

**LYON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**  
**With Independent Auditor's Report**

**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**Baker, Anderson & Elliott**

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Certified Public Accountants

PUBLIC SERVICE COMMISSION  
ANNUAL REPORT BRANCH  
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**LYON COUNTY WATER DISTRICT**

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**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

RECEIVED  
JUL 16 2012  
FINANCIAL AREA

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**BAKER, ANDERSON & ELLIOTT**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
738 U.S. HIGHWAY 62  
GRAND RIVERS, KY 42045

**INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board of Commissioners  
Lyon County Water District  
5464 U.S. Highway 62 West  
P.O. Box 489  
Kuttawa, KY 42055

We have audited the accompanying financial statements of the Lyon County Water District (the Water District), as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lyon County Water District as of December 31, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, an error that resulted in overstatement of previously reported income from customer's deposits as of January 1, 2010, was discovered by management of the Lyon County Water District during the current year. Accordingly, an adjustment has been made to net assets as of January 1, 2010, to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2012, on our consideration of the Water District's internal control over financial reporting and 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 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.

*Baker, Anderson & Elliott, CPAs*

July 10, 2012

**LYON COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2011

The Lyon County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2011. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

**FINANCIAL HIGHLIGHTS**

The District's operating revenues decreased \$21,408 from the prior year.

The District's total net assets increased by \$2,976 during the year compared to a \$23,959 decrease in the prior year.

**OVERVIEW OF FINANCIAL STATEMENTS**

Lyon County Water District's basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

**Statement of net assets.** The statement of net assets (formerly the balance sheet) presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**Statement of revenues, expenses and changes in net assets.** The statement of revenues, expenses and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

**Statement of cash flows.** The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District-wide financial statements. The notes to the financial statements can be found on pages 8-14 of this report.

**Fund financial statements.** The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All activities are reported in an enterprise fund.

**OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS**

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$3,459,580 at December 31, 2011.

The District's overall financial position and operations for the past three years are summarized as follows, based on the information included in the financial statements.

	Business-Type Activities		
	2011	2010	2009
Current & other assets	\$ 425,828	\$ 387,089	\$ 452,216
Capital assets	4,682,925	4,797,593	4,842,448
Restricted Assets	220,597	203,455	193,035
	<u>\$ 5,329,350</u>	<u>\$ 5,388,137</u>	<u>\$ 5,487,699</u>
Long-term liabilities	\$ 1,692,000	\$ 1,725,000	\$ 1,801,500
Other liabilities	177,770	206,534	190,037
	<u>\$ 1,869,770</u>	<u>\$ 1,931,534</u>	<u>\$ 1,991,537</u>
Net assets, as restated:			
Invsted in capital assets, net	\$ 2,957,925	\$ 2,996,093	\$ 2,963,448
Restricted	220,597	203,455	193,035
Unrestricted	281,056	257,055	339,679
	<u>\$ 3,459,580</u>	<u>\$ 3,456,604</u>	<u>\$ 3,496,162</u>

A portion of the District's net assets (\$2,957,925) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities. See Notes 3 and 4 in the Notes to Financial Statements.

	Business-Type Activities		
	2011	2010	2009
Revenues:			
Water & sewer sales	\$ 899,672	\$ 921,080	\$ 888,188
Expenses:			
Operating expenses	967,976	1,001,533	859,434
Operating income	<u>(68,304)</u>	<u>(80,453)</u>	<u>28,754</u>
Non-operating income	157,591	146,317	206,095
Non-operating expenses	<u>(86,310)</u>	<u>(89,824)</u>	<u>(91,915)</u>
Net increase in net assets	2,976	(23,959)	142,934
Net assets, beginning of year, as restated	<u>3,456,604</u>	<u>3,480,562</u>	<u>3,353,229</u>
Net assets, end of year	<u>\$ 3,459,580</u>	<u>\$ 3,456,604</u>	<u>\$ 3,496,162</u>

## CAPITAL ASSETS

The District's investment in capital assets, as of December 31, 2011 and 2010 was \$7,915,335 and \$7,877,333 respectively. The table below gives a brief description of capital assets of the District:

## CAPITAL ASSETS (Continued)

Land	\$	121,772
Construction in progress		170,758
Assets being depreciated:		
Equipment		164,292
Distribution lines		6,301,407
Water tanks		358,440
Building		73,976
Transportation		59,079
Sewer lines		665,611
		<hr/>
	\$	<u>7,915,335</u>

For the year ending December 31, 2011, the District purchased an additional \$93,095 of capital asset including \$63,781 in line construction, the purchase of a \$3,650 equipment shed and \$25,664 in other capital assets. For additional information on the District's capital assets see Note 3 **CAPITAL ASSETS**.

