

Hyden–Leslie County Water District  
Hyden, Kentucky

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Independent Auditors' Report  
And Financial Statements  
For the Years Ended  
December 31, 2015 and 2014

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, 2015 and 2014, 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 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 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, 2015 and 2014, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2016 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 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 25, 2016

Hyden-Leslie County Water District  
 Statements of Net Position  
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 895,797	\$ 913,566
Investments	1,257,373	1,358,334
Receivables, less allowance for doubtful accounts of \$5,000	182,499	194,565
Unbilled accounts receivable	33,000	33,000
Inventories	44,771	41,492
Prepaid expenses	23,759	24,977
Other current assets	6,289	5,213
Total Current Assets	<u>2,443,488</u>	<u>2,571,147</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	47,272	45,287
Depreciation reserves	71,920	156,280
Debt and interest funds	196,984	201,183
Total Restricted Assets	<u>316,176</u>	<u>402,750</u>
Capital Assets		
Land and improvements	32,169	32,169
Buildings and improvements	5,630,361	5,491,423
Source of supply and pumping	2,385,585	2,228,518
Water treatment equipment	3,648,978	3,648,978
Transmission and distribution plant	20,971,153	16,913,549
Vehicles and other equipment	966,925	896,475
Construction in progress	548,395	4,441,167
Less: accumulated depreciation	<u>(7,385,806)</u>	<u>(6,615,113)</u>
Net Capital Assets	<u>26,797,760</u>	<u>27,037,166</u>
Total Noncurrent Assets	<u>27,113,936</u>	<u>27,439,916</u>
Total Assets	<u>29,557,424</u>	<u>30,011,063</u>

Hyden-Leslie County Water District  
 Statements of Net Position (Continued)  
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 104,954	\$ 227,009
Accrued interest payable	27,907	8,502
Accrued salaries and taxes payable	6,612	4,624
Current portion of long-term debt	87,200	147,319
Other current liabilities	<u>11,783</u>	<u>15,479</u>
Total Current Liabilities	<u>238,456</u>	<u>402,933</u>
Noncurrent Liabilities		
Customer deposits	47,272	45,287
Compensated absences	454	12,242
Long-term debt, less current portion included in current liabilities	<u>6,043,610</u>	<u>6,040,524</u>
Total Noncurrent Liabilities	<u>6,091,336</u>	<u>6,098,053</u>
Total Liabilities	<u>6,329,792</u>	<u>6,500,986</u>
Net Position		
Net investment in capital assets	20,666,950	20,849,323
Restricted	316,176	402,750
Unrestricted	<u>2,244,506</u>	<u>2,258,004</u>
Total Net Position	<u>\$ 23,227,632</u>	<u>\$ 23,510,077</u>

