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Report

of

South Hopkins Water District
Dawson Springs, Kentucky

For The Years Ended December 31, 2012 and 2011

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Independent Auditor's Report

To the Commissioners
South Hopkins Water District
Dawson Springs, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of South Hopkins Water District as of and for the years ended December 31, 2012 and 2011, and the related notes to the 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Hopkins Water District as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity 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 3 through 7 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2013, on our consideration of South Hopkins 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 South Hopkins Water District's internal control over financial reporting and compliance.

Alexander, Tony & Knight PLLC

Madisonville, Kentucky
February 6, 2013

SOUTH HOPKINS WATER DISTRICT
Management's Discussion and Analysis
December 31, 2012 and 2011

The discussion and analysis of the South Hopkins Water District's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2012 and 2011. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2012

- The District's net position increased $89 thousand from $1.933 million to $2.022 million.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Postion include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snapshot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Net Position include the District's revenues and expenses for the years ended December 31, 2012 and 2011. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statements of Cash Flows include information on the District's cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities, and financing activities.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

District Financial Analysis

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position
(in thousands)

	2012	2011	dollar change	percent change	2010	dollar change	percent change
Current assets	$ 337.9	$ 308.3	$ 29.6	9.6%	$ 336.5	($ 28.2)	(8.4%)
Capital assets	2,102.6	2,124.6	(22.0)	(1.0%)	2,182.0	(57.4)	(2.6%)
Other noncurrent assets	398.4	380.5	17.9	4.7%	366.6	13.9	3.8%
Total assets	2,838.9	2,813.4	25.5	0.9%	2,885.1	(71.7)	(2.5%)
Current liabilities	107.5	134.1	(26.6)	(19.8%)	102.4	31.7	31.0%
Long-term liabilities	709.2	746.2	(37.0)	(5.0%)	805.0	(58.8)	(7.3%)
Total liabilities	816.7	880.3	(63.6)	(7.2%)	907.4	(27.1)	(3.0%)
Net assets invested in capital assets, net of related debt	1,471.6	1,433.8	37.8	2.6%	1,460.1	(26.3)	(1.8%)
Net assets restricted for debt service	49.1	48.4	0.7	1.4%	48.4	0.0	0.0%
Net assets restricted for capital projects	228.1	215.0	13.1	6.1%	198.5	16.5	8.3%
Unrestricted net assets	273.4	235.9	37.5	15.9%	270.7	(34.8)	(12.9%)
Total net position	$2,022.2	$1,933.1	$ 89.1	4.6%	$1,977.7	($ 44.6)	(2.3%)

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $2.02 million at the close of the current year.

2011 to 2012

As shown in table 1, the District's total assets increased $25,500 when compared to the prior year. Current assets increased $29,600 or 9.6% primarily due to a $40,900 increase in unrestricted cash and a $23,500 decrease in accounts receivable. Unrestricted cash increased as the District's annual water cost adjustment decreased significantly. Accounts receivable decreased as lower water rates over the prior year provided a smaller receivable balance. Capital assets decreased $22,000 as depreciation expense outpaced new additions. Other noncurrent assets increased $17,900 due to the District funding restricted cash primarily bond depreciation funds.

The District's total liabilities decreased $63,600. Current liabilities decreased $26,600 or 19.8% primarily due to bond payments as scheduled are smaller in the upcoming year then scheduled payments were in the prior year. Current bonds payable are $12,400 less than the prior year. Accounts payable are also lower at the end of the current year as water cost payable is $8,000 less due to lower water cost rates. The long-term liabilities decrease is a reflection of a $47,000 reduction in revenue bonds payable as bond payments were made as scheduled.

The District's total net position increased $89,100, which results from the net effect of the increases in total assets and decreases in total liabilities referred to above. Net assets invested in capital assets, net of related debt, increased $37,800 as debt on capital assets was paid as scheduled. Net assets restricted for capital

projects, a component of total net assets, increased $13,100 as depreciation funds were funded as required by bond covenants.

