

Hyden–Leslie County Water District  
Hyden, Kentucky

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Independent Auditors' Report  
And Financial Statements  
For the Years Ended  
December 31, 2013 and 2012

Hyden-Leslie County Water District  
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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 financial statements of the business-type activities of Hyden-Leslie County Water District (the District) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

**Required Supplementary Information**

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 audits were 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014 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

March 28, 2014

Hyden-Leslie County Water District  
Statements of Net Position  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 822,997	\$ 952,535
Investments	1,353,422	1,340,660
Receivables, less allowance for doubtful accounts of \$5,000	200,038	183,803
Unbilled accounts receivable	33,000	33,000
Grant receivables	-	65,238
Inventories	36,832	35,412
Other current assets	5,242	10,168
<b>Total Current Assets</b>	<u>2,451,531</u>	<u>2,620,816</u>
<b>Noncurrent Assets</b>		
<b>Restricted Assets</b>		
Customer deposits	85,649	82,348
Depreciation reserves	296,880	296,880
Debt and interest funds	192,016	153,297
<b>Total Restricted Assets</b>	<u>574,545</u>	<u>532,525</u>
<b>Capital Assets</b>		
Land and improvements	32,169	32,169
Buildings and improvements	5,177,362	5,177,362
Source of supply and pumping	1,912,440	1,910,815
Water treatment equipment	3,648,978	3,646,871
Transmission and distribution plant	13,004,738	12,991,052
Vehicles and other equipment	893,886	892,232
Construction in progress	7,450,106	2,745,885
Less: accumulated depreciation	(5,984,088)	(5,347,926)
<b>Net Capital Assets</b>	<u>26,135,591</u>	<u>22,048,460</u>
<b>Total Noncurrent Assets</b>	<u>26,710,136</u>	<u>22,580,985</u>
<b>Total Assets</b>	<u>29,161,667</u>	<u>25,201,801</u>
<b>Deferred Outflows of Resources</b>		
Prepaid expenses	24,021	17,918
<b>Total Deferred Outflows of Resources</b>	<u>24,021</u>	<u>17,918</u>

Hyden-Leslie County Water District  
Statements of Net Position (Continued)  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,262,976	\$ 160,766
Accrued interest payable	9,608	9,856
Accrued salaries and taxes payable	3,424	-
Current portion of long-term debt	205,812	151,897
Other current liabilities	11,912	11,801
<b>Total Current Liabilities</b>	<u>1,493,732</u>	<u>334,320</u>
<b>Noncurrent Liabilities</b>		
Customer deposits	41,329	38,029
Expansion deposits	44,320	44,319
Compensated absences	24,030	35,818
Long-term debt, less current portion included in current liabilities	3,850,434	4,049,746
<b>Total Noncurrent Liabilities</b>	<u>3,960,113</u>	<u>4,167,912</u>
<b>Total Liabilities</b>	<u>5,453,845</u>	<u>4,502,232</u>
<b>Net Position</b>		
Net investment in capital assets	22,079,345	17,846,817
Restricted	574,545	532,525
Unrestricted	1,077,953	2,338,145
<b>Total Net Position</b>	<u>\$ 23,731,843</u>	<u>\$ 20,717,487</u>

**Hyden-Leslie County Water District**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating Revenues</b>		
Water sales	\$ 1,443,254	\$ 1,457,234
Service charges	5,452	4,179
Tap fees	21,320	95,100
Penalties	42,292	42,794
Other revenues	<u>881</u>	<u>1,516</u>
<b>Total Operating Revenues</b>	<u>1,513,199</u>	<u>1,600,823</u>
<b>Operating Expenses</b>		
Salaries and wages	368,676	391,575
Employee benefits	213,121	213,956
Purchased water	16,506	17,471
Utilities	209,713	189,277
Chemicals	64,182	77,149
Materials and supplies	53,434	56,150
Contracted services	24,965	25,245
Vehicle and equipment expenses	30,608	28,652
Insurance	44,892	34,941
Bad debt expense, net of recoveries	11,222	10,881
Depreciation	636,162	445,961
Other operating expenses	<u>59,717</u>	<u>50,945</u>
<b>Total Operating Expenses</b>	<u>1,733,198</u>	<u>1,542,203</u>
<b>Operating Income (Loss)</b>	<u>(219,999)</u>	<u>58,620</u>
<b>Non-operating Revenues (Expenses)</b>		
Interest income	9,513	43,564
Grant revenue	3,347,969	2,166,653
Loss on disposal of assets	-	(533,818)
Interest expense	<u>(123,127)</u>	<u>(129,498)</u>
<b>Total Non-operating Revenues (Expenses)</b>	<u>3,234,355</u>	<u>1,546,901</u>
<b>Change in Net Position</b>	<u>3,014,356</u>	<u>1,605,521</u>
<b>Net Position, Beginning of Year</b>	<u>20,717,487</u>	<u>19,111,966</u>
<b>Net Position, End of Year</b>	<u>\$ 23,731,843</u>	<u>\$ 20,717,487</u>

