

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

**FINANCIAL STATEMENTS
December 31, 2015 and 2014**

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 on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Governmental Auditing Standards	10-12



INDEPENDENT AUDITORS' REPORT

To the 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 years ended December 31, 2015 and 2014, 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.

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 the South Woodford County Water District, as of December 31, 2015 and 2014, 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 22, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
March 22, 2016

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

ASSETS	2015	2014
Current assets		
Cash and cash equivalents	\$ 84,790	\$ 85,380
Investments	40,000	48,000
Accounts receivable		
Customers, net	59,825	60,383
Other	58	58
Grant receivable	-	559
Accrued interest receivable	<u>32</u>	<u>45</u>
Total current assets	<u>184,705</u>	<u>194,425</u>
Restricted assets		
Cash and cash equivalents	<u>189,528</u>	<u>210,489</u>
Fixed assets		
Land	30,699	30,699
Property, plant and equipment	5,748,494	5,717,859
Less accumulated depreciation	<u>(2,566,062)</u>	<u>(2,463,675)</u>
Total fixed assets	<u>3,213,131</u>	<u>3,284,883</u>
TOTAL ASSETS	<u>\$ 3,587,364</u>	<u>\$ 3,689,797</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 44,011	\$ 43,499
Accrued liabilities	7,064	6,240
Accrued interest payable	20,874	20,874
Customer deposits	37,734	36,805
Current portion of bonds payable	<u>67,900</u>	<u>64,500</u>
Total current liabilities	<u>177,583</u>	<u>171,918</u>
Long-term debt		
Long-term debt	<u>984,867</u>	<u>1,052,867</u>
Net position		
Net invested in capital assets	2,160,364	2,167,516
Restricted	188,582	209,523
Unrestricted	<u>75,968</u>	<u>87,973</u>
Total net position	<u>2,424,914</u>	<u>2,465,012</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,587,364</u>	<u>\$ 3,689,797</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 POSITION
for the years ended December 31,

	2015	2014
OPERATING INCOME		
Water sales	\$ 782,848	\$ 799,834
Penalties	15,794	14,475
Other income	<u>11,346</u>	<u>8,142</u>
Total operating income	<u>809,988</u>	<u>822,451</u>
OPERATING EXPENSES		
Water purchases	401,751	406,087
Customer billing/bookkeeping	54,000	54,000
Meter reading	31,047	35,094
Salaries	37,688	34,573
Rent	10,800	10,084
Utilities	26,562	26,539
Repairs	74,801	48,808
Commissioners' fees	10,800	10,800
Payroll taxes	3,709	3,471
Insurance and bonds	12,979	13,411
Office supplies	14,361	9,592
Professional fees	11,143	13,009
Computer expenses	1,010	8,021
Miscellaneous	11,264	8,707
Penalties	5,500	-
Regulatory commission expenses	<u>1,563</u>	<u>1,514</u>
Total operating expense	<u>708,978</u>	<u>683,710</u>
Operating income before depreciation	101,010	138,741
Depreciation expense	<u>(102,387)</u>	<u>(98,341)</u>
OPERATING INCOME (LOSS)	(1,377)	40,400
Non-operating income (expenses)		
Interest income	303	528
Interest expense	<u>(51,397)</u>	<u>(54,721)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(52,471)	(13,793)
Capital Contributions		
Tap fees	11,670	8,210
Grant revenues	<u>703</u>	<u>166,249</u>
Change in net position	(40,098)	160,666
Net position, beginning of year	<u>2,465,012</u>	<u>2,304,346</u>
NET POSITION, END OF YEAR	<u>\$ 2,424,914</u>	<u>\$ 2,465,012</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,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 811,475	\$ 826,807
Payments to suppliers	(612,619)	(580,053)
Payments for employee services and benefits	<u>(95,023)</u>	<u>(100,083)</u>
Net cash provided by operating activities	<u>103,833</u>	<u>146,671</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	12,932	183,265
Purchases of capital assets	(30,635)	(242,262)
Principal paid on capital debt	(64,600)	(61,800)
Interest paid on capital debt	<u>(51,397)</u>	<u>(55,505)</u>
Net cash (used) by capital and related financing activities	<u>(133,700)</u>	<u>(176,302)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificate of deposits	8,000	20,000
Interest income	<u>316</u>	<u>549</u>
Net cash provided by investing activities	<u>8,316</u>	<u>20,549</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,551)	(9,082)
Cash and cash equivalents at beginning of year	<u>295,869</u>	<u>304,951</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 274,318</u>	<u>\$ 295,869</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (1,377)	\$ 40,400
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	102,387	98,341
Change in assets and liabilities:		
Receivables, net	558	1,628
Accounts and other payables	512	3,763
Accrued liabilities	824	(189)
Customer deposits	<u>929</u>	<u>2,728</u>
Net cash provided by operating activities	<u>\$ 103,833</u>	<u>\$ 146,671</u>

The accompanying notes are an integral part of the financial statements

SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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 \$2,992 at December 31, 2015 and \$2,992 at December 31, 2014.

