

WOOD CREEK WATER DISTRICT
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Wood Creek Water District
London, Kentucky

We have audited the accompanying financial statements of the business-type activities of Wood Creek Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's 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 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 opinions.

Opinions

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 Wood Creek Water District as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying departmental statements for the water and sewer fund are presented separately for the purpose of additional analysis and are not required part of the financial statements.

The accompanying departmental statements for the water and sewer fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the departmental statements for the water and sewer fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the departmental statements for the water and sewer funds has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014 on our consideration of the Wood Creek 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 the 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 Wood Creek Water District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Certified Public Accountants
Corbin, Kentucky

March 20, 2014

WOOD CREEK WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Years ended December 31, 2013 and 2012

This discussion and analysis is intended to be an easily readable analysis of the Wood Creek Water District's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes that follow. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- In 2013, the District's net position decreased by \$480,515, or 2.34%, compared to a decrease in 2012 of \$107,170 or 0.52%.
- In 2013, sales of water decreased by \$111,676, or 2.30%. In 2012, sales increased by \$1,048,475, or 27.74%.
- Operating expenses increased by \$391,955, or 8.00% in 2013 compared to an increase of \$171,507, or 3.66% in 2012.
- Additions to capital assets in 2013 amounted to \$324,239. In 2012, additions to capital assets were \$470,121.
- Principal payments on long-term debt were \$500,200 in 2013 and \$487,790 in 2012.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the Management's Discussion and Analysis and the basic financial statements. The financial statements include notes that explain information included in the basic financial statements.

FINANCIAL STATEMENTS

The financial statements report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The financial statements also include a Statement of Cash Flows, which presents sources and uses of cash and changes in cash balances during the fiscal year.

WOOD CREEK WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Years ended December 31, 2013 and 2012

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

NET POSITION

A summary of the District's Statement of Net Position as of December 31, 2013 and 2012 is presented below:

	2013 Amount	2012 Amount	Net dollar Change	Net percentage Change
Current and other assets	\$ 2,010,458	\$ 2,092,731	\$ (82,273)	-3.93%
Noncurrent assets	935,247	909,844	25,403	2.79%
Capital assets, net of accumulated depreciation	33,375,389	34,333,318	(957,929)	-2.79%
Total Assets	36,321,094	37,335,893	(1,014,799)	-2.72%
Deferred outflow of resources	25,987	28,709	(2,722)	-9.48%
Total Deferred Outflow of Resources	25,987	28,709	(2,722)	-9.48%
Current liabilities	1,062,080	1,081,171	(19,091)	-1.77%
Noncurrent liabilities	15,208,085	15,726,000	(517,915)	-3.29%
Total Liabilities	16,270,165	16,807,171	(537,006)	-3.20%
Net investment in capital assets	17,654,702	18,109,709	(455,007)	-2.51%
Restricted net positions	898,712	870,901	27,811	3.19%
Unrestricted (deficit) net positions	1,523,502	1,576,821	(53,319)	-3.38%
Total Net Position	\$ 20,076,916	\$ 20,557,431	\$ (480,515)	-2.34%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the District's Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2013 and 2012 is presented below:

	2013 Amount	2012 Amount	Net dollar Change	Net percentage Change
Operating revenue	\$ 5,445,078	\$ 5,452,343	\$ (7,265)	-0.13%
Nonoperating revenue	5,385	2,017	3,368	166.98%
Total revenue	5,450,463	5,454,360	(3,897)	-0.07%
Depreciation expense	1,282,168	1,272,205	9,963	0.78%
Other operating expense	3,963,717	3,581,725	381,992	10.67%
Nonoperating expense	685,093	707,600	(22,507)	-3.18%
Total expense	5,930,978	5,561,530	369,448	6.64%
Changes in net position	(480,515)	(107,170)	(373,345)	348.37%
Net position, beginning	20,557,431	20,664,601	(107,170)	-0.52%
Net position, ending	\$ 20,076,916	\$ 20,557,431	\$ (480,515)	-2.34%

WOOD CREEK WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Years ended December 31, 2013 and 2012

As reported on the Statement of Revenues, Expenses, and Changes in Net Position, net position decreased by \$480,515 for the year 2013 as compared to a decrease of \$115,523 for the year 2012.

The operating revenue decreased by \$7,265 or .13% from the prior year amounts. Also in 2013, the total water usage in gallons decreased to 394,666,430 in comparison to 411,734,180 in 2012.

CAPITAL ASSETS

On December 31, 2013, the District's investment in capital assets, net of depreciation, totaled \$33,375,389, which is a decrease of \$957,929, or 2.79%, over the capital asset balance of \$34,333,318 at December 31, 2012. The decrease is due to depreciation of the fixed assets exceeding the amount of new fixed assets placed in service during the year.

LONG-TERM DEBT

As of December 31, 2013, the District had long-term debt of \$15,694,700 compared to \$16,194,900 at December 31, 2012, including current portion. During the year ended December 31, 2013, the District paid \$500,200 of principal payments on the long-term debt compared to \$487,790 in 2012.

CONSTRUCTION IN PROGRESS

As of December 31, 2013, the District had \$291,867 of construction in progress which relates to sewer line construction. The expansion project for Highway East 80 began in 2010.

CONTACT INFORMATION

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning this report or request for additional information should be addressed to the Office Manager, Dewayne Lewis, at Wood Creek Water District, London, Kentucky, 40741, or by calling (606) 878-9420.