Hyden-Leslie County Water District  
 Statements of Revenues, Expenses and Changes in Net Position  
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water sales	\$ 1,493,061	\$ 1,455,585
Service charges	4,092	4,069
Tap fees	9,901	53,469
Penalties	44,457	43,407
Other revenues	440	636
	<u>1,551,951</u>	<u>1,557,166</u>
Total Operating Revenues		
Operating Expenses		
Salaries and wages	411,563	369,291
Employee benefits	208,926	220,104
Purchased water	11,109	20,306
Utilities	242,692	255,409
Chemicals	81,638	81,580
Materials and supplies	49,709	60,695
Contracted services	26,904	26,427
Vehicle and equipment expenses	32,170	36,724
Insurance	49,505	49,400
Bad debt expense, net of recoveries	25,064	24,877
Depreciation	770,693	668,569
Other operating expenses	41,627	41,246
	<u>1,951,600</u>	<u>1,854,628</u>
Total Operating Expenses		
Operating Income (Loss)	<u>(399,649)</u>	<u>(297,462)</u>
Non-operating Revenues (Expenses)		
Interest income	971	5,568
Grant revenue	247,643	307,152
Reimbursed repair costs	-	(94,730)
Loss on disposal of assets	-	(25,456)
Interest expense	(131,410)	(116,838)
	<u>117,204</u>	<u>75,696</u>
Total Non-operating Revenues (Expenses)		
Change in Net Position	(282,445)	(221,766)
Net Position, Beginning of Year	<u>23,510,077</u>	<u>23,731,843</u>
Net Position, End of Year	<u>\$ 23,227,632</u>	<u>\$ 23,510,077</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District  
 Statements of Cash Flows  
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,540,498	\$ 1,496,764
Receipts from other activities	440	636
Payments to employees	(421,363)	(379,879)
Payments to suppliers	(650,405)	(735,579)
Payments for other activities	<u>(41,627)</u>	<u>(41,246)</u>
Net Cash Provided by Operating Activities	<u>427,543</u>	<u>340,696</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(711,098)	(2,648,653)
Principal payments on debt	(147,734)	(205,812)
Interest payments on debt	(112,005)	(117,944)
Proceeds from debt	90,701	2,337,409
Reimbursed repair costs	-	(94,730)
Grants	<u>247,643</u>	<u>307,152</u>
Net Cash Used by Capital and Related Financing Activities	<u>(632,493)</u>	<u>(422,578)</u>
Cash Flows From Investing Activities		
Purchases of investments	(470,108)	(4,912)
Proceeds from investments	558,276	-
Interest on investments	<u>12,439</u>	<u>5,568</u>
Net Cash Provided by Investing Activities	<u>100,607</u>	<u>656</u>
Net Decrease in Cash and Cash Equivalents	(104,343)	(81,226)
Cash and Cash Equivalents at Beginning of Year	<u>1,316,316</u>	<u>1,397,542</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,211,973</u></u>	<u><u>\$ 1,316,316</u></u>
Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:		
Cash and cash equivalents	\$ 895,797	\$ 913,566
Customer deposits	47,272	45,287
Depreciation reserves	71,920	156,280
Debt and interest funds	<u>196,984</u>	<u>201,183</u>
Cash and Cash Equivalents per Statements of Cash Flows	<u><u>\$ 1,211,973</u></u>	<u><u>\$ 1,316,316</u></u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District  
 Statements of Cash Flows (Continued)  
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ (399,649)	\$ (297,462)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	770,693	668,569
(Increase) Decrease in operating assets		
Accounts receivable	12,066	5,473
Inventory	(3,279)	(4,660)
Other current assets and prepaid expenses	1,467	(927)
Increase (Decrease) in operating liabilities		
Accounts payable	57,756	17,086
Accrued expenses and other liabilities	(13,496)	(7,021)
Customer deposits	1,985	(40,362)
	<u>\$ 427,543</u>	<u>\$ 340,696</u>
Net Cash Provided by Operating Activities	<u>\$ 427,543</u>	<u>\$ 340,696</u>

Hyden-Leslie County Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

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 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, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014

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

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.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

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, 2015 and 2014 was \$268,904 and \$357,463, respectively. The balance of customer deposits held at December 31, 2015 and 2014 was \$47,272 and \$45,287, respectively.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2015 and 2014

Note 3 – Kentucky Revised Statute

At December 31, 2015 and 2014, \$2,465,450 and \$2,777,847, respectively, of the cash and certificates of deposit 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, 2015 and 2014, \$961,247 and \$1,190,767, respectively, of the District's total deposits at banks of \$2,465,450 and \$2,788,474, respectively, were exposed to custodial credit risk as follows:

	<u>2015</u>	<u>2014</u>
Uninsured and uncollateralized	\$ -	\$ 10,627
Uninsured and collateral held by pledging bank	961,247	1,180,140
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
<b>Total</b>	<b>\$ 961,247</b>	<b>\$ 1,190,767</b>

Note 5 – Investments

As of December 31, 2015 and 2014, the District had the following investments:

		Fair Value	
	Rating	<u>2015</u>	<u>2014</u>
Mutual Funds	Not Rated	\$ 170,824	\$ 427,478
Certificates of Deposit	Not Rated	1,086,549	930,856
<b>Total</b>		<b>\$ 1,257,373</b>	<b>\$ 1,358,334</b>

*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, 2015 and 2014 were 13.6% and 31.5%, respectively, of the District's total investments.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2015 and 2014

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, 2015:

	Balance Dec. 31, 2014	Additions	Dispositions	Balance Dec. 31, 2015
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,491,423	138,938	-	5,630,361
Source of supply and pumping	2,228,518	157,067	-	2,385,585
Water treatment equipment	3,648,978	-	-	3,648,978
Transmission and distribution plant	16,913,549	4,057,604	-	20,971,153
Vehicles and other equipment	896,475	70,450	-	966,925
Construction in progress	4,441,167	404,247	4,297,019	548,395
Totals at historical cost	<u>33,652,279</u>	<u>4,828,306</u>	<u>4,297,019</u>	<u>34,183,566</u>
Less accumulated depreciation for:				
Building and improvements	462,349	105,888	-	568,237
Source of supply and pumping	397,520	68,738	-	466,258
Water treatment equipment	186,451	87,264	-	273,715
Transmission and distribution plant	5,188,273	480,494	-	5,668,767
Vehicles and other equipment	380,520	28,309	-	408,829
Total accumulated depreciation	<u>6,615,113</u>	<u>770,693</u>	<u>-</u>	<u>7,385,806</u>
Capital assets - net	<u>\$ 27,037,166</u>	<u>\$ 4,057,613</u>	<u>\$ 4,297,019</u>	<u>\$ 26,797,760</u>

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2015 and 2014

Note 6 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2014:

	Balance <u>Dec. 31, 2013</u>	Additions	Dispositions	Balance <u>Dec. 31, 2014</u>
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,177,362	364,061	50,000	5,491,423
Source of supply and pumping	1,912,440	329,078	13,000	2,228,518
Water treatment equipment	3,648,978	-	-	3,648,978
Transmission and distribution plant	13,004,738	3,908,811	-	16,913,549
Vehicles and other equipment	893,886	2,589	-	896,475
Construction in progress	7,450,106	1,548,524	4,557,463	4,441,167
Totals at historical cost	<u>32,119,679</u>	<u>6,153,063</u>	<u>4,620,463</u>	<u>33,652,279</u>
Less accumulated depreciation for:				
Building and improvements	386,501	100,392	24,544	462,349
Source of supply and pumping	355,491	55,029	13,000	397,520
Water treatment equipment	99,187	87,264	-	186,451
Transmission and distribution plant	4,792,639	395,634	-	5,188,273
Vehicles and other equipment	350,270	30,250	-	380,520
Total accumulated depreciation	<u>5,984,088</u>	<u>668,569</u>	<u>37,544</u>	<u>6,615,113</u>
Capital assets - net	<u>\$ 26,135,591</u>	<u>\$ 5,484,494</u>	<u>\$ 4,582,919</u>	<u>\$ 27,037,166</u>

Construction in progress at December 31, 2014 included \$54,517 in capitalized interest costs paid toward the District's loan with Kentucky Rural Water Finance Corporation.

Note 7 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2015:

	Balance <u>Dec. 31, 2014</u>	Additions	Payments	Balance <u>Dec. 31, 2015</u>	Due Within <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 made June 1, 2015	\$ 64,734	\$ -	\$ 64,734	\$ -	\$ -

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2015 and 2014

Note 7 – Long-Term Debt (Continued)

	<u>Dec. 31, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Dec. 31, 2015</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%	519,500	-	32,500	487,000	35,000
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%	260,200	-	5,500	254,700	5,700
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%	1,082,500	-	12,000	1,070,500	12,500
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%	1,923,500	-	33,000	1,890,500	34,000

