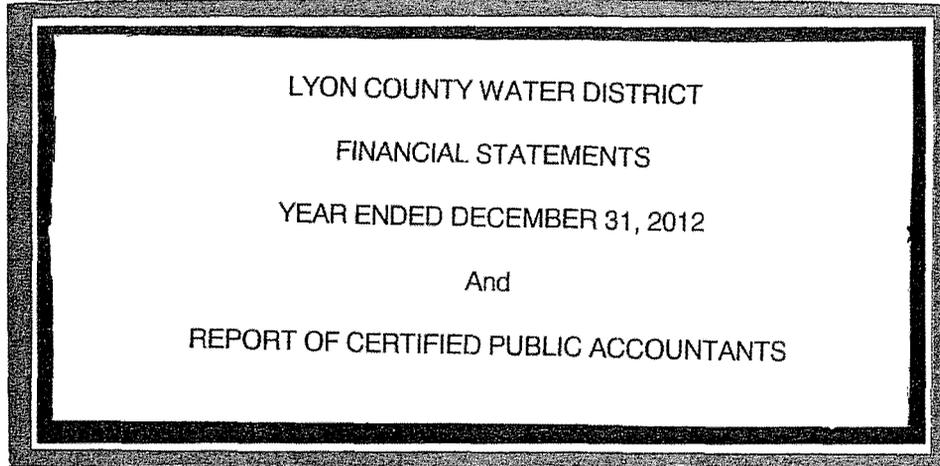




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CERTIFIED PUBLIC ACCOUNTANTS

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LYON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

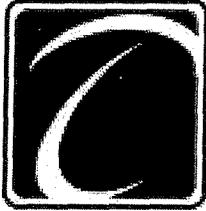
YEAR ENDED DECEMBER 31, 2012

And

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

Members
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ACCOUNTANT'S COMPILATION REPORT

To the Members of the Commission
Lyon County Water District

We have compiled the accompanying financial statements Lyon County Water District, as of and for the year ended December 31, 2012, as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

The management of the Lyon County Water District is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The management's discussion and analysis on pages 2 through 4 is presented for purposes of additional analysis. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and accordingly, we do not express an opinion or provide any assurance on such supplementary information.

We are not independent with respect to the Lyon County Water District.

Thurman Campbell Group, PLC

January 31, 2013

LYON COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

The Lyon County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2012. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

The District's operating revenues increases \$65,593, from \$899,672 to \$965,265 during the prior year.

The District's total net position increased by \$134,082 during the year compared to a \$2,976 increase in the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide financial statements. The notes to the financial statements can be found on pages 8-15 of this report.

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

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

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$3,593,662 at December 31, 2012.

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

	Business-Type Activities	
	2012	2011
Current & other assets	\$ 466,814	\$ 425,828
Capital Assets	4,783,191	4,682,925
Restricted Assets	244,518	220,597
	5,494,523	5,329,350
Long-term liabilities	1,552,854	1,692,000
Other liabilities	348,007	177,770
	1,900,861	1,869,770
Net position		
Invested in capital assets, net related debt	3,024,340	2,957,925
Restricted	244,518	220,597
Unrestricted	324,804	281,058
	\$ 3,593,662	\$ 3,459,580

A portion of the District's net assets (\$3,024,340) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities. See Notes 3 and 4 in the Notes to Financial Statements.

	Business-Type Activities	
	2012	2011
Revenues:		
Water & sewer sales	\$ 965,265	\$ 899,672
Expenses:		
Operating expenses	972,650	967,976
Operating income	(7,385)	(68,304)
Non-operating income	6,471	34,929
Non-operating expenses	(87,250)	(86,310)
Contributed Capital	222,246	122,661
Net increase in net position	134,082	2,976
Net position, beginning of year	3,459,580	3,456,604
Net position, end of year	\$ 3,593,662	\$ 3,459,580

CAPITAL ASSETS

The District's investment in capital assets (net of accumulated depreciation, as of December 31, 2012 was \$4,783,191. The table below gives a brief description of capital assets of the District:

Assets not being depreciated:	
Land	\$ 121,772
Construction in Progress	343,106
Assets being depreciated:	
Equipment	102,336
Distribution lines	3,403,519
Water Tanks	140,480
Building	43,612
Transportation	22,466
Sewer Lines	605,900
Total Assets	<u>\$ 4,783,191</u>

For the year ending December 31, 2012, the District purchased additional capital asset including \$172,348 in line construction, the purchase of a \$56,598 new scada system, \$72,490 backhoe, \$8,500 trailer, and \$6,139 meter reading handheld and computer equipment. For additional information on the District's capital assets see Note 3 Capital Assets.