2010 to 2011

As shown in table 1, the District's total assets decreased $71,700 when compared to the prior year. Current assets decreased $28,200 or 8.4% primarily due to a $40,300 decrease in unrestricted cash and a $14,200 increase in accounts receivable. Unrestricted cash decreased as the District's annual water cost adjustment increased significantly. Accounts receivable increased as higher water rates over the prior year provided a larger receivable balance. Capital assets decreased $57,400 as depreciation expense outpaced new additions. Other noncurrent assets increased $13,900 due to the District funding restricted cash primarily bond depreciation funds.

The District's total liabilities decreased $27,100. Current liabilities increased $31,700 or 31.0% primarily due to bond payments as scheduled are larger in the upcoming year then scheduled payments have been in past years. Current bonds payable are $19,400 higher. Accounts payable are also higher at the end of the current year as water cost payable is $5,400 higher and pensions payable is $900 higher. The long-term liabilities decrease is a reflection of a $38,900 reduction in revenue bonds payable as bond payments were made as scheduled and also a higher balance of current bonds payable.

The District's total net position decreased $44,600, which results from the net effect of the decreases in total assets and decreases in total liabilities referred to above. Net assets invested in capital assets, net of related debt, decreased $26,300 as depreciation expense outpaced new capital additions. Net assets restricted for capital projects, a component of total net assets, increased $16,500 as depreciation funds were funded as required by bond covenants.

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position is presented below.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position
(in thousands)

	2012	2011	dollar change	percent change	2010	dollar change	percent change
Operating revenues	$1,314.0	$1,332.7	($ 18.7)	(1.4%)	$1,274.1	$ 58.6	4.6%
Nonoperating revenues	4.3	7.4	(3.1)	(41.9%)	15.8	(8.4)	(53.2%)
Total revenues	1,318.3	1,340.1	(21.8)	(1.6%)	1,289.9	50.2	3.9%
Operating expenses	1,239.0	1,359.1	(120.1)	(8.8%)	1,285.5	73.6	5.7%
Nonoperating expenses	32.7	36.2	(3.5)	(9.7%)	37.3	(1.1)	(2.9%)
Total expenses	1,271.7	1,395.3	(123.6)	(8.9%)	1,322.8	72.5	5.5%
Income before capital contributions	46.6	(55.2)	101.8	184.4%	(32.9)	(22.3)	(67.8%)
Capital contributions	42.5	10.6	31.9	300.9%	18.9	(8.3)	(43.9%)
Changes in net position	89.1	(44.6)	133.7	299.8%	(14.0)	(30.6)	(218.6%)
Beginning net position	1,933.1	1,977.7	(44.6)	(2.3%)	1,991.7	(14.0)	(0.7%)
Ending net position	$2,022.2	$1,933.1	$ 89.1	4.6%	$1,977.7	($ 44.6)	(2.3%)

2011 to 2012

The District's total revenues decreased $21,800 or 1.6%. Water sales decreased $22,000 as the District had a purchased water adjustment rate decrease in 2012. Nonoperating revenues decreased $3,100. In the prior year, the District received an additional $3,100 in interest income.

The District's operating expenses decreased $120,100. The District's purchased water cost decreased $155,000 due to a significantly higher once a year overpayment paid to the District's water supplier. The District's contract with the City of Dawson Springs, Kentucky (the City) provides for a once a year underpayment or overpayment based on a water cost calculation from the City. The current year overpayment was $86,705. The District was required to redistribute this overpayment to it's customers in two months. The District credited the customers bills for their portion of the overpayment. Salaries and wages increased $26,600 as employees received raises during the year and commissioners received additional $8,000 in salaries during the year. Materials and supplies cost increased $5,000 as more repair costs were incurred. Purchased power also increase $4,600.

Capital contributions increased $31,900 due to more capital contributions from customers and $21,000 in grant monies passed down from the Kentucky Transportation Cabinet, Department of Highways.

Changes in net position increased $133,700 due to the net effect of the decreased total revenues and decreased total expenses mentioned above.

2010 to 2011

The District's total revenues increased $48,800 or 3.9%. Operating revenues increased $142,300 Water sales increased $140,000 as the District had a general rate increase in April 2010 and a purchased water adjustment rate increase in December 2010. Nonoperating revenues decreased $93,500. In the prior year, the District received approximately $100,000 in federal and state noncapital grants to assist with a ice storm in early 2009.