WOOD CREEK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 511,268	\$ 604,461
Investments	51,250	51,250
Accounts receivable, less allowance for doubtful accounts	611,471	569,933
Unbilled accounts receivable	157,447	157,447
Inventories	673,966	694,858
Other current assets	5,056	14,782
Total current assets	<u>2,010,458</u>	<u>2,092,731</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>898,712</u>	<u>870,901</u>
Capital assets		
Nondepreciable capital assets		
Land and land structures	4,100,510	4,099,490
Construction in progress	291,867	291,867
Total nondepreciable capital assets	<u>4,392,377</u>	<u>4,391,357</u>
Depreciable capital assets		
Intangible	21,836	21,836
Source of supply and pumping	1,714,261	1,714,261
Water treatment equipment	16,474,338	16,474,338
Transmission and distribution	16,677,859	16,548,947
General plant	2,431,501	2,373,608
Collection plant	5,385,338	5,324,575
Pumping plant	2,831,770	2,768,160
	45,536,903	45,225,725
Accumulated depreciation	<u>(16,553,891)</u>	<u>(15,283,764)</u>
Total depreciable capital assets, net of depreciation	<u>28,983,012</u>	<u>29,941,961</u>
Total capital assets (net of depreciation)	<u>33,375,389</u>	<u>34,333,318</u>
Other assets		
Bond discount (net of accumulated amortization)	<u>36,535</u>	<u>38,943</u>
Total noncurrent assets	<u>34,310,636</u>	<u>35,243,162</u>
Total assets	<u>\$ 36,321,094</u>	<u>\$ 37,335,893</u>

The accompanying notes are an integral part of the financial statements

WOOD CREEK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2013 and 2012

DEFERRED OUTFLOW OF RESOURCES	<u>2013</u>	<u>2012</u>
Deferred savings from refunding bonds	\$ 25,987	\$ 28,709
Total deferred outflow of resources	<u>25,987</u>	<u>28,709</u>
Total assets and deferred outflow of resources	<u>36,347,081</u>	<u>37,364,602</u>
 LIABILITIES		
Current liabilities		
Accounts payable	\$ 156,048	\$ 181,798
Accrued interest	340,045	350,361
Current portion of long-term debt	513,700	498,200
Other current liabilities	<u>52,287</u>	<u>50,812</u>
Total current liabilities	<u>1,062,080</u>	<u>1,081,171</u>
Noncurrent liabilities		
Customer deposits	21,615	23,270
Unamortized premium on debt	5,470	6,030
Long-term debt	<u>15,181,000</u>	<u>15,696,700</u>
Total noncurrent liabilities	<u>15,208,085</u>	<u>15,726,000</u>
Total liabilities	<u>16,270,165</u>	<u>16,807,171</u>
 NET POSITION		
Net investment in capital assets	17,654,702	18,109,709
Restricted for:		
Debt service	873,753	832,610
Other purposes	24,959	38,291
Unrestricted (deficit)	<u>1,523,502</u>	<u>1,576,821</u>
Total net position	<u>20,076,916</u>	<u>20,557,431</u>
Total liabilities and net position	<u>\$ 36,347,081</u>	<u>\$ 37,364,602</u>

WOOD CREEK WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Water sales	\$ 4,716,085	\$ 4,827,761
Sewer service	425,526	376,351
Penalties and service charges	105,471	108,918
Tap-on fees	99,985	97,795
Other	98,011	41,518
Total operating revenues	<u>5,445,078</u>	<u>5,452,343</u>
Operating expenses		
Purchased water and power	412,881	364,346
Water treatment	1,542,744	1,275,896
Transmission and distribution	794,507	929,299
Administration of customer accounts	306,241	322,815
Administration and general	466,986	304,426
Sewer maintenance and treatment	435,789	380,375
Amortization	4,569	4,568
Depreciation	1,282,168	1,272,205
Total operating expenses	<u>5,245,885</u>	<u>4,853,930</u>
Operating income (loss)	<u>199,193</u>	<u>598,413</u>
Nonoperating revenues (expenses)		
Interest income	631	2,017
Gain on disposition of equipment	4,754	-
Interest on long-term debt	(675,535)	(699,708)
Other expense	(9,558)	(7,892)
Total nonoperating revenues (expenses)	<u>(679,708)</u>	<u>(705,583)</u>
Change in net position	(480,515)	(107,170)
Net Position, January 1	<u>20,557,431</u>	<u>20,830,415</u>
Prior period restatement (See Note 13)	<u>-</u>	<u>(165,814)</u>
Net Position, December 31	<u>\$ 20,076,916</u>	<u>\$ 20,557,431</u>