## LONG-TERM DEBT

The District's long-term debt at December 31, 2011 and 2010 was \$1,692,000 and \$1,725,000 respectively. The table below gives a brief description of long-term debt of the District:

KY Infrastructure	\$	315,000
KY Association of Counties		32,000
USDA Rural Development		804,000
USDA Rural Development		541,000
		<hr/>
	\$	<u>1,692,000</u>

For additional information on the District's long-term debt see Note 4 **LONG-TERM DEBT**.

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Lyon County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Terry McKinney, Chairman, Lyon County Water District, 5464 US 62W, Kuttawa, Kentucky 42055.

LYON COUNTY WATER DISTRICT  
STATEMENTS OF NET ASSETS  
December 31, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash	\$ 173,840	134,157
Accounts receivable:		
Trade	61,959	58,829
Grant	8,515	-
Inventory	11,697	8,052
Prepaid expenses	6,813	5,705
Total current assets	262,824	206,743
Restricted assets:		
Cash	220,597	203,455
Utility plant		
Less accumulated depreciation	(3,232,411)	(3,079,740)
	4,682,925	4,797,593
Other assets:		
Deposits	779	1,434
Prepaid KIA principal	138,852	154,450
Unamortized debt expense, net	23,374	24,463
	163,004	180,347
Total assets	5,329,350	5,388,138
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	33,000	76,500
Note payable	24,287	24,287
Accounts payable:		
Trade	29,218	29,215
Construction	12,065	-
Withholdings and related	4,792	4,887
Customer's deposit	19,151	15,600
Accrued expenses:		
Taxes	2,489	2,275
Interest	52,768	53,770
Total current liabilities	177,770	206,534
Long-term debt, less current maturities	1,692,000	1,725,000
Total liabilities	1,869,769	1,931,534
NET ASSETS		
Invested in capital assets, net of related debt, as restated	2,957,925	2,996,093
Restricted	220,597	203,455
Unrestricted	281,058	257,055
Total net assets	\$ 3,459,580	\$ 3,456,604

See Accompanying Notes and Auditor's Report

LYON COUNTY WATER DISTRICT  
 STATEMENTS OF REVENUES , EXPENSES, AND CHANGES IN NET ASSETS  
 Years Ended December 31, 2011 and 2010

	2011	2010
Water and Sewer sales, net of refunds	\$ 899,672	\$ 921,080
Operating expenses	757,050	793,618
Taxes other than income	1,408	1,395
	758,458	795,013
Total operating expenses before depreciation and amortization		
Operating income before depreciation and amortization	141,214	126,067
Less depreciation and amortization	209,518	206,520
Operating income	(68,304)	(80,453)
Add nonoperating income:		
Contributions in aid of construction, grants and tap-ons	122,661	140,948
Interest income	274	346
Gain on sale of assets	25,700	-
Miscellaneous receipts	8,956	5,023
Total non-operating income	157,591	146,317
Less non-operating expenses:		
Interest expense	86,310	89,824
Change in net assets	2,976	(23,959)
Net assets, beginning of year, as restated	3,456,604	3,480,562
Net assets, end of year	\$ 3,459,580	\$ 3,456,604

LYON COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Received from customers	\$ 907,816	\$ 926,348
Paid to suppliers for goods and services	(570,008)	(622,362)
Paid to employees	(198,267)	(168,359)
	139,541	135,627
Net cash provided (used) by operating activities		
Cash flows from non-capital activities:		
Miscellaneous receipts	8,956	5,023
Contributed capital, net	122,661	140,948
	131,617	145,971
Net cash provided (used) by non-capital activities		
Cash flows from capital and related financing activities:		
Acquisition and construction of property, plant and equipment	(93,095)	(159,921)
Gain on the sale of fixed assets	25,700	-
Principal paid on long-term debt	(33,000)	(76,500)
Interest paid on debt	(86,310)	(89,824)
Prepaid Kentucky Infrastructure principal	15,598	12,884
Payment on short-term debt	(43,500)	(1,000)
	(214,607)	(314,361)
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest income	274	346
	274	346
Net cash provided (used) by investing activities		
Net increase (decrease) in cash	56,825	(32,417)
Cash and cash equivalents, beginning of year	337,612	370,029
Cash and cash equivalents, end of year	\$ 394,437	\$ 337,612
Cash flows from operating activities:		
Operating (loss) income	\$ (68,304)	\$ (80,453)
Adjustments - operating activities:		
Depreciation and amortization	209,518	206,520
(Increase) decrease in:		
Accounts receivable	(11,645)	5,268
Inventory	(3,645)	1,942
Prepaid expenses	(1,108)	-
Increase (decrease) in:		
Accounts payable	12,068	2,815
Customer's deposits	3,551	-
Withholdings and related	(95)	(179)
Accrued interest	(1,002)	(490)
Accrued taxes	203	204
	203	204
Net cash provided (used) by operating activities	\$ 139,541	\$ 135,627

