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Hyden–Leslie County Water District
Hyden, Kentucky
*****

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2012 and 2011

Hyden-Leslie County Water District
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Christian Sturgeon
& Associates, PSC
Certified Public Accountants

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Independent Auditors' Report

To the Commissioners
Hyden-Leslie County Water District
Hyden, Kentucky

Report on the Financial Statements

We have audited the accompanying statement of net position of Hyden-Leslie County Water District (the District) as of December 31, 2012 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Hyden-Leslie County Water District, as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hyden-Leslie County Water District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The financial statements of Hyden-Leslie County Water District as of December 31, 2011, were audited by other auditors whose report dated March 29, 2012, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2013 on our consideration of Hyden-Leslie County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Hyden-Leslie County Water District's internal control over financial reporting and compliance.

Christian Sturgeon & Associates, PSC

Christian Sturgeon & Associates, PSC
London, Kentucky

April 3, 2013

Hyden-Leslie County Water District
Statements of Net Position
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 952,535	$ 790,864
Investments	1,340,660	1,299,643
Receivables, less allowance for doubtful accounts of $5,000	183,803	180,975
Unbilled accounts receivable	33,000	33,000
Grant receivables	65,238	628,836
Inventories	35,412	25,092
Other current assets	10,168	8,446
Total Current Assets	2,620,816	2,966,856
Noncurrent Assets		
Restricted Assets		
Customer deposits	82,348	80,089
Depreciation reserves	296,880	296,880
Debt and interest funds	153,297	149,825
Total Restricted Assets	532,525	526,794
Capital Assets		
Land and improvements	32,169	32,169
Buildings and improvements	5,177,362	1,759,544
Source of supply and pumping	1,910,815	772,440
Water treatment equipment	3,646,871	364,494
Transmission and distribution plant	12,991,052	12,169,503
Vehicles and other equipment	892,232	825,571
Construction in progress	2,745,885	11,016,319
Less: accumulated depreciation	(5,347,926)	(6,209,005)
Net Capital Assets	22,048,460	20,731,036
Total Noncurrent Assets	22,580,985	21,257,830
Total Assets	25,201,801	24,224,686
Deferred Outflows of Resources		
Prepaid expenses	17,918	16,989
Total Deferred Outflows of Resources	17,918	16,989

See accompanying notes to financial statements.

Hyden-Leslie County Water District
Statements of Net Position (Continued)
December 31, 2012 and 2011

	2012	2011
Liabilities		
Current Liabilities		
Accounts payable	$ 160,766	$ 650,947
Accrued interest payable	9,856	38,546
Current portion of long-term debt	151,897	146,092
Other current liabilities	11,801	11,786
Total Current Liabilities	334,320	847,371
Noncurrent Liabilities		
Customer deposits	38,029	35,769
Expansion deposits	44,319	44,320
Compensated absences	35,818	47,606
Long-term debt, less current portion included in current liabilties	4,049,746	4,154,643
Total Noncurrent Liabilities	4,167,912	4,282,338
Total Liabilities	4,502,232	5,129,709
Net Position		
Net investment in capital assets	17,846,817	16,430,301
Restricted	532,525	526,794
Unrestricted	2,338,145	2,154,871
Total Net Position	$ 20,717,487	$ 19,111,966

See accompanying notes to financial statements.

Hyden-Leslie County Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Water sales	$ 1,457,234	$ 1,460,618
Service charges	4,179	5,972
Tap fees	95,100	83,400
Penalties	42,794	42,508
Other revenues	1,516	1,712
Total Operating Revenues	1,600,823	1,594,210
Operating Expenses		
Salaries and wages	391,575	384,719
Employee benefits	213,956	197,834
Purchased water	17,471	14,615
Utilities	189,277	162,960
Chemicals	77,149	65,449
Materials and supplies	56,150	69,510
Contracted services	25,245	22,477
Vehicle and equipment expenses	28,652	28,947
Insurance	34,941	33,355
Bad debt expense, net of recoveries	10,881	14,209
Depreciation	445,961	448,571
Other operating expenses	50,945	42,172
Total Operating Expenses	1,542,203	1,484,818
Operating Income	58,620	109,392
Non-operating Revenues (Expenses)		
Interest income	43,564	27,020
Grant revenue	2,166,653	3,113,530
Loss on disposal of assets	(533,818)	-
Interest expense	(129,498)	(61,696)
Total Non-operating Revenues (Expenses)	1,546,901	3,078,854
Change in Net Position	1,605,521	3,188,246
Net Position, Beginning of Year	19,111,966	15,923,720
Net Position, End of Year	$ 20,717,487	$ 19,111,966

See accompanying notes to financial statements.

