

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

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**FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the accompanying financial statements of the South Woodford County Water District (the District) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Woodford County Water District, as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the South Woodford County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***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 28, 2024, 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 solely 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 the effectiveness of the District's 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  
Lexington, Kentucky  
March 28, 2024

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

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| <b>ASSETS</b>  | <b>2023</b>         | <b>2022</b>         |
|--|---------------------|---------------------|
| <b>Current assets</b>  |                     |                     |
| Cash   | \$ 124,040          | \$ 21,496           |
| Accounts receivable  |                     |                     |
| Customers, net   | 106,407             | 71,728              |
| Grant receivable   | 78,837              | 109,032             |
| Lease receivable, current  | 6,226               | 5,923               |
| Prepaid expenses   | <u>3,854</u>        | <u>3,381</u>        |
| Total current assets   | <u>319,364</u>      | <u>211,560</u>      |
| <b>Noncurrent assets</b>   |                     |                     |
| Noncurrent portion of lease receivable                               | <u>16,088</u>       | <u>22,314</u>       |
| <b>Restricted assets</b>   |                     |                     |
| Cash   | <u>118,928</u>      | <u>135,726</u>      |
| <b>Fixed assets</b>  |                     |                     |
| Land   | 30,699              | 30,699              |
| Construction in progress   | 116,020             | 720                 |
| Property, plant and equipment  | 6,157,723           | 6,128,559           |
| Less accumulated depreciation  | <u>(3,345,836)</u>  | <u>(3,233,537)</u>  |
| Total fixed assets   | <u>2,958,606</u>    | <u>2,926,441</u>    |
| TOTAL ASSETS   | <u>\$ 3,412,986</u> | <u>\$ 3,296,041</u> |
| <b>LIABILITIES</b>   |                     |                     |
| <b>Current liabilities</b>   |                     |                     |
| Accounts payable   | \$ 162,802          | \$ 77,364           |
| Accrued liabilities  | 3,971               | 2,322               |
| Accrued interest payable   | 11,661              | 12,941              |
| Customer deposits  | 59,242              | 58,987              |
| Deferred revenue   | -                   | 109,032             |
| Current portion of bonds and notes payable                           | <u>57,900</u>       | <u>54,400</u>       |
| Total current liabilities  | <u>295,576</u>      | <u>315,046</u>      |
| <b>Long-term debt</b>  |                     |                     |
| Bonds and notes payable  | <u>503,500</u>      | <u>561,400</u>      |
| Total liabilities  | <u>799,076</u>      | <u>876,446</u>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                 |                     |                     |
| Deferred inflows - lease   | <u>22,314</u>       | <u>28,237</u>       |
| <b>NET POSITION</b>  |                     |                     |
| Net investment in capital assets                                     | 2,397,206           | 2,310,641           |
| Restricted   | 118,928             | 135,726             |
| Unrestricted   | <u>75,462</u>       | <u>(55,009)</u>     |
| Total net position   | <u>2,591,596</u>    | <u>2,391,358</u>    |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br>AND NET POSITION | <u>\$ 3,412,986</u> | <u>\$ 3,296,041</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,