LONG-TERM DEBT

The District's long-term debt at December 31, 2012 and 2011 was \$1,552,854 and \$1,692,000 respectively. The table below gives a brief description of long-term debt of the District:

Long Term Debt:	
KY Infrastructure	\$ 157,500
KY Association of Counties	24,000
USDA Rural Development	785,000
USDA Rural Development	533,000
Capital Lease	53,354
Total Long Term Debt	<u>\$ 1,552,854</u>

For additional information on the District's long-term debt see Note 4 Capital Lease and Note 5 Long-Term Debt.

REQUEST FOR INFORMATION

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

LYON COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2012

ASSETS	<u>2012</u>
Current assets:	
Cash	\$ 213,955
Accounts receivable:	
Trade	50,234
Inventory	10,208
Prepaid expenses	7,073
Total current assets	<u>281,470</u>
Restricted assets:	
Cash	<u>244,518</u>
Capital assets (not being depreciated)	464,877
Capital assets (net of accumulated depreciation)	4,318,314
	<u>4,783,191</u>
Other assets:	
Deposits	123
Prepaid KIA principal	162,935
Unamortized debt expense, net	22,286
	<u>185,344</u>
Total assets	<u>5,494,523</u>
 LIABILITIES	
Current liabilities:	
Current maturities of long-term debt	206,116
Note payable	24,287
Accounts payable:	
Trade	36,226
Construction	3,824
Withholdings and related	4,743
Customer's deposit	18,801
Accrued expenses:	
Taxes	2,304
Interest	51,706
Total current liabilities	<u>348,007</u>
Long-term debt, less current maturities	<u>1,552,854</u>
Total liabilities	<u>1,900,861</u>
 NET POSTION	
Invested in capital assets, net of related debt, as restated	3,024,340
Restricted-expendable	244,518
Unrestricted	324,804
Total net assets	<u>\$ 3,593,662</u>

LYON COUNTY WATER DISTRICT
STATEMENT OF REVENUES , EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2012

	2012
Operating Revenues:	
Water and Sewer sales, net of refunds	\$ 952,170
Other Income	13,095
Total operating revenues	965,265
Operating Expenses	
Water Expenses	746,680
Wastewater Expenses	10,007
Taxes	1,578
Deprecation and amortization	214,385
Total operating expenses	972,650
Operating income (loss)	(7,385)
Nonoperating Revenues (Expenses)	
Interest income	147
Miscellaneous receipts	6,324
Interest expense	(84,084)
Loss on disposal of assets	(3,166)
Total non-operating expenses	(80,779)
Capital Contributions	
Tap-on fees	18,300
Construction grants	203,946
Total capital contributions	222,246
Change in net postion	134,082
Net Postion, beginning of year	3,459,580
Net postion, end of year	\$ 3,593,662

LYON COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

	2012
Cash flows from operating activities:	
Received from customers	\$ 985,155
Paid to suppliers for goods and services	(575,077)
Paid to employees	(184,488)
Net cash provided (used) by operating activities	225,590
Cash flows from non-capital financing activities:	
Miscellaneous receipts	6,324
Net cash provided (used) by non-capital financing activities	6,324
Cash flows from capital and related financing activities:	
Contributed capital, net	222,246
Acquisition and construction of property, plant and equipment	(316,075)
Proceeds from Long Term Debt	72,490
Principal paid on long-term debt	(38,520)
Interest paid on debt	(84,084)
Prepaid Kentucky Infrastructure principal	(24,083)
Net cash provided (used) by capital and related financing activities	(168,026)
Cash flows from investing activities:	
Interest income	147
Net cash provided (used) by investing activities	147
Net increase (decrease) in cash	64,035
Cash and cash equivalents, beginning of year	394,438
Cash and cash equivalents, end of year	\$ 458,473
Cash flows from operating activities:	
Operating (loss) income	\$ (7,385)
Adjustments - operating activities:	
Depreciation and amortization	214,385
(Increase) decrease in:	
Accounts receivable	20,240
Inventory	1,489
Prepaid expenses	(260)
Increase (decrease) in:	
Accounts payable	(1,233)
Customer's deposits	(350)
Withholdings and related	(49)
Accrued interest	(1,062)
Accrued taxes	(185)
Net cash provided (used) by operating activities	\$ 225,590