See Accompanying Notes and Auditor's Report

LYON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Activity** - The Lyon County Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Kuttawa, Kentucky and primarily serves the Lyon County, Kentucky area.

**Principles determining scope of reporting entity** - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

**Basis of accounting** - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District applies all Government Accounting Standards Board (GASB) pronouncements, applicable Financial Accounting Standards Board pronouncements, and Accounting Principles Board (APB) opinions issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Accounts receivable** - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Lyon County.

**Materials and supplies** - Inventories consist of materials and supplies and are stated at cost. Cost is determined by the first-in, first-out method.

**Utility plant** - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense.

**Intangible assets** - Financing and bond issue costs are being amortized over the life of the debt on the straight-line basis.

**Use of estimates** - The preparation of financial statements in conformity with regulatory 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 reporting period. Actual results could differ from those estimates. The estimated revenues from un-billed receivables at year-end are reflected in these financial statements.

**Taxes on income** - The Lyon County Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

**Budget** - The District adopts an annual budget prepared under a basis of accounting in accordance with provision of the Public Service Regulatory Commission.

LYON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and cash equivalents** – For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents do not include the reserve funds detailed in Note 3.

**2 CASH**

Separate and special bank accounts were established by the Water Revenue Bonds - Series of 1995 bond ordinance dated October 3, 1995 and retained by the Water Revenue Bonds – Series of 2002 bond ordinance.

**Revenue fund** - All income and revenues derived from the operation of the system shall be deposited promptly and as received to the Lyon County Water District Water Revenue Fund. The monies deposited into the Revenue Fund shall be expended only in the manner and order as follows:

- (1) Lyon County Water District KIA Loan Repayment Fund
- (2) Lyon County Water Revenue Bond and Interest Sinking Fund of 1995
- (3) Depreciation Reserve Fund
- (4) Lyon County Loan Fund
- (5) Operation and Maintenance Fund.

**Lyon County Water District KIA Loan Repayment Fund** - The KIA Loan Fund was established for the purpose of paying the principal and interest on the Kentucky Infrastructure Authority note. The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2011 the balance of the KIA Loan Fund was \$46,069.

**Lyon County Water Revenue Bond and Interest Sinking Fund of 1995 and 2002** - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds - Series of 1995 and 2002. The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2011 the balance of the Sinking Fund was \$90,473.

**Depreciation Reserve** - The ordinances requires Lyon County Water District to make monthly contributions to this fund after observing the priority of deposits into the KIA Loan Fund and the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$510 monthly deposits until a required minimum balance of \$61,200 is met. Under the 2002 ordinance the District is to make \$295 monthly deposits over the life of the loan. At December 31, 2011 the balance of the Depreciation Reserve Fund was \$76,815.

**Lyon County Loan Fund** - This account shall be maintained and monthly transfers shall be made from the revenue fund in amounts sufficient to amortize the county loan. At December 31, 2011 the balance of the Lyon County Loan Fund was \$7,240.

**Operations and Maintenance Fund** - Transfers shall be made monthly from the Revenue Fund to the Operations and Maintenance Fund so that the various operation and maintenance expenses of such system are met and a two (2) month operating reserve established and maintained. Any funds remaining in such Operation and Maintenance Fund after meeting the expenses of operating such system shall be transferred to the Revenue Fund and disbursed in accordance with the above provisions until such time as the Sinking Fund and Depreciation Fund are current and the required balances established; and then excess funds may be invested in direct obligations of or obligations which are fully guaranteed by the United State Government with such maturities so that moneys shall be available in the respective Funds for the purposes for which same are established.