|   | <b>2023</b>         | <b>2022</b>         |
|---|---------------------|---------------------|
| <b>OPERATING INCOME</b>                           |                     |                     |
| Water sales                                       | \$ 1,017,175        | \$ 905,919          |
| Penalties   | 14,247              | 12,286              |
| Other income                                      | <u>6,123</u>        | <u>5,634</u>        |
| Total operating income                            | <u>1,037,545</u>    | <u>923,839</u>      |
| <b>OPERATING EXPENSES</b>                         |                     |                     |
| Water purchases                                   | 576,527             | 518,529             |
| Meter reading                                     | 12,472              | 37,615              |
| Salaries  | 38,749              | 41,630              |
| Rent  | 17,400              | 15,810              |
| Utilities   | 33,605              | 33,370              |
| Repairs and maintenance                           | 121,379             | 177,847             |
| Commissioners' fees                               | 10,500              | 9,900               |
| Payroll taxes                                     | 3,108               | 3,269               |
| Insurance and bonds                               | 9,001               | 13,148              |
| Office supplies                                   | 2,527               | 6,560               |
| Professional fees                                 | 16,158              | 14,319              |
| Dues and subscriptions                            | 2,674               | 2,671               |
| Management fees                                   | 98,500              | 58,200              |
| Computer expenses                                 | 44,416              | 23,624              |
| Miscellaneous                                     | 9,394               | 1,513               |
| Regulatory commission expenses                    | <u>1,203</u>        | <u>1,329</u>        |
| Total operating expenses                          | <u>997,613</u>      | <u>959,334</u>      |
| Operating income (loss) before depreciation       | 39,932              | (35,495)            |
| Depreciation expense                              | <u>(112,299)</u>    | <u>(105,526)</u>    |
| <b>OPERATING INCOME (LOSS)</b>                    | (72,367)            | (141,021)           |
| Non-operating income (expenses)                   |                     |                     |
| Interest income                                   | 2,094               | 1,760               |
| Interest expense                                  | (24,380)            | (28,426)            |
| Woodford County grant income                      | 50,000              | -                   |
| ARPA funding                                      | <u>109,032</u>      | <u>140,968</u>      |
| <b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b> | 64,379              | (26,719)            |
| Capital Contributions                             |                     |                     |
| Tap fees  | 33,665              | 24,350              |
| Clean Water grant income                          | <u>102,194</u>      | <u>109,032</u>      |
| Change in net position                            | 200,238             | 106,663             |
| Net position, beginning of year                   | <u>2,391,358</u>    | <u>2,284,695</u>    |
| <b>NET POSITION, END OF YEAR</b>                  | <u>\$ 2,591,596</u> | <u>\$ 2,391,358</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,**

|  | <b>2023</b>       | <b>2022</b>        |
|--|-------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                   |                    |
| Receipts from customers  | \$ 1,003,121      | \$ 917,857         |
| Payments to suppliers  | (876,874)         | (848,328)          |
| Payments for employee services and benefits  | <u>(119,323)</u>  | <u>(99,010)</u>    |
| Net cash provided (used) by operating activities   | <u>6,924</u>      | <u>(29,481)</u>    |
| <b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>                             |                   |                    |
| Woodford County grant income   | 50,000            | -                  |
| ARPA funding   | <u>109,032</u>    | <u>250,000</u>     |
| Net cash provided by noncapital and related financing activities                               | <u>159,032</u>    | <u>250,000</u>     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                |                   |                    |
| Capital contributions  | 57,022            | 24,350             |
| Purchases of capital assets  | (59,266)          | (169,580)          |
| Principal paid on bonds and notes payable  | (54,400)          | (21,300)           |
| Interest paid on bonds and notes payable   | <u>(25,660)</u>   | <u>(20,159)</u>    |
| Net cash (used) by capital and related financing activities                                    | <u>(82,304)</u>   | <u>(186,689)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                   |                    |
| Interest income  | <u>2,094</u>      | <u>1,760</u>       |
| Net cash provided by investing activities  | <u>2,094</u>      | <u>1,760</u>       |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | 85,746            | 35,590             |
| Cash and cash equivalents at beginning of year   | <u>157,222</u>    | <u>121,632</u>     |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>  | <u>\$ 242,968</u> | <u>\$ 157,222</u>  |
| <b>Reconciliation of operating (loss) to net cash provided (used) by operating activities:</b> |                   |                    |
| Operating (loss)   | \$ (72,367)       | \$ (141,021)       |
| Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities: |                   |                    |
| Depreciation expense   | 112,299           | 105,526            |
| Change in assets and liabilities:  |                   |                    |
| Receivables, net   | (34,679)          | (7,676)            |
| Prepaid expenses   | (473)             | (3,381)            |
| Accounts and other payables  | 240               | 20,672             |
| Accrued liabilities  | 1,649             | (5,295)            |
| Customer deposits  | <u>255</u>        | <u>1,694</u>       |
| Net cash provided (used) by operating activities   | <u>\$ 6,924</u>   | <u>\$ (29,481)</u> |
| Net change in capital assets payable   | <u>\$ 85,198</u>  | <u>\$ (600)</u>    |

The accompanying notes are an integral part of the financial statements

**SOUTH WOODFORD COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

The South Woodford County Water District (the 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 only entity included in these financial statements is the general operations of the South Woodford County Water District.