WOOD CREEK WATER DISTRICT
STATEMENT OF CASH FLOWS
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Receipts from customers	\$ 5,301,901	5,395,313
Receipts from other activities	99,985	30,900
Payments to employees	(1,578,005)	(1,535,025)
Payments to suppliers	<u>(2,374,800)</u>	<u>(1,981,709)</u>
Net cash used in operating activities	<u>1,449,081</u>	<u>1,909,479</u>
Cash flows from noncapital and related financing activities		
Federal, state, and local grants	<u>-</u>	<u>-</u>
Net cash provided by noncapital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from capital and related activities		
Purchases of property, plant, and equipment	(324,239)	(470,121)
Proceeds from the sale of equipment	4,754	-
Principal payments on debt	(500,200)	(487,790)
Interest payments on debt	(685,851)	(709,195)
Miscellaneous nonoperating expense	<u>(9,558)</u>	<u>(7,419)</u>
Cash provided (used) in capital and related activities	<u>(1,515,094)</u>	<u>(1,674,525)</u>
Cash flows from investing activities		
Interest received on investments	<u>631</u>	<u>2,017</u>
Cash provided (used) in investing activities	<u>631</u>	<u>2,017</u>
Net increase in cash and cash equivalents	(65,382)	236,971
Cash and cash equivalents, January 1	<u>1,475,362</u>	<u>1,238,391</u>
Cash and cash equivalents, December 31	<u>\$ 1,409,980</u>	<u>\$ 1,475,362</u>
Reconciliation of change in net position to net cash used in operating activities		
Operating loss	199,193	598,412
Adjustments to reconcile change in net position to net cash used in operating activities:		
Depreciation	1,282,168	1,272,205
Amortization	4,569	4,568
Changes in assets and liabilities:		
(Increase) Decrease in customer and other accounts receivable	(43,192)	(28,595)
(Increase) Decrease in inventory	20,892	105,560
(Increase) Decrease in prepaid expense and other assets	9,726	(839)
Increase (Decrease) in accounts payable	(25,750)	(27,592)
Increase (Decrease) in accrued expense	<u>1,475</u>	<u>(14,240)</u>
Net cash provided by operating activities	<u>\$ 1,449,081</u>	<u>\$ 1,909,479</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	\$ 511,268	\$ 604,461
Restricted cash and cash equivalents	<u>898,712</u>	<u>870,901</u>
Total cash at end of year	<u>\$ 1,409,980</u>	<u>\$ 1,475,362</u>

WOOD CREEK WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENT

Years ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Wood Creek Water District, of Laurel County, Kentucky (the District) was created in 1969 under Chapter 74 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The District is governed by a three person board of Commissioners, which is appointed by the Laurel County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

Wood Creek Water District is a rural water utility system whose purpose is to establish, develop, and operate a water supply and distribution system for its members and customers in Laurel County, Kentucky. The District also provides sewer services to a specific portion of the Wood Creek Lake watershed area. The District's primary source of revenue is from water sales and sewer services to its members and customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. In addition, the District applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the District as a whole. These statements include all funds of the District. The statements distinguish between governmental and business-type activities. The District does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The District considers all highly liquid investments (including restricted cash and investments), with maturities of 90 days or less to be cash equivalents. This includes bank certificates of deposit and demand checking accounts.

Investments

The District is authorized by state statute to invest in: 1) obligations of the United States and of its agencies and instrumentalities; 2) bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; 3) shares of any savings and loan insured by an agency of the government of the United States up to the amount so insured; 4) interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in larger amounts provided such bank shall pledge, as security, obligations of the United States government, its agencies and instrumentalities.

The District's investments include certificates of deposits with maturity dates of three months or more. Certificates of deposits in excess of FDIC insurance are collateralized by securities held by the pledging bank.

The District also invests in mutual funds, which are recorded at their fair market value. Securities are traded on a national exchange and valued at the last reported sales price at current exchange rates and investments that do not have an established market are reported at an estimated fair value.

Accounts Receivable

Accounts receivable arise as services are rendered for which collections have not been realized and are carried net of a provision for doubtful accounts. The provision for doubtful accounts is estimated using a percentage of accounts more than 90 days past due. At December 31, 2013 and 2012, the provision for doubtful accounts was \$3,464 and \$3,464, respectively.

Unbilled Receivables

The District estimated unbilled revenues from water sales, on a pro rata basis, at the end of each fiscal year. The estimated amount is based on amounts billed during the following month of the close of the fiscal year.

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventories of materials and supplies are stated at historical cost. The carrying value is determined on a first-in, first-out basis.

Capital Assets

Capital assets include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, and equipment that have a useful life of more than one reporting period based on the District's capitalization policy. The cost of additions to the utility plant and major replacements of retired property is capitalized, and the cost of repairs, maintenance, and minor replacements are charged to expense. By District policy, capital assets are defined as assets with a cost of \$1,000 or more and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation employee fringe benefits, and overhead. Interest incurred during construction is capitalized.

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net assets. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The range of useful lives of assets is as follows:

<u>Assets Classification</u>	<u>Range of Lives</u>
Intangible	40 years
Transmission and distribution mains	50 years
Structures and improvements	50 years
Pumping and water treatment equipment	25 years
Meters, hydrants and services	20 years
Other equipment	5-10 years

Accounts payable

Accounts payable represent expenses incurred in the current year to be paid in the subsequent year. The majority of the District's accounts payable are to vendors or for purchase of water.

Long-Term Debt

Long-term debt is recorded at face value. Issue costs relating to prepaid insurance, loan discounts, and loan premiums related to the issuance of debt are deferred and amortized over the term of the respective loans outstanding using the straight-line method.

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Vacation benefits are not accrued beyond any fiscal year. Sick leave benefits may be used to supplement an employee's retirement if the employee is at retirement age or has at least twenty-six years and six months service. At December 31, 2013 and 2012, the District did not record any sick leave accrual and management feels that no sick leave benefits are currently payable.