LYON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**2 Cash (Continues)**

**Deposits** - As of December 31, 2011, the carrying amount of the District's deposits was \$394,437 and the bank balance was \$357,090. Of these amounts \$250,000 was covered by federal depository insurance. The remainder of the bank balance was collateralized by securities held by the pledging financial institutions in the amount of \$100,000. The remaining balance of \$7,090 was not collateralized...

**3 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011:

	Balance January 1, 2011	Additions (Eliminations)	Balance December 31, 2011	Estimated Usefull Lives
<b>Capital assets not being depreciated:</b>				
Land	\$ 121,772	\$ -	\$ 121,772	
Construction in progress	147,588	23,170	170,758	
<b>Total capital assets not being depreciated</b>	<b>269,360</b>	<b>23,170</b>	<b>292,530</b>	
<b>Capital assets being depreciated:</b>				
Building	70,326	3,650	73,976	8-40 years
Water distribution system	6,087,862	63,781	6,151,643	40 years
Lake Barkley line	149,765	-	149,765	30 years
Water tank	358,440	-	358,440	10 years
Equipment	216,890	(52,598)	164,292	5-10 years
Transportation	59,079	-	59,079	5-10 years
Sewer line	665,611	-	665,611	40 years
<b>Total capital assets being depreciated</b>	<b>7,607,973</b>	<b>14,833</b>	<b>7,622,806</b>	
<b>Less accumulated depreciation:</b>				
	Balance January 1, 2011	Additions (Eliminations)	Balance December 31, 2011	
Building	(25,925)	(2,124)	(28,049)	
Water distribution system	(2,463,993)	(150,402)	(2,614,395)	
Barkley Lake line	(121,682)	(4,992)	(126,674)	
Water tank	(246,833)	(14,338)	(261,171)	
Equipment	(173,590)	43,488	(130,103)	
Transportation	(21,287)	(7,663)	(28,950)	
Sewer line	(26,431)	(16,640)	(43,071)	
<b>Total accumulated depreciation</b>	<b>(3,079,741)</b>	<b>(152,671)</b>	<b>(3,232,413)</b>	
<b>Total net capital assets being depreciated</b>	<b>4,528,233</b>	<b>(137,838)</b>	<b>4,390,395</b>	
<b>Total capital assets, net</b>	<b>\$ 4,797,593</b>	<b>\$ (114,668)</b>	<b>\$ 4,682,925</b>	

Depreciation charged to income was \$207,763 and \$204,776 at December 31, 2011 and 2010, respectively.

LYON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**4 LONG-TERM DEBT**

The District's long-term debt at December 31, 2011 consisted of the following:

Note payable to Kentucky Infrastructure Authority, bearing interest at 2.5 to 5.25 percent, due June 1, 2014. Principal & interest due monthly.	\$315,000
Note payable to Kentucky Association of Counties Leasing Trust, bearing interest at 6.31 percent, before Common-principal due annually on January 1.	39,000
Rural Economic Development. Water Revenue Bond - Series 1995 bearing interest at 4.875 percent due January 1, 2035. Interest due semi-annually on January 1 and July 1 and principal due annually on January 1.	822,000
Rural Economic Development. Water Revenue Bond - Series 2002 bearing interest at 4.50 percent due January 1, 2023. Interest due semi-annually on January 1 and July 1 and principal due annually on January 1.	549,000
	1,725,000
Less current portion	33,000
	\$ 1,692,000

The schedule of principal maturity and annual debt service for the District is as follows:

Year	Principal Amount	Total Interest	Total Debt Service
2012	\$ 33,000	\$ 80,537	\$ 113,537
2013	192,500	78,958	271,458
2014	194,000	68,750	262,750
2015	38,000	58,473	96,473
2016	39,500	56,712	96,212
2017-2021	183,000	260,643	443,643
2022-2026	235,000	215,012	450,012
2027-2031	303,000	156,310	459,310
2032-2036	328,500	80,801	409,301
2037-2041	145,500	27,698	173,198
2042	33,000	1,485	34,485
	\$ 1,725,000	\$ 1,085,379	\$ 2,810,379

LYON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**4 LONG-TERM DEBT (Continued)**

In an ordinance of the Board of Commission, adopted on October 3, 1995, the District authorized and thereafter issued its \$996,000 "Water Revenue Bonds, Series 1995" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

In an ordinance of the Board of Commission, adopted on September 13, 2002, the District authorized and thereafter issued its \$594,000 "Water Revenue Bonds, Series 2002" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

The bonds referred to above mature as to principal in installments on January 1, in each of the years and shall bear interest from their issue dates until payment of principal. Interest is payable semiannually on June 1 and January 1, of each year as established by the ordinance.