**Hyden-Leslie County Water District**  
**Statements of Cash Flows**  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	\$ 1,496,083	\$ 1,596,479
Receipts from other activities	881	1,516
Payments to employees	(380,464)	(403,363)
Payments to suppliers	(676,468)	(644,355)
Payments for other activities	<u>(59,717)</u>	<u>(50,945)</u>
 Net Cash Provided by Operating Activities	 <u>380,315</u>	 <u>499,332</u>
 <b>Cash Flows From Capital and Related Financing Activities</b>		
Purchases of property, plant and equipment	(3,609,020)	(2,807,448)
Principal payments on debt	(145,397)	(159,092)
Interest payments on debt	(123,375)	(158,188)
Proceeds from debt	-	60,000
Grants	<u>3,413,208</u>	<u>2,730,251</u>
 Net Cash Used by Capital and Related Financing Activities	 <u>(464,584)</u>	 <u>(334,477)</u>
 <b>Cash Flows From Investing Activities</b>		
Purchases of investments	(12,762)	(41,017)
Interest on investments	<u>9,513</u>	<u>43,564</u>
 Net Cash Provided (Used) by Investing Activities	 <u>(3,249)</u>	 <u>2,547</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (87,518)	 167,402
 Cash and Cash Equivalents at Beginning of Year	 <u>1,485,060</u>	 <u>1,317,658</u>
 Cash and Cash Equivalents at End of Year	 <u>\$ 1,397,542</u>	 <u>\$ 1,485,060</u>
 <b>Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:</b>		
Cash and cash equivalents	\$ 822,997	\$ 952,535
Customer deposits	85,649	82,348
Depreciation reserves	296,880	296,880
Debt and interest funds	<u>192,016</u>	<u>153,297</u>
 Cash and equivalents per Statements of Cash Flows	 <u>\$ 1,397,542</u>	 <u>\$ 1,485,060</u>

Hyden-Leslie County Water District  
 Statements of Cash Flows (Continued)  
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Operating income (loss)	\$ (219,999)	\$ 58,620
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	636,162	445,961
(Increase) Decrease in operating assets		
Accounts receivable	(16,235)	(2,828)
Inventory	(1,420)	(10,320)
Other current assets and prepaid expenses	(1,177)	(2,652)
Increase (Decrease) in operating liabilities		
Accounts payable	(12,063)	20,064
Accrued expenses and other liabilities	<u>(4,953)</u>	<u>(9,513)</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 380,315</u></b>	<b><u>\$ 499,332</u></b>

Hyden-Leslie County Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

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. 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 Statements of Net Position and Statements 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.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

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, 2013 and 2012, 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 as 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

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

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*. 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, 2013 and 2012 was \$488,896 and \$450,177, respectively.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 3 – Kentucky Revised Statute

At December 31, 2013 and 2012, \$2,726,539 and \$2,831,182, 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, 2013 and 2012, \$1,152,447 and \$1,276,268, respectively, of the District's total deposits at banks of \$2,325,216 and \$2,849,055, respectively, were exposed to custodial credit risk as follows:

	<u>2013</u>	<u>2012</u>
Uninsured and uncollateralized	\$ 14,665	\$ 17,873
Uninsured and collateral held by pledging bank	1,137,782	1,258,395
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	<u>\$ 1,152,447</u>	<u>\$ 1,276,268</u>

Note 5 – Investments

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

	Rating	<u>Fair Value</u>	
		<u>2013</u>	<u>2012</u>
Mutual Funds	Not Rated	\$ 415,989	\$ 192,865
Certificates of Deposit	Not Rated	937,433	1,147,795
Total		<u>\$ 1,353,422</u>	<u>\$ 1,340,660</u>

*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 investments in mutual funds at December 31, 2013 and 2012 were 30.7% and 14.4%, respectively, of the District's total investments.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

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, 2013:

	Balance Dec. 31, 2012	Additions	Dispositions	Balance Dec. 31, 2013
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,177,362	-	-	5,177,362
Source of supply and pumping	1,910,815	1,625	-	1,912,440
Water treatment equipment	3,646,871	2,107	-	3,648,978
Transmission and distribution plant	12,991,052	13,686	-	13,004,738
Vehicles and other equipment	892,232	1,654	-	893,886
Construction in process	2,745,885	4,704,221	-	7,450,106
Totals at historical cost	<u>27,396,386</u>	<u>4,723,293</u>	<u>-</u>	<u>32,119,679</u>
Less accumulated depreciation for:				
Building and improvements	288,341	98,160	-	386,501
Source of supply and pumping	306,349	49,142	-	355,491
Water treatment equipment	11,687	87,500	-	99,187
Transmission and distribution plant	4,427,275	365,364	-	4,792,639
Vehicles and other equipment	314,274	35,996	-	350,270
Total accumulated depreciation	<u>5,347,926</u>	<u>636,162</u>	<u>-</u>	<u>5,984,088</u>
Capital assets - net	<u>\$ 22,048,460</u>	<u>\$ 4,087,131</u>	<u>\$ -</u>	<u>\$ 26,135,591</u>