Customer Deposits

The District collects and holds in escrow a \$60 deposit from customers to insure collection of its water charges. Interest at an annual rate of 1% is paid on these deposits.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets and any unamortized debt cost or premium.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

NOTE 2 – RESTRICTED CASH

The District includes all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2013 and 2012 restricted cash amounted to \$898,712 and \$870,901, respectively. This includes restrictions for customer deposits of \$24,959 and \$38,291 and restrictions for debt service of \$873,753 and \$832,610, respectively.

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 3 – INVESTMENTS – INTEREST RATE RISK

According to KRS 91A.060, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The District classifies only certificates of deposit as investments and does not consider interest rate risk to be significant.

NOTE 4 – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2013, and 2012, the District's bank balances were \$1,495,684 and \$1,573,946, respectively, and of that amount, \$646,481 and \$722,507 were exposed to custodial credit risk. In accordance with Kentucky Revised Statute (KRS) 91A.060, deposits are to be collateralized to the extent uninsured by FDIC. According to KRS 41.240(4), it shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The District's deposits were fully insured or collateralized with securities held by an agent of the District in the District's name at December 31, 2013 and 2012.

NOTE 5 – INVESTMENTS

As of December 31, 2013 and 2012, the District had the following investments:

	<u>Rating</u>	<u>Fair Value</u> <u>2013</u>	<u>Fair Value</u> <u>2012</u>
Certificate of Deposit	Not Rated	<u>\$ 51,250</u>	<u>\$ 51,250</u>

The District deposits cash with banks for future debt service. The bank may choose to invest the deposit but assumes all risk.

Interest Rate Risk - Investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 6 – RECEIVABLES

At December 31, 2013 and 2012, customer and other accounts receivable are as follows:

	2013	2012
Due from customers	\$ 309,307	\$ 246,533
Due from related parties	300,264	323,438
Due from others	5,364	3,426
Provision for uncollectibles	(3,464)	(3,464)
	<u>\$ 611,471</u>	<u>\$ 569,933</u>

This does not include unbilled receivables of \$157,447.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 and 2012 was as follows:

See Table on Next Page

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 7 – CAPITAL ASSETS (continued)

	Balance				Balance
<u>Water Operations:</u>	<u>December 31, 2012</u>	<u>Additions</u>	<u>Deductions</u>		<u>December 31, 2013</u>
Land and improvements	\$ 4,047,983	\$ 1,020	\$ -	\$	4,049,003
Intangible	21,836	-	-		21,836
Source of supply and pumping	1,714,262	-	-		1,714,262
Water treatment plant	16,474,338	-	-		16,474,338
Transmission and distribution plant	16,548,947	128,911	-		16,677,859
General plant	2,119,374	69,935	12,041		2,177,267
Total capital assets	40,926,739	199,866	12,041		41,114,564
Less: Accumulated depreciation					
Intangible	21,836	-	-		21,836
Source of supply and pumping	962,354	62,513	-		1,024,867
Water treatment plant	3,448,177	360,450	-		3,808,626
Transmission and distribution plant	6,156,280	403,336	-		6,559,616
General plant	1,668,524	66,330	12,041		1,722,812
Total accumulated depreciation	12,257,171	892,628	12,041		13,137,757
Net capital assets-water	28,669,569	(692,762)	-		27,976,807
<u>Sewer Operations</u>	<u>December 31, 2012</u>	<u>Additions</u>	<u>Deductions</u>		<u>December 31, 2013</u>
Land and improvements	51,508	-	-		51,508
General plant	254,234	-	-		254,234
Collection plant	5,324,575	60,763	-		5,385,338
Pumping plant	2,768,160	63,610	-		2,831,770
Construction in progress	291,867	-	-		291,867
Total capital assets	8,690,343	124,373	-		8,814,716
Less: Accumulated depreciation					
General plant	197,858	16,448	-		214,306
Collection plant	1,139,584	178,654	-		1,318,238
Pumping plant	1,689,152	194,438	-		1,883,590
Construction in progress	-	-	-		-
Total accumulated depreciation	3,026,594	389,540	-		3,416,134
Net capital assets sewer	5,663,749	(265,167)	-		5,398,582
Net capital assets-total	\$ 34,333,318	\$ (957,929)	\$ -	\$	33,375,389

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 7 – CAPITAL ASSETS (continued)