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Note 2.

If there is any default in the payment of the principal or interest on any of the outstanding bonds, and suit is filed by a holder of said bond, and court-having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds, and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution, and the provisions of the applicable laws of Kentucky.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable. The District must maintain adequate public liability insurance including fire, windstorm, fidelity bonds, and the hazards covered by a standard extended coverage policy. The bond covenant also requires an audit of the books of record and account pertinent to the system of the District within 60 days of year-end. The audit requirement was not met for the year ended December 31, 2011.

A summary of changes in long-term debt is as follows:

	Balance January 1, 2011	Proceeds	Repayments	Balance December 31, 2011	Amounts Due Within One Year
KY Infrastructure Authority	\$ 360,000	\$ -	\$ 45,000	\$ 315,000	\$ -
KY Association of Counties	46,000	-	7,000	39,000	7,000
Rural Development - 1995	839,000	-	17,000	822,000	18,000
Rural Development - 200	556,500	-	7,500	549,000	8,000
	<u>\$ 1,801,500</u>	<u>\$ -</u>	<u>\$ 76,500</u>	<u>\$ 1,725,000</u>	<u>\$ 33,000</u>

**5 CONTRACTS FOR WATER SUPPLY**

The District entered into contracts with the City of Eddyville, the City of Kuttawa, the City of Princeton, Kentucky, and the Crittenden-Livingston Water District which states that the Cities and Water District will provide water to the District.

**6 COMMERCIAL INSURANCE**

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

LYON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7 INTEREST EXPENSE**

The District incurred net interest cost in 2010 and 2009 of \$86,310 and \$89,824 respectively. Of that amount \$86,310 and \$89,824 has been recognized as a current operating expenses.

**8 CONTINGENCIES**

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2010, there have been no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from grant funds are recognized and are recorded as revenue.

Under the terms of the bond ordinance authorizing the issuance of the "Water Revenue Bonds – Series 1995 the District is required to meet certain debt covenants. Those covenants are described in detail in Notes 2 and 5.

**10 RETIREMENT PLAN**

**County Employees Retirement System** - The County Employees Retirement System [CERS] is a multiple employer cost sharing defined benefit public employee retirement system. The CERS covers substantially all regular full-time employees of each county and local government agencies. The plan provides for retirement, disability, and death benefits to plan members. Copies of this report may be obtained from Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3.00% compounded annually through June 30, 1980, 6.00% through June 30, 1986, and 4.00% thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on a basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

CERS covered employees are required to contribute an amount equal to 5.00% of gross pay and the employer was required to contribute an amount equal to 16.93% of gross pay for the year ended December 31, 2011.

Trend information:

Schedule of Employer Contributions -

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 2011	\$ 22,947	\$ 22,947	100%
December 31, 2010	\$ 18,773	\$ 18,773	100%
December 31, 2009	\$ 14,976	\$ 14,976	100%

**11 SUBSEQUENT EVENT**

During the year ended December 31, 2011 the District has applied for a Rural Development loan and grant to upgrade the system. No action has been taken by Rural Development on the application.

LYON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**12 CORRECTION OF AN ERROR**

As required by generally accepted accounting principles accepted in the United States of America, net assets on the Statement of Activities as of December 31, 2010 has been restated for the District's customer's deposits received prior to January 1, 2010.

The financial statements were restated as follows:

Net assets balance as of January 1, 2010 as previously reported	\$ 3,496,162
Customer's deposits reported as income	<u>(15,600)</u>
Net assets as of January 1, 2010	<u><u>\$ 3,480,562</u></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 Members of the Board of Commissioners  
Lyon County Water District  
5464 U.S. Highway 62 West  
P.O. Box 489  
Kuttawa, KY 42055

We have audited the financial statements of the Lyon County Water District, as of and for the year ended December 31, 2011, and have issued our report thereon dated July 10, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lyon County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lyon County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lyon County Water District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lyon County Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lyon County Water District's financial statements that is more than inconsequential will not be prevented or detected by the Lyon County Water District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lyon County Water District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyon County 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*.

This report is intended solely for the information and use of management, commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Baker, Anderson & Smith, CPAs*

July 10, 2012