The District's financial statements are presented in conformity with the GASB Codification. However, the District has not prepared the Management's Discussion and Analysis required by the GASB Codification.

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. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets. Land and land rights are not depreciated.

Reserve for accounts receivable represents accounts more than thirty days past due for active customers that are thought to be uncollectible. The reserve balance was \$6,000 at December 31, 2023 and \$2,992 at December 31, 2022. Noncurrent amounts for inactive customers are written off.

When both restricted and unrestricted resources are available for use, the District considers restricted funds 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.

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District implemented GASB 87 during the year ending December 31, 2022 and restated the December 31, 2021, financial statements. The restatement had no effect on net position.

Effective January 1, 2023, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements*. GASB Statement No. 96 requires recognition of a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability for subscription-based information technology arrangements (SBITA) that were previously classified as operating expenses. It establishes uniform guidance for SBITA accounting based on the foundational principle that SBITA are financings of the right to use vendor-provided information technology assets. These changes had no effect on the financial statements.



**SOUTH WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

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 28, 2024, 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, 2023, have not been evaluated by the District.

**2. CASH AND INVESTMENTS**

The South Woodford County Water District's deposits and investments at December 31, 2023 were entirely covered by Federal Depository Insurance.

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480. The District does not have a formal investment policy but follows Kentucky Revised Statutes for investing funds.

The District maintains several bank accounts and investment accounts in accordance with the Bond Resolution. The following schedule presents the detail by account:

|  | <b>2023</b>       | <b>2022</b>       |
|--|-------------------|-------------------|
| Revenue Fund                                   |                   |                   |
| Cash – checking                                | \$ -              | \$ (6,203)        |
| Operation and Maintenance Fund                 |                   |                   |
| Cash – checking                                | -                 | 14,181            |
| Customer Credit                                |                   |                   |
| Cash – savings                                 | <u>13,519</u>     | <u>13,518</u>     |
| Total cash and cash equivalents - unrestricted | <u>\$ 124,040</u> | <u>\$ 21,496</u>  |
| Bond and Interest Reserve Fund                 |                   |                   |
| Cash – savings                                 | \$ 47,468         | \$ 46,226         |
| Cash – checking                                | 1,454             | 1,929             |
| Cash – KRW 2007                                | 23,247            | 24,818            |
| Depreciation Reserve Fund                      |                   |                   |
| Cash – savings                                 | <u>46,759</u>     | <u>62,753</u>     |
| Total cash and cash equivalents - restricted   | <u>\$ 118,928</u> | <u>\$ 135,726</u> |

**SOUTH WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**2. CASH AND INVESTMENTS (CONTINUED)**

**Statement of Cash Flows**

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

|                                      |                   |                   |
|--------------------------------------|-------------------|-------------------|
| Cash and cash equivalents            | \$ 124,040        | \$ 21,496         |
| Restricted cash and cash equivalents | <u>118,928</u>    | <u>135,726</u>    |
|                                      | <u>\$ 242,968</u> | <u>\$ 157,222</u> |

**3. LEASE RECEIVABLE AND DEFERRED INFLOW OF RESOURCES**

The District entered into a five-year lease agreement on May 1, 2019, to lease space on the District's water towers to Blue Zoom Ventures, LLC for the purpose of mounting wireless internet transmission and receiving equipment. The lease has an option to renew for an additional three years, which the District expects the lessee to exercise. Upon adoption of GASB 87, the District recognized both a lease receivable and a deferred inflow of resources related to the lease agreement totaling \$39,231. The District calculated the present value of future lease payments based on a discount rate of 5%. The balance of both the lease receivable and the deferred inflow of resources as of December 31, 2023 and 2022 totaled \$22,314 and \$28,237, respectively.