	Balance				Balance
<u>Water Operations:</u>	<u>December 31, 2011</u>	<u>Additions</u>	<u>Deductions</u>		<u>December 31, 2012</u>
Land and improvements	\$ 4,047,983	\$ -	\$ -	\$	4,047,983
Intangible	21,836	-	-		21,836
Source of supply and pumping	1,714,261	-	-		1,714,261
Water treatment plant	16,474,338	-	-		16,474,338
Transmission and distribution plant	16,387,342	161,606	-		16,548,948
General plant	2,062,575	56,799	-		2,119,374
Total capital assets	40,708,334	218,405	-		40,926,739
Less: Accumulated depreciation					
Intangible	21,836	-	-		21,836
Source of supply and pumping	896,514	62,513	(3,327)		962,354
Water treatment plant	3,088,377	360,450	650		3,448,177
Transmission and distribution plant	5,747,738	400,308	(8,234)		6,156,280
General plant	1,616,112	60,456	8,044		1,668,524
Total accumulated depreciation	11,370,577	883,726	(2,868)		12,257,171
Net capital assets-w ater	29,337,757	(665,321)	(2,868)		28,669,568
<u>Sewer Operations:</u>	<u>December 31, 2011</u>	<u>Additions</u>	<u>Deductions</u>		<u>December 31, 2012</u>
Land and improvements	51,508	-	-		51,508
General plant	254,234	-	-		254,234
Collection plant	5,190,122	134,453	-		5,324,575
Pumping plant	2,650,897	117,263	-		2,768,160
Construction in progress	291,867	-	-		291,867
Total capital assets	8,438,628	251,716	-		8,690,344
Less: Accumulated depreciation					
General plant	205,707	16,299	24,148		197,858
Collection plant	938,016	176,956	(24,612)		1,139,584
Pumping plant	1,497,260	195,225	3,333		1,689,152
Construction in progress	-	-	-		-
Total accumulated depreciation	2,640,983	388,480	2,868		3,026,594
Net capital assets - sewer	5,797,645	(136,764)	2,868		5,663,750
Net capital assets-total	\$ 35,135,402	\$ (802,085)	\$ -	\$	34,333,318

NOTE 8 – LONG-TERM DEBT

The District's long-term debt consists of bonds payable to Rural Development (RD) and Kentucky Rural Water Finance Corporation (KRWFC), which were obtained for various acquisitions of plant and equipment. Additionally, long-term debt also included lease purchase agreements for various equipment purchases. The bonds mature annually in varying series over the period 2012 to 2045. A summary of the bonds is presented below:

See Table on Next Page

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT – (continued)

RURAL DEVELOPMENT

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>12/31/12 Outstanding Balance</u>	<u>Retirements</u>	<u>12/31/13 Outstanding Balance</u>	<u>Due Within One Year</u>
91-04	\$ 61,000	1/1/2020	5.00%	\$ 23,000	\$ 2,500	\$ 20,500	\$ 2,500
91-09	114,000	1/1/2032	5.00%	84,300	2,600	81,700	2,600
91-12	1,711,000	1/1/2038	4.75%	1,468,000	28,000	1,440,000	29,000
91-13	7,250,000	1/1/2045	4.25%	6,826,000	98,000	6,728,000	100,000
91-16	725,000	1/1/2045	4.25%	681,500	10,000	671,500	10,500
Total RD Bonds Payable				\$ 9,082,800	\$ 141,100	\$ 8,941,700	\$ 144,600

KRWFC

1998	\$ 665,000	1/1/2022	4.00%	\$ 380,000	\$ 30,000	\$ 350,000	30,000
2003A	299,000	1/1/2022	4.625%	192,000	15,000	177,000	15,000
2003C	1,345,400	1/1/2022	2.06%-5.06%	609,100	112,100	497,000	117,100
2004B	1,318,000	1/1/2029	2.28%-4.405%	1,030,000	44,000	986,000	46,000
2005B	3,594,000	7/1/2031	4.00-4.50%	3,025,000	108,000	2,917,000	112,000
2007A	2,086,000	7/1/2036	4.05%-4.425%	1,876,000	50,000	1,826,000	49,000
Total KRWFC Bonds Payable				\$ 7,112,100	\$ 359,100	\$ 6,753,000	\$ 369,100

Total Outstanding Debt \$ 16,194,900 \$ 500,200 \$ 15,694,700

Future bond principal and interest payment amounts are as follows:

See Table on Next Page

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT – (continued)

YEAR	LOCAL		TOTAL
	PRINCIPAL	INTEREST	
2014	\$ 513,700	\$ 681,470	\$ 1,195,170
2015	544,000	659,504	1,203,504
2016	489,600	637,659	1,127,259
2017	487,600	616,689	1,104,289
2018	513,000	595,317	1,108,317
2019	532,600	572,774	1,105,374
2020	554,900	549,068	1,103,968
2021	585,100	524,095	1,109,195
2022	569,300	498,841	1,068,141
2023	516,100	475,148	991,248
2024	539,900	452,160	992,060
2025	558,500	428,148	986,648
2026	582,800	403,113	985,913
2027	589,500	377,257	966,757
2028	606,900	350,816	957,716
2029	642,600	323,155	965,755
2030	602,900	295,440	898,340
2031	632,200	268,116	900,316
2032	419,000	244,483	663,483
2033	435,500	225,682	661,182
2034	450,500	206,218	656,718
2035	476,500	185,863	662,363
2036	491,500	164,573	656,073
2037	389,500	144,951	534,451
2038	407,000	127,766	534,766
2039	322,000	111,975	433,975
2040	335,000	97,923	432,923
2041	350,500	83,304	433,804
2042	366,000	68,010	434,010
2043	381,000	52,038	433,038
2044	397,500	35,412	432,912
2045	412,000	18,065	430,065
<hr/>			
	\$ 15,694,700	\$ 10,475,034	\$ 26,169,734

NOTE 9 – SERVICES PROVIDED TO OTHER WATER DISTRICTS

Wood Creek Water District sells water for resale and provides maintenance, construction, and office services to West Laurel Water Association, Incorporated and East Laurel Water District. The actual costs of maintenance and construction services are accumulated in specific expense accounts and charges for services are netted against such expense accounts. Wood Creek Water District bills the related water companies for the materials.