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The District applies all Government Accounting Standards Board (GASB) pronouncements. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When the Utility incurs an expense for which both restricted and unrestricted resources may be used, it is the Utility's policy to use restricted resources first, then unrestricted resources.

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

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

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

Buildings	20-40 years
Equipment	5-10 years
Water and Sewer Lines	25-40 years

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

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

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Cash and cash equivalents – For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Revenue recognition-Revenues are recognized when earned and expenses are recognized when incurred. The District customers are billed monthly. Unbilled utility service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$45,865 at December 31, 2012.

2 CASH

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

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

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

Lyon County Water District KIA Loan Repayment Fund - The KIA Loan Fund was established for the purpose of paying the principal and interest on the Kentucky Infrastructure Authority note. The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2011 the balance of the KIA Loan Fund was \$60,894.

Lyon County Water Revenue Bond and Interest Sinking Fund of 1995 and 2002 - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds - Series of 1995 and 2002. The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2011 the balance of the Sinking Fund was \$89,806.

Depreciation Reserve - The ordinances requires Lyon County Water District to make monthly contributions to this fund after observing the priority of deposits into the KIA Loan Fund and the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$510 monthly deposits until a required minimum balance of \$61,200 is met. Under the 2002 ordinance the District is to make \$295 monthly deposits over the life of the loan. At December 31, 2011 the balance of the Depreciation Reserve Fund was \$86,578

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

2 CASH (Continued)

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

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

Deposits - As of December 31, 2011, the carrying amount of the District's deposits was \$394,437 and the bank balance was \$462,054. Of these amounts \$250,000 was covered by federal depository insurance. The remainder of the bank balance was collateralized by securities held by the pledging financial institutions.

Insured by FDIC	\$ 250,000
Uninsured and collecteralized with securities held by Branch Banking & Trust	<u>212,054</u>
Total	<u><u>\$ 462,054</u></u>

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

3 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012:

	Balance January 1, 2012	Additions	Reduction	Balance December 31, 2012
Assets being depreciated:				
Equipment	\$ 164,292	\$ 87,129	\$ (74,787)	\$ 176,634
Distribution lines	6,301,407	-	-	6,301,407
Water Tanks	358,440	56,598	-	415,038
Building	73,976	-	-	73,976
Transportation	59,079	-	(4,950)	54,129
Sewer Lines	665,611	-	-	665,611
Total Depreciable assets	<u>7,622,805</u>	<u>143,727</u>	<u>(79,737)</u>	<u>7,686,795</u>
Accumulated Depreciation:				
Equipment	(130,101)	(15,818)	71,621	(74,298)
Distribution lines	(2,741,070)	(156,818)	-	(2,897,888)
Water Tanks	(261,171)	(13,387)	-	(274,558)
Building	(28,050)	(2,314)	-	(30,364)
Transportation	(28,950)	(7,663)	4,950	(31,663)
Sewer Lines	(43,071)	(16,640)	-	(59,711)
Total Accumulated Depreciation	<u>(3,232,413)</u>	<u>(212,640)</u>	<u>76,571</u>	<u>(3,368,482)</u>
Assets not being depreciated:				
Land	121,772	-	-	121,772
Construction in Progress	170,758	228,946	(56,598)	343,106
Total Non-depreciable assets	<u>292,530</u>	<u>228,946</u>	<u>(56,598)</u>	<u>464,878</u>
Total business-type capital assets	<u>\$ 4,682,922</u>	<u>\$ 160,033</u>	<u>\$ (59,764)</u>	<u>\$ 4,783,191</u>

Depreciation charged to income was \$212,640.

