	<u>39,979</u>	<u>38,222</u>
	<u>\$ 158,643</u>	<u>\$ 165,547</u>
Operation and Maintenance Fund		
Certificates of deposit	\$ 472,254	\$ 468,874
Customer Credit		
Certificates of deposit	<u>47,862</u>	<u>47,532</u>
	<u>\$ 520,116</u>	<u>\$ 516,406</u>
Bond and Interest Reserve Fund		
Cash-checking	\$ 120,412	\$ 145,666
Construction Fund		
Cash-checking	32,441	116,609
Depreciation Reserve Fund		
Cash-savings	<u>73,399</u>	<u>73,318</u>
	<u>\$ 226,252</u>	<u>\$ 335,593</u>

**Statement of Cash Flows**

The Statement of Cash Flows includes the following:

	<b>2013</b>	<b>2012</b>
Cash	\$ 158,643	\$ 165,547
Investments	520,116	516,406
Restricted Cash	<u>226,252</u>	<u>335,593</u>
	<u>\$ 905,011</u>	<u>\$ 1,017,546</u>

**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

**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, 2013 was \$73,399 and December 31, 2012 was \$73,318.

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, 2013 was \$120,412 and December 31, 2012 was \$145,666.

**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>		
2014	\$ -	\$ 11,241	\$ 11,241	\$ 391,000
2015	12,000	22,138	34,138	379,000
2016	12,000	21,448	33,448	367,000
2017	14,000	20,700	34,700	353,000
2018	14,000	19,895	33,895	339,000
2019-2023	85,000	85,819	170,819	254,000
2024-2028	117,000	56,954	173,954	137,000
2029-2033	<u>137,000</u>	<u>18,198</u>	<u>155,198</u>	<u>-0-</u>
Totals	<u>\$ 391,000</u>	<u>\$ 256,393</u>	<u>\$ 647,393</u>	

The following is a summary of long term debt for the year ended December 31, 2013:

	Balance December 1, 2012	Issued	Principal Payments	Balance December 31, 2013
Series 1995	<u>\$ 402,000</u>	<u>\$ -</u>	<u>\$ 11,000</u>	<u>\$ 391,000</u>

**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.

**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**

To the Board of Commissioners  
Northeast Woodford County Water District  
Versailles, 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 the business-type activities of Northeast Woodford County Water District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 15, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Northeast 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Woodford County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 (2013-1).

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 to those charged with governance.

**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  
(CONTINUED)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northeast 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**.

**Northeast Woodford County Water District's Response to Findings**

Northeast Woodford County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Northeast 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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  
March 15, 2014

**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2013**

**FINDING:**

2013-1 (recurring)

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 and ensure 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.