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 9 – SERVICES PROVIDED TO OTHER WATER DISTRICTS – (continued)

Accounts receivable from East Laurel Water District and West Laurel Water Association, Incorporated are summarized below:

	<u>2013</u>	<u>2012</u>
<u>East Laurel Water District</u>		
Accounts receivable	\$ 163,831	\$ 178,751
Accounts receivable - wastewater	6,982	7,700
	<u>\$ 170,813</u>	<u>\$ 186,451</u>
 <u>West Laurel Water Association, Incorporated</u>		
Accounts receivable	\$ 129,333	\$ 136,470
Accounts receivable - wastewater	118	517
	<u>\$ 129,450</u>	<u>\$ 136,987</u>

The following is a summary of amounts paid to Wood Creek Water District for water and services:

	<u>2013</u>	<u>2012</u>
<u>East Laurel Water District</u>		
Purchased water	\$ 1,236,101	\$ 1,285,292
Materials, labor, and other	765,767	801,165
	<u>\$ 2,001,868</u>	<u>\$ 2,086,457</u>
 <u>West Laurel Water Association, Incorporated</u>		
Purchased water	\$ 1,042,430	\$ 1,047,576
Materials, labor, and other	652,301	679,272
	<u>\$ 1,694,731</u>	<u>\$ 1,726,849</u>

NOTE 10 – RETIREMENT PLAN

The District's full-time employees, or employees who work an average of 100 hours per month, are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers' retirement system created and operating under Kentucky Law.

Plan Description – The County Employees Retirement System covers substantially all regular full-time employees of the District. The plan provides for retirement, disability, and death benefits. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky, 40601.

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 10 – RETIREMENT PLAN – (continued)

Funding Policy – Plan members are required to contribute 5% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of the un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates. The current District contribution rate is 18.96% of the employee's total covered compensation. The contribution requirements of Plan members and the District are established and may be amended by Kentucky Retirement System's Board of Trustees.

The District's total covered payroll for the years ended December 31, 2013 and 2012 was \$1,610,315 and \$1,647,829 respectively. The District's contributions to CERS for the years ended December 31, 2013, 2012, and 2011 was \$320,156, \$312,085, and \$297,079 respectively.

Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

NOTE 11 – 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 and natural disasters for which the District carries commercial insurance. The insurance coverage is acquired through Wood Creek Water District which includes coverage for Wood Creek Water District, East Laurel Water District, and West Laurel Water Association, Incorporated. The District pays for and is entitled to its respective share of coverage. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

NOTE 12 – SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through March 20, 2014, the date which the financial statements were available to be issued. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

NOTE 13 – IMPLEMENTATION OF NEW GASB STANDARD AND CHANGES IN BEGINNING NET POSITION

The District has implemented GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*, for the year ending December 31, 2013. This standard describes which assets and liabilities (previously reported) are appropriately reported in the new financial statement elements, deferred outflows of resources and deferred inflows of resources, required by GASB No. 63 and also identifies certain items previously reported as assets and liabilities that the GASB determined should be recognized as revenues, expenses, or expenditures when incurred and not reported in statements of net position/balance sheets at all. This standard was retroactively implemented on the financial statement presentation of December 31, 2012, as well as, the current audit period

WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 13 – IMPLEMENTATION OF NEW GASB STANDARD AND CHANGES IN BEGINNING NET POSITION – (continued)

Bond issue costs are now expensed when incurred. The new section of "Deferred Outflow of Resources" is now part of the Statement of Net Position presentation. The beginning net position of the District increased due to the recording of the deferred savings from refunding bonds issued prior to the 2013 audit period. The following table summarizes the changes to beginning net position due to the implementation of GASB No. 65:

Net Position, January 1, 2012	\$ 20,830,415
Removal of bond issue costs	(197,245)
Addition of deferred savings from refunding bonds	<u>31,431</u>
Restated Net Position, January 1, 2012	<u>\$ 20,664,601</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF NET POSITION - WATER FUND
December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 472,859	\$ 598,806
Investments	51,250	51,250
Accounts receivable, less allowance for doubtful accounts	517,085	511,011
Unbilled accounts receivable	157,447	157,447
Inventories	604,912	647,332
Due from other funds	392,445	173,526
Other current assets	5,056	14,782
Total current assets	<u>2,201,054</u>	<u>2,154,154</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>898,712</u>	<u>870,901</u>
Capital Assets		
Nondepreciable capital assets		
Land and land structures	<u>4,049,003</u>	<u>4,047,983</u>
Total nondepreciable capital assets	<u>4,049,003</u>	<u>4,047,983</u>
Depreciable Capital Assets		
Intangible	21,836	21,836
Source of supply and pumping	1,714,261	1,714,261
Water treatment equipment	16,474,338	16,474,338
Transmission and distribution	16,677,859	16,548,947
General plant	<u>2,177,267</u>	<u>2,119,374</u>
	37,065,561	36,878,756
Accumulated depreciation	<u>(13,137,757)</u>	<u>(12,257,171)</u>
Total depreciable capital assets, net of depreciation	<u>23,927,804</u>	<u>24,621,585</u>
Total capital assets (net of depreciation)	<u>27,976,807</u>	<u>28,669,568</u>
Other assets		
Bond discount (net of accumulated amortization)	<u>36,535</u>	<u>38,943</u>
Total noncurrent assets	<u>28,912,054</u>	<u>29,579,412</u>
Total assets	<u>\$ 31,113,108</u>	<u>\$ 31,733,566</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF NET POSITION - WATER FUND
December 31, 2013 and 2012