The District's operating expenses increased $49,400. The District's purchased water cost increased $69,600 due to a 10% increase in water cost from the City of Dawson Springs, Kentucky. Materials and supplies decreased $18,000. Materials and supplies had increased in the prior year due to storm damage recovery.

Capital contributions decreased $20,800 due to less capital contributions from customers. The District had very little line extensions during the year.

Changes in net position decreased $20,800 due to the net effect of the increased total revenues and increased total expenses mentioned above.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2012 the District had $2,102,590 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, office furniture and equipment, vehicles, and machinery and equipment. This amount represents a net decrease (additions, retirements, depreciation) of $22,036 from the prior year. The decrease includes additions of capital assets less $76,577 of depreciation expense in 2012.

Significant additions during the year included $13,600 of expenditures in meters.

At December 31, 2011 the District had $2,124,626 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, office furniture and equipment, vehicles, and machinery and equipment. This amount represents a net decrease (additions, retirements, depreciation) of $57,383 from the prior year. The decrease includes additions of capital assets less $78,896 of depreciation expense in 2011.

Significant additions during the year included $16,412 of expenditures in meters.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

Long-Term Debt

At December 31, 2012, the District had $631,017 in revenue bonds and revenue refunding bonds outstanding which was a decrease of $59,840 from the prior year balance of $690,857. All three of the District's bond issues were paid as scheduled and there were no new borrowings.

At December 31, 2011, the District had $690,857 in revenue bonds and revenue refunding bonds outstanding which was a decrease of $39,337 from the prior year balance of $730,194. All three of the District's bond issues were paid as scheduled and there were no new borrowings.

Additional information on the District's long-term debt can be found in Note G of the financial statements.

Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Hopkins Water District, 129 South Main Street, Dawson Springs, Kentucky 42408.

South Hopkins Water District
Statement of Net Position
December 31, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 118,673	$ 77,790
Accounts receivable	127,342	150,847
Other receivables	481	30
Material and parts inventory	61,989	53,068
Prepaid expenses	29,395	26,566
Total current assets	337,880	308,301
Noncurrent assets		
Restricted cash and cash equivalents	390,768	372,568
Capital assets:		
Nondepreciable	53,696	35,333
Depreciable, net of accumulated depreciation	2,048,894	2,089,293
Bond issue costs, net of accumulated amortization	7,592	7,937
Total noncurrent assets	2,500,950	2,505,131
Total assets	2,838,830	2,813,432
Liabilities		
Current liabilities payable from current assets		
Accounts payable	51,133	60,118
Accrued taxes and other payables	7,302	8,969
Accumulated compensated absences	9,175	12,845
	67,610	81,932
Current liabilities payable from restricted assets		
Accrued bond interest payable	284	389
Bonds payable	32,417	44,840
Customer deposits	7,209	6,892
	39,910	52,121
Total current liabilities	107,520	134,053
Long-term liabilities		
Bonds payable	598,600	646,017
Customer deposits	87,380	83,831
Accumulated compensated absences	23,201	16,381
Total long-term liabilities	709,181	746,229
Total liabilities	816,701	880,282
Net Position		
Invested in capital assets, net of related debt	1,471,573	1,433,769
Restricted for:		
Debt service	49,074	48,444
Capital projects	228,097	214,980
Unrestricted	273,385	235,957
Total net position	$2,022,129	$1,933,150

The accompanying notes are an integral part of these statements.