Hyden-Leslie County Water District
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Receipts from customers	$ 1,596,479	$ 1,590,633
Receipts from other activities	1,516	1,712
Payments to employees	(403,363)	(396,507)
Payments to suppliers	(644,355)	(685,114)
Payments for other activities	(50,945)	(42,172)
Net Cash Provided by Operating Activities	499,332	468,552
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(2,807,448)	(7,133,370)
Principal payments on debt	(159,092)	(142,392)
Interest payments on debt	(158,188)	(59,836)
Proceeds from debt	60,000	2,990,000
Grants	2,730,251	3,191,973
Net Cash Used by Capital and Related Financing Activities	(334,477)	(1,153,625)
Cash Flows From Investing Activities		
Purchases of investments	(41,017)	(24,997)
Interest on investments	43,564	27,020
Net Cash Provided by Investing Activities	2,547	2,023
Net Increase (Decrease) in Cash and Cash Equivalents	167,402	(683,050)
Cash and Cash Equivalents at Beginning of Year	1,317,658	2,000,708
Cash and Cash Equivalents at End of Year	$ 1,485,060	$ 1,317,658
Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:		
Cash and cash equivalents	$ 952,535	$ 790,865
Customer deposits	82,348	80,088
Depreciation reserves	296,880	296,880
Debt and interest funds	153,297	149,825
Cash and equivalents per Statements of Cash Flows	$ 1,485,060	$ 1,317,658

See accompanying notes to financial statements.

Hyden-Leslie County Water District
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 58,619	$ 109,392
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	445,961	448,571
(Increase) Decrease in operating assets		
Accounts receivable	(2,828)	(3,985)
Inventory	(10,320)	5,639
Other current assets and prepaid expenses	(2,651)	(849)
Increase (Decrease) in operating liabilities		
Accounts payable	20,064	(80,548)
Accrued expenses and other liabilities	(9,513)	(9,668)
Net Cash Provided by Operating Activities	$ 499,332	$ 468,552

See accompanying notes to financial statements.

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Hyden-Leslie County Water District, of Leslie County, Kentucky ("District") was created in 1968 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 five person board of Commissioners which is appointed by the Leslie County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

The 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 Leslie County, Kentucky. The District's primary source of revenue is from water sales to its 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.

The District applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

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 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.

Cash and Cash Equivalents

The District considers demand deposits and certificates of deposit with maturities of less than three months to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments

Investments include certificates of deposits with maturity dates of three months or more. Certificates of deposit in excess of FDIC insurance coverage are collateralized by securities held by the pledging institution.

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

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed and are considered past due on the first day of the following month. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2012 and 2011, the allowance for doubtful accounts was $5,000.

Unbilled Accounts Receivable

Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Inventories and Prepaid Expenses

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost and are recorded ás an expense at the time individual items are used. Prepaid expenses include payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Asset Classification	Range of Lives
Structures and improvements	40 years
Transmission distribution mains	40 years
Plant equipment	15 years
Meters and services	35 years
Other equipment and vehicles	5-10 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Customer Deposits

The District collects and holds in escrow a $30 deposit from customers to ensure collection of its water charges. Interest at an annual rate of 0.12% is paid on these deposits.

Net Position

In 2012, the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net* Position. Amounts have been reclassified in the 2011 financial statements to conform to the new presentation.

Net position is comprised of 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.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed 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 – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. In addition, the District is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

The resolutions require the District to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2012 and 2011 was $450,177 and $446,705, respectively.

Note 3 – Kentucky Revised Statute

At December 31, 2012 and 2011, $2,831,182 and $2,530,937, respectively, of the cash of the District was covered by federal depository insurance and securities pledged as collateral on behalf of the District. In accordance with Kentucky Revised Statute (KRS) 91A.060, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), financial institutions 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. According to KRS 66.480, 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, interest bearing deposits of insured savings and loans, or interest bearing deposits of insured national or state banks. For additional cash descriptive information, see Note 1.

Note 4 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2012 and 2011, $1,276,268 and $1,006,954, respectively, of the District's total deposits at banks of $2,849,055 and $2,536,442, respectively, were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and uncollateralized	$ 17,873	$ 5,505
Uninsured and collateral held by pledging bank	1,258,395	1,001,449
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	$ 1,276,268	$ 1,006,954

Note 5 – Investments

As of December 31, 2012 and 2011, the District had the following investments:

	Rating	Fair Value 2012	Fair Value 2011
Federated Capital Reserves	Not Rated	$ -	$ 113,179
Mutual Funds	Not Rated	192,865	-
Certificates of Deposit	Not Rated	1,147,795	1,186,464
Total		$ 1,340,660	$ 1,299,643

Mutual Funds are liquid assets; therefore, they do not have a maturity date and are classified as current assets.

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 arising from increasing interest rates.