DEFERRED OUTFLOW OF RESOURCES	<u>2013</u>	<u>2012</u>
Deferred savings from refunding bonds	\$ 25,987	\$ 28,709
Total deferred savings from refunding bonds	<u>25,987</u>	<u>28,709</u>
Total assets and deferred outflow of resources	<u>\$ 31,139,095</u>	<u>\$ 31,762,275</u>
LIABILITIES		
Current liabilities		
Accounts payable	122,360	127,837
Accrued interest	340,045	350,361
Due to other funds	33,577	38,474
Current portion of long-term debt	513,700	498,200
Other current liabilities	<u>52,287</u>	<u>50,812</u>
Total current liabilities	<u>1,061,969</u>	<u>1,065,684</u>
Noncurrent liabilities		
Customer deposits	21,615	23,270
Unamortized premium on debt	5,470	6,030
Long-term debt	<u>15,181,000</u>	<u>15,696,700</u>
Total noncurrent liabilities	<u>15,208,085</u>	<u>15,726,000</u>
Total liabilities	<u>16,270,054</u>	<u>16,791,684</u>
NET POSITION		
Net investment in capital assets	12,256,120	12,445,959
Restricted for:		
Debt service	873,753	832,610
Other purposes	24,959	38,291
Unrestricted (deficit)	<u>1,714,209</u>	<u>1,653,731</u>
Total net position	<u>14,869,041</u>	<u>14,970,591</u>
Total liabilities and net position	<u>\$ 31,139,095</u>	<u>\$ 31,762,275</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
WATER FUND

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Water sales	\$ 4,716,085	\$ 4,827,761
Penalties and service charges	105,471	108,918
Tap-on fees	48,300	30,900
Other operating income	91,312	35,450
Total operating revenues	<u>4,961,168</u>	<u>5,003,029</u>
Operating expenses		
Purchased water and power	389,810	341,045
Water treatment	1,542,744	1,275,896
Transmission and distribution	794,507	929,299
Administration of customer accounts	306,241	322,815
Administration and general	452,499	302,184
Amortization	4,569	4,568
Depreciation	892,627	883,726
Total operating expenses	<u>4,382,997</u>	<u>4,059,534</u>
Operating income (loss)	<u>578,171</u>	<u>943,495</u>
Nonoperating revenues (expenses)		
Interest income	618	2,006
Gain on disposal of equipment	4,754	-
Interest on long-term debt	(675,535)	(699,708)
Miscellaneous	(9,558)	(7,418)
Total nonoperating revenues (expenses)	<u>(679,721)</u>	<u>(705,120)</u>
Change in net position	(101,550)	238,376
Net Position, January 1	<u>14,970,591</u>	<u>14,898,029</u>
Prior period restatement (See Note 13)	<u>-</u>	<u>(165,814)</u>
Net Position, December 31	<u>\$ 14,869,041</u>	<u>\$ 14,970,591</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF CASH FLOWS - WATER FUND
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Receipts from customers	\$ 4,905,140	\$ 4,937,858
Receipts from other activities	48,300	30,900
Payments to employees	(1,578,005)	(1,535,025)
Payments to suppliers	<u>(1,859,652)</u>	<u>(1,623,077)</u>
Net cash used in operating activities	<u>1,515,783</u>	<u>1,810,656</u>
Cash flows from noncapital and related financing activities		
Federal, state, and local grants	<u>-</u>	<u>-</u>
Net cash provided by noncapital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from capital and related activities		
Purchases of property, plant, and equipment	(199,866)	(218,405)
Proceeds from investments	-	-
Proceeds from the sale of equipment	4,754	-
Loans to sewer funds	(218,919)	(63,776)
Payments on loans from sewer fund	(4,897)	(85,186)
Principal payments on debt	(500,200)	(487,790)
Interest payments on debt	(685,851)	(709,195)
Miscellaneous nonoperating expense	<u>(9,558)</u>	<u>(7,419)</u>
Cash provided (used) in capital and related activities	<u>(1,614,537)</u>	<u>(1,571,771)</u>
Cash flows from investing activities		
Interest received on investments	<u>618</u>	<u>2,006</u>
Cash provided (used) in investing activities	<u>618</u>	<u>2,006</u>
Net increase in cash and cash equivalents	(98,136)	240,891
Cash and cash equivalents as of January 1, 2013	<u>1,469,707</u>	<u>1,228,816</u>
Cash and cash equivalents as of December 31, 2013	<u>\$ 1,371,571</u>	<u>\$ 1,469,707</u>
Reconciliation of change in net position to net cash used in operating activities		
Operating income/(loss)	\$ 578,171	\$ 943,495
Adjustments to reconcile change in net position to net cash used in operating activities:		
Depreciation	892,627	883,726
Amortization	4,569	4,568
Changes in assets and liabilities:		
(Increase) Decrease in customer and other accounts receivable	(7,728)	(36,736)
(Increase) Decrease in inventory	42,420	63,514
(Increase) Decrease in prepaid expense and other assets	9,726	(839)
Increase (Decrease) in accounts payable	(5,477)	(36,175)
Increase (Decrease) in accrued expense	<u>1,475</u>	<u>(10,898)</u>
Net cash provided by operating activities	<u>\$ 1,515,783</u>	<u>\$ 1,810,656</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF CASH FLOWS - WATER FUND
For the years ended December 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	\$ 472,859	\$ 598,806
Restricted cash and cash equivalents	<u>898,712</u>	<u>870,901</u>
Total cash at end of year	<u>\$ 1,371,571</u>	<u>\$ 1,469,707</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENTS OF NET POSITION - SEWER FUND
December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 38,409	\$ 5,655
Accounts receivable, less allowance for doubtful accounts	94,386	58,922
Inventories	69,054	47,526
Due from other funds	33,577	38,474
Total current assets	<u>235,426</u>	<u>150,577</u>
Capital Assets		
Nondepreciable capital assets		
Land and land structures	51,507	51,507
Construction in progress	291,867	291,867
Total nondepreciable capital assets	<u>343,374</u>	<u>343,374</u>
Depreciable Capital Assets		
General plant	254,234	254,234
Collection plant	5,385,338	5,324,575
Pumping plant	2,831,770	2,768,160
	8,471,342	8,346,969
Accumulated depreciation	(3,416,134)	(3,026,593)
Total depreciable capital assets, net of depreciation	<u>5,055,208</u>	<u>5,320,376</u>
Total capital assets (net of depreciation)	<u>5,398,582</u>	<u>5,663,750</u>
Total noncurrent assets	<u>5,398,582</u>	<u>5,663,750</u>
Total assets	<u>\$ 5,634,008</u>	<u>\$ 5,814,327</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 33,688	\$ 53,961
Current portion of long-term debt	-	-
Due to other funds	392,445	173,526
Total current liabilities	<u>426,133</u>	<u>227,487</u>
Noncurrent liabilities		
Total liabilities	<u>426,133</u>	<u>227,487</u>
NET POSITION		
Net investment in capital assets	5,398,582	5,663,750
Unrestricted (deficit)	(190,707)	(76,910)
Total net position	<u>\$ 5,207,875</u>	<u>\$ 5,586,840</u>