The present value of expected future minimum lease payments is as follows:

| Fiscal Year | Principal        | Interest        | Total            |
|-------------|------------------|-----------------|------------------|
| 2024        | \$ 6,226         | \$ 974          | \$ 7,200         |
| 2025        | 6,544            | 656             | 7,200            |
| 2026        | 6,879            | 321             | 7,200            |
| 2027        | <u>2,665</u>     | <u>30</u>       | <u>2,695</u>     |
| Total       | <u>\$ 22,314</u> | <u>\$ 1,981</u> | <u>\$ 24,295</u> |

The deferred inflows of resources will be recognized over the term of the lease agreement as lease revenue. During 2023, the District recognized \$1,277 of interest revenue and \$5,923 of lease revenue from the lease agreement. During 2022, the District recognized \$1,566 of interest revenue and \$5,634 of lease revenue from the lease agreement.

**4. 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.

**SOUTH WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**4. FIXED ASSETS (CONTINUED)**

|                                      | <b>Balance<br/>12/31/22</b> | <b>Additions</b> | <b>Deductions</b> | <b>Balance<br/>12/31/23</b> |
|--------------------------------------|-----------------------------|------------------|-------------------|-----------------------------|
| Capital assets not depreciated:      |                             |                  |                   |                             |
| Land                                 | \$ 30,699                   | \$ -             | \$ -              | \$ 30,699                   |
| Construction in Progress             | <u>720</u>                  | <u>115,300</u>   | <u>-</u>          | <u>116,020</u>              |
| Totals                               | <u>31,419</u>               | <u>115,300</u>   | <u>-</u>          | <u>146,719</u>              |
| Capital assets that are depreciated: |                             |                  |                   |                             |
| Cost of System                       | <u>6,128,559</u>            | <u>29,164</u>    | <u>-</u>          | <u>6,157,723</u>            |
| Less: Accumulated Depreciation       | <u>3,233,537</u>            | <u>112,299</u>   | <u>-</u>          | <u>3,345,836</u>            |
| Totals                               | <u>2,895,022</u>            | <u>(83,135)</u>  | <u>-</u>          | <u>2,811,887</u>            |
| Capital Assets, net                  | <u>\$ 2,926,441</u>         | <u>\$ 32,165</u> | <u>\$ -</u>       | <u>\$ 2,958,606</u>         |
|                                      | <b>Balance<br/>12/31/21</b> | <b>Additions</b> | <b>Deductions</b> | <b>Balance<br/>12/31/22</b> |
| Capital assets not depreciated:      |                             |                  |                   |                             |
| Land                                 | \$ 30,699                   | \$ -             |                   | \$ 30,699                   |
| Construction in Progress             | <u>-</u>                    | <u>720</u>       | <u>\$ -</u>       | <u>720</u>                  |
| Totals                               | <u>30,699</u>               | <u>720</u>       | <u>-</u>          | <u>31,419</u>               |
| Capital assets that are depreciated: |                             |                  |                   |                             |
| Cost of System                       | <u>5,983,540</u>            | <u>168,261</u>   | <u>23,242</u>     | <u>6,128,559</u>            |
| Less: Accumulated Depreciation       | <u>3,151,253</u>            | <u>105,526</u>   | <u>23,242</u>     | <u>3,233,537</u>            |
| Totals                               | <u>2,832,287</u>            | <u>62,735</u>    | <u>-</u>          | <u>2,895,022</u>            |
| Capital Assets, net                  | <u>\$ 2,862,986</u>         | <u>\$ 63,455</u> | <u>\$ -</u>       | <u>\$ 2,926,441</u>         |

**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 5.500% 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 of "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 of "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, 2023 and 2022**

**5. LONG TERM DEBT (CONTINUED)**

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%.

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

| Fiscal Year | Principal         | Interest & Fees   | Total             |
|-------------|-------------------|-------------------|-------------------|
| 2024        | \$ 57,900         | \$ 25,492         | \$ 83,392         |
| 2025        | 60,900            | 22,659            | 83,559            |
| 2026        | 56,900            | 19,681            | 75,681            |
| 2027        | 59,100            | 16,964            | 76,064            |
| 2028        | 37,200            | 14,074            | 51,274            |
| 2029-2033   | 178,600           | 44,528            | 223,128           |
| 2034-2038   | 80,700            | 17,784            | 98,484            |
| 2039-2040   | <u>31,000</u>     | <u>1,894</u>      | <u>32,894</u>     |
|             | <u>\$ 561,400</u> | <u>\$ 163,076</u> | <u>\$ 724,476</u> |

