

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

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

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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 Northeast 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 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.

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, 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 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.

RFH

RFH, PLLC
March 22, 2016

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

ASSETS	2015	2014
Current Assets		
Cash	\$ 247,010	\$ 201,356
Investments	526,597	523,631
Accounts receivable	43,302	39,795
Amounts receivable from commissioners	-	364
Accrued interest receivable	1,198	1,185
Grant receivable	2,619	-
Inventory	<u>28,031</u>	<u>6,655</u>
	<u>848,757</u>	<u>772,986</u>
Restricted Assets		
Cash	<u>125,781</u>	<u>168,771</u>
Fixed Assets		
Land and land rights	2,000	2,000
Property, plant and equipment	2,873,799	2,857,651
Less accumulated depreciation	<u>(1,358,615)</u>	<u>(1,275,998)</u>
	<u>1,517,184</u>	<u>1,583,653</u>
TOTAL ASSETS	<u><u>\$ 2,491,722</u></u>	<u><u>\$ 2,525,410</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 68,060	\$ 54,658
Payroll liabilities	2,921	1,529
Customer deposits	<u>2,930</u>	<u>4,274</u>
	<u>73,911</u>	<u>60,461</u>
Long-term Debt		
Bonds payable	<u>367,000</u>	<u>379,000</u>
Net Position		
Net invested in capital assets	1,150,184	1,204,653
Restricted	125,781	159,486
Unrestricted	<u>774,846</u>	<u>721,810</u>
Total net position	<u>2,050,811</u>	<u>2,085,949</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 2,491,722</u></u>	<u><u>\$ 2,525,410</u></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,**

	2015	2014
OPERATING INCOME		
Water sales	\$ 599,313	\$ 589,120
Penalties	13,680	11,831
Other income	<u>1,260</u>	<u>1,805</u>
Total operating income	<u>614,253</u>	<u>602,756</u>
OPERATING EXPENSES		
Water purchased	383,396	369,369
Customer billing and bookkeeping	33,882	33,067
Meter reading	41,160	41,160
Utilities	15,749	15,799
Repairs	33,036	38,456
Commissioners' fees	18,200	18,200
Payroll taxes	1,394	1,392
Insurance and bonds	6,686	6,772
Telephone	773	756
Professional services	6,900	6,800
Computer expenses	4,435	1,570
PSC assessment	1,146	1,022
Other expense	<u>5,687</u>	<u>6,810</u>
Total operating expense	<u>552,444</u>	<u>541,173</u>
Operating income before depreciation	61,809	61,583
Depreciation expense	<u>(82,617)</u>	<u>(82,263)</u>
OPERATING INCOME (LOSS)	(20,808)	(20,680)
Non-operating income (expenses)		
Interest income	3,156	4,403
Interest expense	<u>(21,793)</u>	<u>(22,483)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(39,445)	(38,760)
Capital Contributions		
Grants	2,619	18,196
Tap fees	<u>1,688</u>	<u>5,828</u>
Change in net position	(35,138)	(14,736)
Net position, beginning	<u>2,085,949</u>	<u>2,100,685</u>
NET POSITION - ENDING	<u>\$ 2,050,811</u>	<u>\$ 2,085,949</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,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 609,402	\$ 605,283
Payments to suppliers	(434,599)	(441,872)
Payments for commissioners' fees and contract labor	<u>(91,486)</u>	<u>(92,427)</u>
Net cash provided by operating activities	<u>83,317</u>	<u>70,984</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	1,688	5,828
Purchases of capital assets	(27,349)	(56,679)
(Increase) decrease in inventory for capital additions	(21,376)	(659)
Principal paid on capital debt	(12,000)	(12,000)
Interest paid on capital debt	<u>(21,793)</u>	<u>(22,483)</u>
Net cash (used) by capital and related financing activities	<u>(80,830)</u>	<u>(85,993)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments	(2,966)	(3,515)
Interest and dividends	<u>3,143</u>	<u>3,756</u>
Net cash provided by (used by) investing activities	<u>3,143</u>	<u>3,756</u>
Net increase (decrease) in cash and cash equivalents	5,630	(11,253)
Balances-beginning of the year	<u>893,758</u>	<u>905,011</u>
BALANCES-END OF THE YEAR	<u>\$ 899,388</u>	<u>\$ 893,758</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (20,808)	\$ (20,680)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	82,617	82,263
Change in assets and liabilities:		
Receivables, net	(3,507)	5,168
Accounts and other payables	24,603	6,874
Payroll liabilities	1,756	-
Customer deposits	<u>(1,344)</u>	<u>(2,641)</u>
Net cash provided by operating activities	<u>\$ 83,317</u>	<u>\$ 70,984</u>
Non-cash changes in capital assets	<u>\$ (11,201)</u>	<u>\$ 5,200</u>

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

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

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 \$5,000 at December 31, 2015 and \$5,000 at December 31, 2014.

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 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.

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

2. DETAIL OF CASH AND INVESTMENTS

The Northeast Woodford County Water District's deposits and investments at December 31, 2015 were not covered entirely by federal depository insurance or by collateral held by the custodial banks in the District's name. The amount of the deficiency was \$2,797, and was corrected in January 2016.

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.

	2015	2014
Revenue Fund		
Cash-checking	\$ 46,751	\$ 48,211
Operation and Maintenance Fund		
Cash-checking	138,796	94,336
Construction Fund		
Cash-checking	18,522	17,080
Customer Credit		
Cash-savings	<u>42,941</u>	<u>41,729</u>
	<u>\$ 247,010</u>	<u>\$ 201,356</u>
Operation and Maintenance Fund		
Certificates of deposit	\$ 478,129	\$ 475,449
Customer Credit		
Certificates of deposit	<u>48,468</u>	<u>48,182</u>
	<u>\$ 526,597</u>	<u>\$ 523,631</u>
Bond and Interest Reserve Fund		
Cash-checking	\$ 52,277	\$ 86,026
Construction Fund		
Cash-checking	-	9,285
Depreciation Reserve Fund		
Cash-savings	<u>73,504</u>	<u>73,460</u>
	<u>\$ 125,781</u>	<u>\$ 168,771</u>

Statement of Cash Flows

The Statement of Cash Flows includes the following:

	2015	2014
Cash	\$ 247,010	\$ 201,356
Investments	526,597	523,631
Restricted Cash	<u>125,781</u>	<u>168,771</u>
	<u>\$ 899,388</u>	<u>\$ 893,758</u>

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

3. 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 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>		
2016	\$ -	\$ 10,551	\$ 10,551	\$ 367,000
2017	14,000	20,700	34,700	353,000
2018	14,000	19,895	33,895	339,000
2019	15,000	19,061	34,061	324,000
2020	16,000	18,170	34,170	308,000
2021-2025	97,000	75,354	172,354	211,000
2026-2030	132,000	42,665	174,665	79,000
2030-2034	<u>79,000</u>	<u>5,721</u>	<u>84,721</u>	<u>-0-</u>
Totals	<u>\$ 367,000</u>	<u>\$ 212,117</u>	<u>\$ 579,117</u>	

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

	Balance December 31, 2014	Issued	Principal Payments	Balance December 31, 2015
Series 1995	<u>\$ 379,000</u>	<u>\$ -</u>	<u>\$ 12,000</u>	<u>\$ 367,000</u>

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 \$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, 2015 was \$73,504 and December 31, 2014 was \$73,460.

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, 2015 was \$52,277 and December 31, 2014 was \$86,026.

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, 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 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.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (2015-001).

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.

RFH

RFH, PLLC
March 22, 2016

**NORTHEAST 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.