South Hopkins Water District
Statement of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating revenues		
Water sales	$1,253,898	$1,275,939
Other operating revenues	60,088	56,784
Total operating revenues	1,313,986	1,332,723
Operating expenses		
Purchased water	549,238	704,240
Salaries and wages	284,188	257,557
Depreciation	76,577	78,897
Employee benefits	108,173	106,435
Transportation	29,138	30,664
Contract services	15,272	17,168
Taxes	24,153	21,639
Purchased power	45,804	41,184
Materials and supplies	70,383	65,398
Insurance	26,889	27,263
Miscellaneous	8,139	8,043
Chemicals	1,063	605
Total operating expenses	1,239,017	1,359,093
Operating income (loss)	74,969	(26,370)
Nonoperating revenues (expenses)		
Interest income	4,283	7,410
Amortization of bond issue cost	(345)	(345)
Interest expense	(32,449)	(35,736)
Gain (loss) on disposition of capital assets	0	(77)
Total nonoperating revenues (expenses)	(28,511)	(28,748)
Income (loss) before contributions and grants	46,458	(55,118)
Capital contributions-state	21,036	0
Capital contributions-tap fees	19,175	9,600
Capital contributions-customers	2,310	1,000
Change in net position	88,979	(44,518)
Total net position - beginning	1,933,150	1,977,668
Total net position - ending	$2,022,129	$1,933,150

The accompanying notes are an integral part of these statements.

South Hopkins Water District
Statement of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Cash received from customers	$1,277,403	$1,261,705
Cash payments to suppliers for goods and services	(897,955)	(1,009,190)
Cash payments to employees for services	(284,188)	(257,557)
Other operating revenues	60,088	56,784
Net cash provided (used) by operating activities	155,348	51,742
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(54,540)	(21,592)
Principal paid on bond maturities	(60,000)	(38,900)
Interest paid on bonds	(31,650)	(33,369)
Interest paid on customer deposits	(744)	(2,882)
Deposits collected from customers	10,260	9,450
Deposits repaid to customers	(6,396)	(8,470)
Capital contributions received from state	21,036	0
Capital contributions received from customers	21,486	10,600
Net cash provided (used) for capital and related financing activities	(100,548)	(85,163)
Cash flows from investing activities		
Interest earned on bank deposits	4,283	7,410
Net cash provided (used) by investing activities	4,283	7,410
Net increase (decrease) in cash and cash equivalents	59,083	(26,011)
Cash and cash equivalents at beginning of year	450,358	476,369
Cash and cash equivalents at end of year	$ 509,441	$ 450,358

Reconciliation of operating income to net cash provided (used) by operating activities

Operating income (loss)	$ 74,969	($ 26,370)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	76,577	78,897
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	23,505	(14,234)
(Increase) decrease in other receivables	(451)	430
(Increase) decrease in inventory	(8,921)	(550)
(Increase) decrease in prepaid expenses	(2,829)	2,244
Increase (decrease) in accounts payable	(8,985)	7,707
Increase (decrease) in taxes and other payables	(1,667)	886
Increase (decrease) in compensated absences	3,150	2,732
Total adjustments	80,379	78,112
Net cash provided (used) by operating activities	$ 155,348	$ 51,742

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the South Hopkins Water District conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

1. The Financial Reporting Entity

South Hopkins Water District (the "District") was created on May 6, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at 129 South Main Street, Dawson Springs, Kentucky. The District is composed of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to its members in and around southern Hopkins County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

2. Basis of Presentation, Measurement Focus, and Basis of Accounting

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues, and expenses. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. The statements of revenue, expenses, and changes in fund net position present increases (revenues) and decreases (expenses) in net position.

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for 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.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

3. Cash and Cash Equivalents
All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits include interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

4. Inventory
Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

5. Capital Assets
Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2012 and 2011.

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	3 to 20 years
Vehicles	5 years

6. Restricted Net Assets
Restricted net assets are cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements.

7. Long-Term Liabilities
Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Long-term debt is reported at face value plus applicable issuance premiums and net of applicable discounts and deferred amounts on refunding. Costs related to issuance of debt are deferred and amortized over the lives of the various debt issues. Discounts on debt issuances and amounts deferred on refunding are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter. Premiums on debt issuances are deferred and amortized as a reduction of interest expense over the life of the bonds.

8. Uncollectible Accounts
Accounts receivable are presented net of noncollectible accounts. The allowance for uncollectible accounts was $6,702 at December 31, 2012 and $7,939 at December 31, 2011.