The following is a summary of long term direct placement debt for the year ended December 31, 2023:

|               | Balance<br>January 1, 2023 | Issued      | Principal<br>Payments | Balance<br>December 31, 2023 |
|---------------|----------------------------|-------------|-----------------------|------------------------------|
| Series 1996-A | \$ 104,000                 | \$ -        | \$ 18,000             | \$ 86,000                    |
| Series 1996-B | 22,500                     | -           | 7,100                 | 15,400                       |
| Series 1999-A | 197,500                    | -           | 7,000                 | 190,500                      |
| Series 1999-B | 34,800                     | -           | 1,300                 | 33,500                       |
| Series 2007   | <u>257,000</u>             | <u>-</u>    | <u>21,000</u>         | <u>236,000</u>               |
|               | <u>\$ 615,800</u>          | <u>\$ -</u> | <u>\$ 54,400</u>      | <u>\$ 561,400</u>            |

The following is a summary of long term direct placement debt for the year ended December 31, 2022:

|               | Balance<br>January 1, 2022 | Issued      | Principal<br>Payments | Balance<br>December 31, 2022 |
|---------------|----------------------------|-------------|-----------------------|------------------------------|
| Series 1996-A | \$ 104,000                 | \$ -        | \$ -                  | \$ 104,000                   |
| Series 1996-B | 22,500                     | -           | -                     | 22,500                       |
| Series 1999-A | 197,500                    | -           | -                     | 197,500                      |
| Series 1999-B | 36,100                     | -           | 1,300                 | 34,800                       |
| Series 2007   | <u>277,000</u>             | <u>-</u>    | <u>20,000</u>         | <u>257,000</u>               |
|               | <u>\$ 637,100</u>          | <u>\$ -</u> | <u>\$ 21,300</u>      | <u>\$ 615,800</u>            |

**SOUTH WOODFORD COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

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**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 \$46,759 at December 31, 2023, and \$62,753 at December 31, 2022. The District has utilized the funds to pay bond principal and interest payments. The District has not yet begun to replenish the reserve fund.

Bond and Interest Sinking Fund - This 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 \$72,169 at December 31, 2023, and \$72,973 at December 31, 2022. The reserve requirement was met for both years.

**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 South Woodford County Water District (the District), as of and for the year ended December 31, 2023, 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 28, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the South Woodford County Water District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Woodford County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*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 by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001, that we consider to be a material weakness.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2023-002.

## **South Woodford County Water District's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the South Woodford County Water District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The South Woodford County Water District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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  
Lexington, Kentucky  
March 28, 2024

**SOUTH WOODFORD COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2023**

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**FINDING:  
2023-001 (Recurring)**

*Criteria:* 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.

*Condition:* Management did not prepare all cash to accrual adjustments and draft financial statements, including the related notes to the financial statements.

*Cause:* The District was unable to utilize 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 to draft the financial statements in conformity with generally accepted accounting principles.

*Effect:* Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and financial statements prior to their issuance.

*Recommendation:* We recommend management review the costs and benefits involved to internally prepare the financial statements on the accrual basis of accounting, including preparing all cash to accrual adjustments.

*Management's Response:* Management has determined that it is more cost effective to continue to engage the auditor to adjust the books to the accrual basis and to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the adjustments and financial statements.

**2023-002 (Recurring)**

*Criteria:* The District's bond resolution requires the District to maintain a reserve balance that is required to receive a monthly transfer of \$890, until a balance of \$106,800 has been established.

*Condition:* The balance of the reserve was \$46,759 at December 31, 2023, and the District did not make the required monthly transfers to the reserve during the year ended December 31, 2023.

*Cause:* Due to cash flow issues, the District utilized funds from the reserve in the years ended December 31, 2015, December 31, 2021, and December 31, 2023 to pay bond principal and interest payments. The District has not yet begun to replenish the reserve fund.

*Effect:* The District is not in compliance with its bond resolution.

*Recommendation:* We recommend that the District begin funding the reserve at the required monthly transfer amount of \$890, until the balance reaches the required level of \$106,800.

*Management's Response:* The 2023 bond reserve shortfall has been discussed by the board of directors, and our goal is to fund the monthly \$890 reserve requirement and to replenish the reserve shortfall from 2023 and be in full compliance by the end of 2024.