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 22, 2016; 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, 2015, have not been evaluated by the District.

**SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

2. CASH AND INVESTMENTS

The South Woodford County Water District deposits and investments at December 31, 2015 were entirely covered by Federal Depository Insurance.

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:

	2015	2014
Revenue Fund		
Cash – checking	\$ 60,966	\$ 59,327
Operation and Maintenance Fund		
Cash – checking	10,214	12,450
Customer Credit		
Cash – savings	<u>13,610</u>	<u>13,603</u>
Total cash and cash equivalents - unrestricted	<u>\$ 84,790</u>	<u>\$ 85,380</u>
Investments - unrestricted	<u>\$ 40,000</u>	<u>\$ 48,000</u>
Bond and Interest Reserve Fund		
Cash – savings	\$ 37,614	\$ 36,537
Cash – checking	1,955	4,048
Cash – money market	41,699	40,387
Cash – KRW 2007	21,611	20,902
Cash-construction	946	966
Depreciation Reserve Fund		
Cash-savings	<u>85,703</u>	<u>107,649</u>
Total cash and cash equivalents - restricted	<u>\$ 189,528</u>	<u>\$ 210,489</u>
Investments - restricted	<u>\$ -</u>	<u>\$ -</u>

Statement of Cash Flows

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

Cash and cash equivalents	\$ 84,790	\$ 85,380
Restricted cash and cash equivalents	<u>189,528</u>	<u>210,489</u>
	<u>\$ 274,318</u>	<u>\$ 295,869</u>

**SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

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 12/31/14	Additions	Deductions	Balance 12/31/15
Capital assets not depreciated:				
Land	\$ 30,699	\$ -	\$ -	\$ 30,699
Capital assets that are depreciated:				
Cost of System	<u>5,717,859</u>	<u>30,635</u>	<u>-</u>	<u>5,748,494</u>
Less Accumulated Depreciation	<u>2,463,675</u>	<u>102,387</u>	<u>-</u>	<u>2,566,062</u>
Totals	<u>3,254,184</u>	<u>(71,752)</u>	<u>-</u>	<u>3,182,432</u>
Capital Assets, net	<u>\$ 3,284,883</u>	<u>\$ (71,752)</u>	<u>\$ -</u>	<u>\$ 3,213,131</u>

4. LEASE OBLIGATIONS

The District entered into a lease agreement on April 2, 2013 to lease space on their water towers to Blue Zoom, Inc. for the purpose of mounting wireless internet transmission and receiving equipment. The initial term of the lease is three years beginning May 1, 2013 and ending on April 30, 2016. The lease is for \$200 per month for each tower leased.

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.

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%.

**SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

5. LONG TERM DEBT (CONTINUED)

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

Fiscal Year	Principal	Interest & Fees	Total
2016	\$ 67,900	\$ 49,695	\$ 117,595
2017	73,100	46,238	119,338
2018	75,500	42,536	118,036
2019	67,800	38,682	106,482
2020	50,367	35,911	86,278
2021-2025	274,400	140,169	414,569
2026-2030	230,400	74,075	304,475
2031-2035	129,900	30,806	160,706
2036-2040	<u>83,400</u>	<u>10,767</u>	<u>94,167</u>
	<u>\$ 1,052,767</u>	<u>\$ 468,879</u>	<u>\$ 1,521,646</u>

The following is a summary of long term debt for the year ended December 31, 2015:

	Balance January 1, 2015	Issued	Principal Payments	Balance December 31, 2015
Series 1996-A	\$ 215,000	\$ -	\$ 11,000	\$ 204,000
Series 1996-B	67,400	-	4,600	62,800
Series 1999-A	245,000	-	5,000	240,000
Series 1999-B	43,800	-	1,000	42,800
Series 2001	148,167	-	28,000	120,167
Series 2007	<u>398,000</u>	<u>-</u>	<u>15,000</u>	<u>383,000</u>
	<u>\$ 1,117,367</u>	<u>\$ -</u>	<u>\$ 64,600</u>	<u>\$ 1,052,767</u>

6. 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 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. Funds may also be used to pay down bond principal and interest, if needed. The balance of this reserve was \$85,703 at December 31, 2015, and was \$107,649 at December 31, 2014. The District utilized the funds in 2015 to pay bond principal and interest payments in December.

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 \$102,879 at December 31, 2015, and was \$101,874 at December 31, 2014.

7. 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.



**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
South 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 South Woodford County Water District, as of and for the year ended December 31, 2015, 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 22, 2016.

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 opinions 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 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 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 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 (2015-001).

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 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 findings 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 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.

RFH

RFH, PLLC
March 22, 2016

**SOUTH WOODFORD COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2015**

FINDING:

2015-001 (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 draft 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.