4 CAPITAL LEASES

In fiscal year 2012, the District entered into a capitalized lease for a backhoe. This lease agreement met the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital assets consisting of a Case backhoe have been capitalized in the amount of \$72,490. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2012 for this equipment was \$3,625, leaving a current book value of \$68,865. A corresponding liability is recorded in the financial statements. Principal payments in fiscal year 2011 totaled \$5,520.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

4 CAPITAL LEASES (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2012:

	Principal	Interest	Total
2013	13,616	2,356	15,972
2014	14,153	1,818	15,971
2015	14,712	1,260	15,972
2016	15,292	679	15,971
2017	9,197	119	9,316
	\$ 66,970	\$ 6,232	\$ 73,202

5 LONG-TERM DEBT

The District's long-term debt at December 31, 2012 consisted of the following:

Note payable to Kentucky Infrastructure Authority, bearing interest at 2.5 to 5.25 percent, due June 1, 2014. Principal & interest due monthly	\$	315,000
Note payable to Kentucky Association of Counties Leasing Trust, bearing interest at 6.31 percent, before Common principal due annually January 1.		32,000
Rural Economic Development Water Revenue Bond Series 1995 bearing interest at 4.875 percent due January 1, 2035. Interest due semi-annually on January 1 and July 1 and Principal due annually on January 1.		804,000
Rural Economic Development Water Revenue Bond Series 2002 bearing interest at 4.50 percent due January 1, 2023. Interest due semi-annually on January 1 and July 1 and Principal due annually on January 1.		541,000
Capital Lease payable to Bank of the West bearing 3.23 percent interest due 2017 . Interest and principal due monthly.		66,970
		1,758,970
Less Current Portion		206,116
	\$	1,552,854

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

5 LONG-TERM DEBT (continued)

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

		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2013	\$	192,500	\$	78,958	\$	271,458
2014		194,000		68,750		262,750
2015		38,000		58,473		96,473
2016		39,500		56,712		96,212
2017		33,000		55,260		88,260
2018-2022		192,500		252,408		444,908
2023-2027		247,500		204,438		451,938
2028-2032		318,500		142,675		461,175
2033-2037		284,500		66,017		350,517
2038-2042		152,000		21,150		173,150
		<u>\$ 1,692,000</u>		<u>\$ 2,696,841</u>		<u>\$ 2,696,841</u>

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

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

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

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

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

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

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

5 LONG-TERM DEBT (continued)

See Note 4 for detail on the District's capital lease obligation. Principal and interest payments are due monthly.

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

	Balance January 1, 2012	Additions	Debt Payments	Balance December 31, 2012	Less current portion	Long-term debt December 31, 2012
KIA Infrastructure	\$ 315,000	\$ -	\$ -	\$ 315,000	\$ 157,500	\$ 157,500
KY Associations of Counties	39,000	-	7,000	32,000	8,000	24,000
Rural Development-1995	822,000	-	18,000	804,000	19,000	785,000
Rural Development-2002	549,000	-	8,000	541,000	8,000	533,000
Capital Lease	-	72,490	5,520	66,970	13,616	53,354
	<u>\$ 1,725,000</u>	<u>\$ 72,490</u>	<u>\$ 38,520</u>	<u>\$ 1,758,970</u>	<u>\$ 206,116</u>	<u>\$ 1,552,854</u>

Interest Expense for the year was 84,084.

6 CONTRACTS FOR WATER SUPPLY

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

7 COMMERCIAL INSURANCE

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

8 CONTINGENCIES

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

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

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

9 RETIREMENT PLAN

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

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

CERS covered employees are required to contribute an amount equal to 5.00% of gross pay and the employer was required to contribute an amount equal to 19.55% of gross pay for the year ended December 31, 2012.

Trend information:

Schedule of Employer Contributions –

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 2012	\$ 24,542	\$ 24,542	100%
December 31, 2011	22,947	22,947	100%
December 31, 2010	18,773	18,773	100%

10 SUBSEQUENT EVENT

As of December 31, 2012 the District was in the process of refunding bond series 1995 and series 2002 through Kentucky Rural Water Finance Corporation.

A system upgrade through Rural Development and Kentucky Infrastructure Authority has been approved and engineering design plans have been completed. The upgrade is estimated at \$4,500,000 with a \$550,000 grant expected and the rest financed through loans.