9. Use of Estimates
The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (1) in writing, (2) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

NOTE B - DEPOSITS continued

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2012 the reconciled balance of the District's deposits totaled $508,242 and the bank balances were $547,316. Of the bank balances $547,316 was covered by federal depository insurance (category 1).

On December 31, 2011 the reconciled balance of the District's deposits totaled $449,158 and the bank balances were $456,952. Of the bank balances $456,952 was covered by federal depository insurance (category 1).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance which represents the amount of unexpired insurance which the District had previously paid for at the balance sheet date and prepaid employee benefits which represents the amount of employee health insurance for the one month subsequent to the balance sheet date but paid by the District as of the balance sheet date.

At December 31, 2012, the District's prepaid expenses consisted of $25,143 of insurance and $4,252 of employee benefits. At December 31, 2011, the District's prepaid expenses consisted of $22,331 of insurance and $4,235 of employee benefits.

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt in compliance with bond covenants, cash restricted for future operations in compliance with escrow reserve agreements, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	2012	2011
Bond and interest redemption fund	$ 49,074	$ 48,444
Bond depreciation fund	225,373	212,258
Meter deposit fund	113,597	109,144
Construction fund	2,724	2,722
Totals	$ 390,768	$ 372,568

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2012 and 2011, were as follows:

	Balances 12/31/10	Transfers/ Additions	Transfers/ Retirements	Balances 12/13/11	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/12
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	$ 29,875	$ 0	$ 0	$ 29,875	$ 0	$ 0	$ 29,875
Construction in progress	6,100	5,458	6,100	5,458	23,821	5,458	23,821
Total	35,975	5,458	6,100	35,333	23,821	5,458	53,696
Capital assets being depreciated							
Structures, improvements, & water system	4,882,397	20,153	19,588	4,882,962	32,336	30,208	4,885,090
Office furniture & equipment	45,106	499	1,536	44,069	2,630	0	46,699
Vehicles & equipment	123,586	0	0	123,586	0	0	123,586
Machinery & equipment	108,559	1,580	0	110,139	1,212	0	111,351
Total	5,159,648	22,232	21,124	5,160,756	36,178	30,208	5,166,726
Total capital assets	5,195,623	27,690	27,224	5,196,089	59,999	35,666	5,220,422
Less accumulated depreciation for:							
Structures, improvements, & water system	2,794,283	59,771	19,588	2,834,466	59,035	30,208	2,863,293
Office furniture & equipment	39,179	956	1,459	38,676	1,322	0	39,998
Vehicles & equipment	88,283	12,147	0	100,430	10,744	0	111,174
Machinery & equipment	91,869	6,022	0	97,891	5,476	0	103,367
Total accumulated depreciation	3,013,614	78,896	21,047	3,071,463	76,577	30,208	3,117,832
Total business-type activities capital assets, net	$2,182,009	($ 51,206)	$ 6,177	$2,124,626	($ 16,578)	$ 5,458	$2,102,590

NOTE F - UNAMORTIZED BOND ISSUE COST

Series 1994A and B

$13,114 of proceeds from the Series 1994A and B bonds were capitalized as bond issue cost and are being amortized using the straight line method over the term of the bonds. Bond issue cost of $345 during 2012 and $345 during 2011 was amortized.

South Hopkins Water District
Notes to Financial Statements
December 31, 2012 and 2011

NOTE G - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2012 and 2011, were as follows:

	Balances 12/31/10	Additions	Reductions	Balances 12/31/11	Additions	Reductions	Balances 12/31/12	Amounts Due Within One Year
Revenue Bonds:								
Series 1994A	$ 547,000	$ 0	$ 12,000	$ 535,000	$ 0	$ 13,000	$ 522,000	$ 0
Series 1994B	80,500	0	1,900	78,600	0	2,000	76,600	0
Series 2004A/B	102,500	0	25,000	77,500	0	45,000	32,500	32,500
Total	730,000	0	38,900	691,100	0	60,000	631,100	32,500
Less/Add Deferred Amounts:								
On Refunding	(1,481)	0	(591)	(890)	0	(591)	(299)	(299)
Issuance Premium	1,675	0	1,028	647	0	431	216	216
Total Bonds	730,194	0	39,337	690,857	0	59,840	631,017	32,417
Customer Deposits	89,743	9,450	8,470	90,723	10,260	6,394	94,589	7,209
Accumulated Compensated Absences	26,494	11,502	8,770	29,226	11,953	8,803	32,376	9,175
Business-type Activities Long-Term Liabilities	$ 846,431	$ 20,952	$ 56,577	$ 810,806	$ 22,213	$ 75,037	$ 757,982	$ 48,801