The accompanying notes are an integral part of the financial statements

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
SEWER FUND
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Sewer services	\$ 425,526	\$ 376,351
Tap on fees	51,685	66,895
Other operating income	6,699	6,068
Total operating revenues	<u>483,910</u>	<u>449,314</u>
Operating expenses		
Purchased water and power	23,071	23,301
Administration and general	14,487	2,242
Sewer maintenance and treatment	435,789	380,375
Depreciation	389,541	388,479
Total operating expenses	<u>862,888</u>	<u>794,397</u>
Operating income (loss)	<u>(378,978)</u>	<u>(345,083)</u>
Nonoperating revenues (expenses)		
Interest income	13	11
Federal and state grants	-	-
Local grants	-	-
Interest on long-term debt	-	-
Miscellaneous	-	(474)
Total nonoperating revenues (expenses)	<u>13</u>	<u>(463)</u>
Change in net position	(378,965)	(345,546)
Net Position, January 1	<u>5,586,840</u>	<u>5,932,386</u>
Net Position, December 31	<u>\$ 5,207,875</u>	<u>\$ 5,586,840</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF CASH FLOWS - SEWER FUND
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Receipts from customers	\$ 396,761	\$ 457,455
Receipts from other activities	51,685	-
Payments to suppliers	<u>(515,148)</u>	<u>(358,632)</u>
Net cash used in operating activities	<u>(66,702)</u>	<u>98,823</u>
Cash flows from noncapital and related financing activities		
Federal, state, and local grants	<u>-</u>	<u>-</u>
Net cash provided by noncapital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from capital and related activities		
Purchases of property, plant, and equipment	(124,373)	(251,716)
Principal payments on debt	-	-
Payments received from loans to water fund	4,897	85,186
Proceeds received on loan from water fund	218,919	63,776
Other activities	-	-
Interest on debt	<u>-</u>	<u>-</u>
Cash provided (used) in capital and related activities	<u>99,443</u>	<u>(102,754)</u>
Cash flows from investing activities		
Interest received on investments	<u>13</u>	<u>11</u>
Cash provided (used) in investing activities	<u>13</u>	<u>11</u>
Net increase in cash and cash equivalents	32,754	(3,920)
Cash and cash equivalents as of January 1, 2013	<u>5,655</u>	<u>9,575</u>
Cash and cash equivalents as of December 31, 2013	<u>\$ 38,409</u>	<u>\$ 5,655</u>
Reconciliation of change in net position to net cash used in operating activities		
Operating income/(loss)	\$ (378,978)	\$ (345,083)
Adjustments to reconcile change in net position to net cash used in operating activities:		
Depreciation	389,541	388,479
Changes in assets and liabilities:		
(Increase) Decrease in customer and other accounts receivable	(35,464)	8,141
(Increase) Decrease in inventory	(21,528)	42,046
Increase (Decrease) in accounts payable	(20,273)	8,583
Increase (Decrease) in other payables	<u>-</u>	<u>(3,343)</u>
Net cash provided by operating activities	<u>\$ (66,702)</u>	<u>\$ 98,823</u>

**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 Commissioners
Wood Creek Water District
London, 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 Wood Creek Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Wood Creek Water District's basic financial statements, and have issued our report thereon dated March 20, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wood Creek 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 Wood Creek Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Wood Creek Water 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 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 over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wood Creek Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
March 20, 2014