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2015 and 2014

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2015</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to Kentucky Rural Water Finance Corporation, principal payable upon maturity on February 1, 2016; interest payable on a semi-annual basis at the rate of 2.00%	2,337,409	90,701	-	2,428,110	-
	<u>\$ 6,187,843</u>	<u>\$ 90,701</u>	<u>\$ 147,734</u>	<u>\$ 6,130,810</u>	<u>\$ 87,200</u>

The loan payable to Kentucky Rural Water Finance Corporation with a maturity date of February 1, 2016 was renewed on February 1, 2016. The new maturity date is February 1, 2017.

The following is a summary of long-term debt transactions for the year ended December 31, 2014:

	<u>Balance</u> <u>Dec. 31, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2014</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	\$ 191,346	\$ -	\$ 126,612	\$ 64,734	\$ 64,734
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%	549,500	-	30,000	519,500	32,085
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%	265,400	-	5,200	260,200	5,500

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2015 and 2014

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2014</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, 2051; interest payable on a semi-annual basis at the rate of 4.5%	1,094,000	-	11,500	1,082,500	12,000
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%	1,956,000	-	32,500	1,923,500	33,000
Loan payable to Kentucky Rural Water Finance Corporation, principal payable upon maturity on February 1, 2016; interest payable on a semi-annual basis at the rate of 2.00%	-	2,337,409	-	2,337,409	-
	<u>\$ 4,056,246</u>	<u>\$ 2,337,409</u>	<u>\$ 205,812</u>	<u>\$ 6,187,843</u>	<u>\$ 147,319</u>

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2015 and 2014

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>
2016	\$ 87,200	\$ 131,738	\$ 218,938
2017	2,517,110	104,201	2,621,311
2018	90,700	101,722	192,422
2019	92,500	99,036	191,536
2020	93,800	96,510	190,310
2021-2025	523,066	436,698	959,764
2026-2030	492,934	357,487	850,421
2031-2035	443,400	293,948	737,348
2036-2040	524,600	220,592	745,192
2041-2045	522,000	144,993	666,993
2046-2050	609,500	64,505	674,005
2051	134,000	1,960	135,960
	<u>\$ 6,130,810</u>	<u>\$ 2,053,390</u>	<u>\$ 8,184,200</u>

Note 8 – Retirement Plan

In 1999 the District adopted a 401(k) deferred compensation pension plan. This plan covers all full-time employees. Prior to January 1, 2015, the District matched employee contributions up to a maximum of 5% of gross salaries. Effective January 1, 2015, the plan no longer allows employer matching contributions. Pension expense for 2015, 2014 and 2013 was \$0, \$19,004 and \$19,067, respectively.

Note 9 – Reimbursed Repair Costs

During 2014, the District received funds from the Abandoned Mine Land Reclamation (AMLR) Program to repair a land slip that occurred near one of their construction sites. The repairs in the amount of \$94,730 were not associated with the construction project and are shown as reimbursed repair costs on the Statement of Revenues, Expenses and Changes in Net Position. The receipt of the funds is included in 2014 grant revenue.

Note 10 – 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 11 – Related Party Transactions

There is one business that the District uses as a vendor which is owned by a related party of the District. During the year ended December 31, 2015, the District purchased materials and supplies from a hardware store, which is owned by a Commissioner's brother, in the amount of \$881.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2015 and 2014

Note 12 - Subsequent Events

Date of Management Evaluation

Management of the District has evaluated subsequent events through March 25, 2016, the date on which the financial statements were available to be issued.



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, 2015, 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 25, 2016.

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 responses, 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 responses to be material weaknesses (See items 2015-1 and 2015-2).

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 responses. 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 25, 2016

Hyden-Leslie County Water District  
Schedule of Findings and Responses  
December 31, 2015

Findings – Financial Statements

2015-1

**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.*

2015-2

**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.*