Description of debt

Revenue Refunding Bonds, 1993 Series E and 2004 Series A/B

An assistance agreement (Farmers Home Administration Refunding Program) dated June 1, 1988 was entered into between Kentucky Infrastructure Authority and the District authorizing issuance of $853,052 of refunding bonds. The bonds were to mature in annual installments through the year 2013. Interest was payable semi-annually on January 1 and July 1. The interest rate varied over the term of maturity from 5.25% to 7.85%. $30,515 of proceeds from the issue was capitalized as bond issue cost and was to be amortized using the straight-line method over the term of the bonds. $75,836 of proceeds from the issue was deposited in a special fund with the bond trustee to provide the District's portion of a debt service reserve fund required by the indenture. Payments for retirement of the debt were subject to adjustment for the amortization of the reserve fund. Interest earned by the reserve fund was credited to interest income.

NOTE G - LONG-TERM LIABILITIES continued

On April 1, 1993 the Kentucky Infrastructure Authority (KIA) issued Revenue Refunding Bonds, 1993 Series E, dated April 1, 1993 (the "Refunding Bonds") in order to provide funds to advance refund the issue referred to in the previous paragraph. Due to the decline in interest rates KIA determined that by issuing the refunding bonds the District could realize savings in annual debt service payments. The net present value to the District of this savings would be equal to $42,506. The loss on extinguishment of debt had been accounted for under APB Opinion No. 26 as amended by Statement of Financial Accounting Standards No. 76. The loss had been classified as extraordinary under Statement of Financial Accounting Standards 4 as amended by Statement of Financial Accounting Standards 64. The loss had no material bearing on cash flow for the reporting periods.

The "Refunding Bonds" were to mature in annual installments through the year 2013. Interest was payable semi-annually on January 1 and July 1. The interest rate varied over the term of maturity from 2.50% to 5.75%. $12,167 of proceeds from the issue was capitalized as bond issue cost and was being amortized using the straight-line method over the term of the bonds. $67,590 of proceeds from the issue was deposited in a special fund with the bond trustee to provide the District's portion of a debt service reserve fund required by the indenture. Payments for retirement of the debt were subject to adjustment for the amortization of the reserve fund. Interest earned by the fund was credited to interest income.

An assistance agreement dated July 28, 2004 was entered into between KIA and the District authorizing issuance of $345,000 of refunding bonds (the Revenue Refunding Bonds, Series 2004 A/B) to provide funds to refund the issue referred to in the previous paragraph. Due to the decline in interest rates KIA determined that by issuing the refunding bonds the District could realize savings in annual debt service payments. Total debt service payments would be reduced over the next nine years by $69,025. The remaining $53,582 balance in the District's debt service reserve fund referred to in the previous paragraph was used to pay down the principal on the old issue. The 2004 refunding bonds were sold with a premium of $17,900, which will be amortized as a reduction of interest expense using the bonds outstanding/straight line method over the term of the new bonds. The difference between the reacquisition price and the net carrying amount of the old bonds was $5,323 (the deferred amount on refunding). The deferred amount on refunding will be amortized as interest expense using the straight-line method over the term of the bonds.

The "Refunding Bonds 2004" mature in monthly installments through the year 2013. Interest and principal is payable monthly by the District. The interest rate varies over the term of maturity from 2.25% to 5.25%.

The "Refunding Bonds 2004" are presented on the financial statements net of unamortized deferred amount of refunding and include unamortized premium on bonds.

NOTE G - LONG-TERM LIABILITIES continued

Waterworks Revenue Bonds, 1994 Series A and B

A bond resolution dated November 29, 1994 authorized issuance of $670,000 (Series A) and $100,000 (Series B) of waterworks revenue bonds maturing in annual installments through year 2035. Interest is payable semi-annually on January 1 and July 1 at 4.5% per annum and principal is payable annually on January 1.