Concentration of Credit Risk – Investments. The District places no limit on the amount the District may invest in any one fund. The investment in mutual funds at December 31, 2012 is 14.4% of the District's total investments, and the investment in Federated Capital Reserves at December 31, 2011 is 8.7% of the District's total investments.

Note 5 – Investments (Continued)

Risks and Uncertainties – Investments. The District invests in various mutual funds. Mutual funds are exposed to various risks, such as interest rate, credit, and market risks. Due to the level of risks associated with certain mutual funds, it is at least reasonably possible that changes in the values of mutual funds will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the financial statements.

Note 6 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2012:

	Balance Dec. 31, 2011	Additions	Dispositions	Balance Dec. 31, 2012
Land and improvements	$ 32,169	$ -	$ -	$ 32,169
Building and improvements	1,759,544	4,233,665	815,847	5,177,362
Source of supply and pumping	772,440	1,278,355	139,980	1,910,815
Water treatment equipment	364,494	3,641,371	358,994	3,646,871
Transmission and distribution plant	12,169,503	874,289	52,740	12,991,052
Vehicles and other equipment	825,571	149,512	82,851	892,232
Construction in process	11,016,319	1,594,938	9,865,372	2,745,885
Totals at historical cost	26,940,040	11,772,130	11,315,784	27,396,386
Less accumulated depreciation for:				
Building and improvements	629,125	46,515	387,299	288,341
Source of supply and pumping	402,043	18,914	114,608	306,349
Water treatment equipment	358,413	9,224	355,950	11,687
Transmission and distribution plant	4,130,052	349,963	52,740	4,427,275
Vehicles and other equipment	689,371	21,345	396,442	314,274
Total accumulated depreciation	6,209,004	445,961	1,307,039	5,347,926
Capital assets - net	$ 20,731,036	$ 11,326,169	$ 10,008,745	$ 22,048,460

Note 6 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2011:

	Balance Dec. 31, 2010	Additions	Dispositions	Balance Dec. 31, 2011
Land and improvements	$ 32,169		$ -	$ 32,169
Building and improvements	1,759,544	-	-	1,759,544
Source of supply and pumping	772,440		-	772,440
Water treatment equipment	361,419	3,075	-	364,494
Transmission and distribution plant	12,151,821	17,682	-	12,169,503
Vehicles and other equipment	818,088	7,483	-	825,571
Construction in process	3,879,579	7,136,740	-	11,016,319
Totals at historical cost	19,775,060	7,164,980	-	26,940,040
Less accumulated depreciation for:				
Building and improvements	587,305	41,820	-	629,125
Source of supply and pumping	382,032	20,011	-	402,043
Water treatment equipment	352,855	5,558	-	358,413
Transmission and distribution plant	3,781,608	348,444	-	4,130,052
Vehicles and other equipment	656,633	32,738	-	689,371
Total accumulated depreciation	5,760,433	448,571	-	6,209,004
Capital assets - net	$ 14,014,627	$ 6,716,409	$ -	$ 20,731,036

Note 7 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2012:

	Balance Dec. 31, 2011	Additions	Payments	Balance Dec. 31, 2012	Due Within One Year
Loan payable to Kentucky Infrastructure Authority, principal and interest, at the rate of 3%, payable on a semi-annual basis, with final payment due June 1, 2015	$ 433,535	$ -	$ 119,292	$ 314,243	$ 122,897
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2028; interest payable on a semi-annual basis at the rate of 5.0%	602,000	-	35,000	567,000	24,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2040; interest payable on a semi-annual basis at the rate of 4.5%	275,200	-	4,800	270,400	5,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2051; interest payable on a semi-annual basis with rates ranging from 2.25% to 3.75%	2,990,000	60,000	-	3,050,000	-
	$ 4,300,735	$ 60,000	$ 159,092	$ 4,201,643	$ 151,897

Note 7 -- Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2011:

	Balance Dec. 31, 2010	Additions	Payments	Balance Dec. 31, 2011
Loan payable to Kentucky Infrastructure Authority, principal and interest, at the rate of 3%, payable on a semi-annual basis, with final payment due June 1, 2015	$ 549,327	$ -	$ 115,792	$ 433,535
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2028; interest payable on a semi-annual basis at the rate of 5.0%	624,000	-	22,000	602,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2040; interest payable on a semi-annual basis at the rate of 4.5%	279,800		4,600	275,200
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2051, interest payable on a semi-annual basis at rates ranging from 2.25% to 3.75%	-	2,990,000	-	2,990,000
	$ 1,453,127	$ 2,990,000	$ 142,392	$ 4,300,735

Note 7 – Long-Term Debt (Continued)

The aggregate annual principal repayments on long-term debt are summarized as follows:

Year Ending December 31,	Principal	Interest	Total
2013	$ 151,897	$ 133,242	$ 285,139
2014	201,812	127,410	329,222
2015	142,234	120,807	263,041
2016	80,200	117,194	197,394
2017	84,000	113,939	197,939
2018-2022	468,000	520,142	988,142
2023-2027	566,100	423,327	989,427
2028-2032	442,000	332,134	774,134
2033-2037	474,500	266,154	740,654
2038-2042	524,400	189,502	713,902
2043-2047	555,500	114,419	669,919
2048-2051	511,000	30,259	541,459
	$ 4,201,643	$ 2,488,529	$ 6,690,172

Note 8 – Retirement Plan

In 1999 the District adopted a 401(k) deferred compensation pension plan. Under this plan the District matches employee contributions up to a maximum of 5% of gross salaries. This plan covers all full-time employees. Pension expense for 2012, 2011 and 2010 was $20,714, $19,274 and $17,601, respectively.

Note 9 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 10 - Subsequent Events

Date of Management Evaluation

Management of the District has evaluated subsequent events through April 3, 2013, the date on which the financial statements were available to be issued.

Hyden-Leslie County Water District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
ARRA Water and Waste Disposal Systems Grant	10.760	$ 1,590,683
Direct Loan:		
ARRA Water and Waste Disposal Systems	10.760	60,000
Total U.S. Department of Agriculture		1,650,683
U.S. Department of Housing and Urban Development		
Passed through Leslie County Fiscal Court:		
Community Development Block Grant/ States Program	14.228	15,000
Appalachian Regional Commission		
Direct Award		
Appalachian Area Development	23.001	600,000
Total		$ 2,265,683

Footnote to Schedule of Expenditures of Federal Awards

(1) Expenditures on this schedule are reflected on the accounting basis as reported in the financial statements.

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Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Commissioners
Hyden-Leslie County Water District
Hyden, 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 Hyden-Leslie County Water District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Hyden-Leslie County Water District's basic financial statements and have issued our report thereon dated April 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hyden-Leslie County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hyden-Leslie County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (See items 2012-1 and 2012-2)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hyden-Leslie 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 and other matters that are required to be reported under *Government Auditing Standards*.

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Hyden-Leslie County Water District's Response to Findings

Hyden-Leslie County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hyden-Leslie County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part on 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.

Christian Sturgeon & Associates, PSC

Christian Sturgeon & Associates, PSC
London, Kentucky

April 3, 2013

Christian Sturgeon
& Associates, PSC
Certified Public Accountants

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Independent Auditors' Report On Compliance For Each
Major Program And On Internal Control Over Compliance
Required by OMB Circular A-133

To the Commissioners
Hyden-Leslie County Water District
Hyden, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Hyden-Leslie County Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hyden-Leslie County Water District's major federal programs for the year ended December 31, 2012. Hyden-Leslie County Water District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Hyden-Leslie County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hyden-Leslie County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hyden-Leslie County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Hyden-Leslie County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December, 31, 2012.

Report on Internal Control Over Compliance

Management of Hyden-Leslie County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hyden-Leslie County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the

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circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hyden-Leslie County Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Christian Sturgeon & Associates, PSC

Christian Sturgeon & Associates, PSC
London, Kentucky

April 3, 2013

Hyden-Leslie County Water District
Schedule of Findings and Questioned Costs
December 31, 2012

A. Summary of Audit Results

1. The auditors' report expresses an unmodified opinion on the financial statements of Hyden-Leslie County Water District.

2. Two material weaknesses related to the audit of the financial statements were reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

3. There were no instances of noncompliance material to the financial statements of Hyden-Leslie County Water District.

4. There were no material weaknesses related to the audit of the major federal programs discussed in the Independent Auditors' Report on Compliance For Each Major Program And On Internal Control Over Compliance Required by OMB Circular A-133.

5. The auditors' report on compliance for the major federal programs for Hyden-Leslie County Water District expresses an unmodified opinion.

6. There were no audit findings relative to the major federal programs for Hyden-Leslie County Water District.

7. The programs tested as major were:

	CFDA#
Water and Waste Disposal Loans and Grants	10.760
Appalachian Area Development	23.001

8. The threshold for distinguishing Type A and B programs was $300,000.

9. Hyden-Leslie County Water District did not qualify as a low-risk auditee.

B. Findings – Financial Statements

2012-1

Criteria:
As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:
During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:
The District's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

Effect:
The District was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:
The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

2012-2

Criteria:
As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:
During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:
The size of the District's office staff does not allow proper segregation of duties.

Effect:
This condition creates a weakness in internal controls which could result in unauthorized transactions being processed.

Views of responsible officials and planned corrective actions:
The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

Hyden-Leslie County Water District
Summary of Prior Year Audit Findings
December 31, 2012

Original Finding Number	Major Program	Current Status
2011-1	Financial Statement Finding	Unresolved
2011-2	Financial Statement Finding	Unresolved
2011-3	Compliance Finding	Resolved