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 6 – Capital Assets (Continued)

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	<u>26,940,040</u>	<u>11,772,130</u>	<u>11,315,784</u>	<u>27,396,386</u>
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	<u>6,209,004</u>	<u>445,961</u>	<u>1,307,039</u>	<u>5,347,926</u>
Capital assets - net	<u>\$ 20,731,036</u>	<u>\$ 11,326,169</u>	<u>\$ 10,008,745</u>	<u>\$ 22,048,460</u>

Note 7 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2013:

	Balance Dec. 31, 2012	Additions	Payments	Balance Dec. 31, 2013	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	\$ 314,243	\$ -	\$ 122,897	\$ 191,346	\$ 126,612
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%	567,000	-	17,500	549,500	30,000

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2013</u>	<u>Due Within</u> <u>One Year</u>
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%	270,400	-	5,000	265,400	5,200
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 the rate of 4.5%	1,094,000	-	-	1,094,000	11,500
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 the rate of 2.25%	1,956,000	-	-	1,956,000	32,500
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$ 4,201,643</u>	<u>\$ -</u>	<u>\$ 145,397</u>	<u>\$ 4,056,246</u>	<u>\$ 205,812</u>

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

	<u>Balance</u> <u>Dec. 31, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>Due Within</u> <u>One Year</u>
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

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>Due Within</u> <u>One Year</u>
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 at the rate of 4.5%	1,094,000	-	-	1,094,000	-
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 at the rate of 2.25%	1,896,000	60,000	-	1,956,000	-
	<u>\$ 4,300,735</u>	<u>\$ 60,000</u>	<u>\$ 159,092</u>	<u>\$ 4,201,643</u>	<u>\$ 151,897</u>

Hyden-Leslie County Water District  
 Notes to Financial Statements (Continued)  
 December 31, 2013 and 2012

Note 7 – Long-Term Debt (Continued)

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

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 205,812	\$ 116,144	\$ 321,956
2015	147,319	110,241	257,560
2016	87,200	107,388	194,588
2017	89,000	104,201	193,201
2018	90,700	101,722	192,422
2019-2023	492,183	466,796	958,979
2024-2028	551,832	387,724	939,556
2029-2033	415,800	319,729	735,529
2034-2038	489,900	251,498	741,398
2039-2043	524,500	174,387	698,887
2044-2048	573,000	98,385	671,385
2049-2051	389,000	17,210	406,210
	<hr/>	<hr/>	<hr/>
	\$ 4,056,246	\$ 2,255,425	\$ 6,311,671
	<hr/>	<hr/>	<hr/>

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 2013, 2012 and 2011 was \$19,067, \$20,714 and \$19,274, 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 March 28, 2014, 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, 2013

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of the Interior</b> Passed through Commonwealth of Kentucky Energy and Environment Cabinet: Abandoned Mine Land Reclamation (AMLR) Program Grant	15.252	\$ <u>1,511,832</u>
Total		\$ <u>1,511,832</u>

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.



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, 2013, 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 March 28, 2014.

**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 2013-1 and 2013-2).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hyden-Leslie County Water District's financial statements are free from 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*.

### 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 of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Christian Sturgeon & Associates, PSC*

Christian Sturgeon & Associates, PSC  
London, Kentucky

March 28, 2014



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, 2013. 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, 2013.

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 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

March 28, 2014

**Hyden-Leslie County Water District  
Schedule of Findings and Questioned Costs  
December 31, 2013**

#### 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 program 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 program for Hyden-Leslie County Water District expresses an unmodified opinion.
  6. There were no audit findings relative to the major federal program for Hyden-Leslie County Water District.
  7. The program tested as major was: CFDA#  
Abandoned Mine Land Reclamation Program 15.252
  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.

Hyden-Leslie County Water District  
Schedule of Findings and Questioned Costs  
December 31, 2013

B. Findings – Financial Statements

2013-1

**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.*

2013-2

**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 with regard to cash collections, billings and postings to the accounts receivable ledger.

**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  
Schedule of Findings and Questioned Costs  
December 31, 2013

**C. Findings – Major Federal Awards**

No findings

**D. Summary Schedule of Prior Audit Findings**

No audit findings in the prior year