The 1994 Series Bonds were issued and sold to the United States Department of Agriculture/Rural Development (formerly Rural Economic and Community Development). The bond resolutions provide for all revenue receipts to be deposited into a Water Revenue Fund with transfers to the following funds:

a) Waterworks Bond and Interest Sinking Fund - Prorata monthly transfers of an amount equal to the next principal and/or interest payments.
b) Depreciation Fund - Monthly transfers of $380 until the fund equals at least $45,600.
c) Operation and Maintenance Fund - Monthly transfers of an amount equal to the monthly expense disbursement of the District.
d) After meeting all the requirements of a) through c) above, the balance remaining in the Revenue Fund is to be transferred to the Depreciation Fund.

Withdrawals from the Depreciation Fund can be authorized by the commissioners for the cost of unusual or extraordinary maintenance, repairs, renewals, and replacements, including extensions and additions, not included in the annual budget of current expenses.

Debt Maturity

Annual debt service requirements at December 31, 2012 are as follows:

Year Ended December 31	Business-type Activities Principal	Business-type Activities Interest
2013	$ 32,500	$ 15,175
2014	16,100	26,575
2015	16,200	25,848
2016	17,300	25,094
2017	18,400	24,291
2018-2022	104,700	108,070
2023-2027	133,100	81,416
2028-2032	170,300	47,477
2033-2035	122,500	14,794
Totals	$ 631,100	$ 368,740

NOTE H - ACCUMULATED COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate a limited amount of earned but unused sick leave.

NOTE I - EMPLOYEES' PENSION PLAN

Plan description

The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems.

The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646 or on the internet at www.kyret.com.

Funding policy

Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the 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.

For the year ended December 31, 2011, plan members hired prior to September 1, 2008 were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation.

The District is required to contribute at an actuarially determined rate. The District was required to contribute 19.55% of each employee's creditable compensation for the last six months of the year ended December 31, 2012. The District was required to contribute 18.96% of each employee's creditable compensation for the first six months of the year ended December 31, 2012 and for the final six months of the year ended December 31, 2011. The District was required to contribute 16.93% of each employee's creditable compensation for the first six months of the year ended December 31, 2011 and for the final six months of the year ended December 31, 2010. The District was required to contribute 16.16% of each employee's creditable compensation for the first six months of the year ended December 31, 2010. The District's contributions to CERS for the years ended December 31, 2012, 2011, and 2010 were $50,155, $44,361, and $41,818, respectively.

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - MAJOR SUPPLIER

The District purchases 98% of water resold from the City of Dawson Springs, Kentucky.

NOTE L - CONSTRUCTION IN PROGRESS

2012
The District has purchased meters to be installed subsequent to year end. The $2,745 cost will be capitalized when placed in service. The District has incurred engineering costs of $21,076 in relation to the Interstate 69 line relocation project. This cost is being recovered through a utility relocation agreement with the Kentucky Transportation Cabinet, Department of Highways. The Kentucky Transportation Cabinet is refunding the costs to the District through pass through grants received from the Federal Highway Administration Cabinet. These costs will be capitalized when the project is completed.

2011
The District has purchased meters to be installed subsequent to year end. The $5,458 cost will be capitalized when placed in service.

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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 (for a Governmental Entity)*

To The Commissioners
South Hopkins Water District
Dawson Springs, Kentucky

We have audited, 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, the financial statements of South Hopkins Water District as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Hopkins 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 South Hopkins Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Hopkins 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

2012-1 Segregation of Duties

Condition: The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.
Criteria: Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.
Effect: The lack of proper segregation of duties may permit errors or irregularities to go undetected.
Cause: There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.
Recommendation: While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.
Response: The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Hopkins 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*.

South Hopkins Water District's Response to Findings

South Hopkins Water District's response to the findings identified in our audit is described above. South Hopkins 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 result 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 purposes.

Alexander, Tony & Knight PLLC
Madisonville, Kentucky
February 6, 2013