

Hyden–Leslie County Water District  
Hyden, Kentucky

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Independent Auditors' Report  
And Financial Statements  
For the Years Ended  
December 31, 2018 and 2017

Hyden-Leslie County Water District  
Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Basic Financial Statements:	
Statements of Net Position	3-4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-17
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 <i>Government Auditing Standards</i>	18-19
Schedule of Findings and Responses	20



## 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, 2018 and 2017, 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, 2018 and 2017, 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 April 24, 2019 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, PLLC*

Christian Sturgeon, PLLC  
London, Kentucky

April 24, 2019

Hyden-Leslie County Water District  
 Statements of Net Position  
 For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 215,165	\$ 631,636
Investments	1,080,992	1,078,611
Receivables, less allowance for doubtful accounts of \$5,000	256,331	220,021
Unbilled accounts receivable	28,365	54,052
Inventories	52,947	35,766
Prepaid expenses	27,431	25,005
Grants receivable	31,182	13,775
Other current assets	5,940	5,522
<b>Total Current Assets</b>	<u>1,698,353</u>	<u>2,064,388</u>
<b>Noncurrent Assets</b>		
<b>Restricted Assets</b>		
Customer deposits	51,092	48,872
Depreciation reserves	118,320	104,400
Debt and interest funds	199,766	194,264
<b>Total Restricted Assets</b>	<u>369,178</u>	<u>347,536</u>
<b>Capital Assets</b>		
Land and improvements	32,169	32,169
Buildings and improvements	5,632,405	5,630,362
Source of supply and pumping	2,371,287	2,371,287
Water treatment equipment	3,647,342	3,647,342
Transmission and distribution plant	21,271,414	21,107,152
Vehicles and other equipment	1,024,028	978,184
Construction in progress	859,683	846,260
Less: accumulated depreciation	<u>(9,813,773)</u>	<u>(8,988,765)</u>
<b>Net Capital Assets</b>	<u>25,024,555</u>	<u>25,623,991</u>
<b>Total Noncurrent Assets</b>	<u>25,393,733</u>	<u>25,971,527</u>
<b>Total Assets</b>	<u>27,092,086</u>	<u>28,035,915</u>
<b>Deferred Outflows of Resources</b>		
Bond issue costs, net of amortization	<u>-</u>	<u>38,862</u>
<b>Total Deferred Outflows of Resources</b>	<u>-</u>	<u>38,862</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District  
 Statements of Net Position (Continued)  
 For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	92,500	90,700
Accounts payable	90,136	82,887
Accrued interest payable	7,226	7,361
Accrued salaries and taxes payable	39,375	12,774
Other current liabilities	1,503	3,390
Total Current Liabilities	230,740	197,112
Noncurrent Liabilities		
Customer deposits	51,092	48,872
Long-term debt, less current portion	5,968,800	6,036,919
Total Noncurrent Liabilities	6,019,892	6,085,791
Total Liabilities	6,250,632	6,282,903
Net Position		
Net investment in capital assets	18,963,255	19,496,372
Restricted	369,178	347,536
Unrestricted	1,509,021	1,947,966
Total Net Position	\$ 20,841,454	\$ 21,791,874

Hyden-Leslie County Water District  
 Statements of Revenues, Expenses and Changes in Net Position  
 For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Water sales	\$ 1,472,606	\$ 1,480,415
Service charges	4,075	3,166
Tap fees	12,018	10,800
Penalties	50,458	46,888
Other revenues	278	353
Total Operating Revenues	<u>1,539,435</u>	<u>1,541,622</u>
Operating Expenses		
Salaries and wages	546,881	459,646
Employee benefits	272,456	260,660
Utilities	271,646	306,117
Chemicals	96,555	74,465
Materials and supplies	130,293	87,624
Contracted services	24,938	35,044
Vehicle and equipment expenses	44,455	33,880
Insurance	51,209	49,058
Bad debt expense, net of recoveries	18,672	22,160
Depreciation	855,250	846,466
Other operating expenses	88,017	63,516
Total Operating Expenses	<u>2,400,372</u>	<u>2,238,636</u>
Operating Income (Loss)	<u>(860,937)</u>	<u>(697,014)</u>
Non-operating Revenues (Expenses)		
Interest income	2,972	2,880
Grant revenue	74,559	72,686
Loss on sale of equipment	-	(1,514)
Interest expense	(167,014)	(171,772)
Total Non-operating Revenues (Expenses)	<u>(89,483)</u>	<u>(97,720)</u>
Change in Net Position	(950,420)	(794,734)
Net Position, Beginning of Year	<u>21,791,874</u>	<u>22,586,608</u>
Net Position, End of Year	<u>\$ 20,841,454</u>	<u>\$ 21,791,874</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District  
 Statements of Cash Flows  
 For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,512,082	\$ 1,482,970
Receipts from other activities	278	353
Payments to employees	(520,280)	(458,115)
Payments to suppliers	(920,160)	(832,401)
Payments for other activities	<u>(88,017)</u>	<u>(63,516)</u>
Net Cash Provided (Used) by Operating Activities	<u>(16,097)</u>	<u>129,291</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(241,870)	(371,167)
Principal payments on debt	(90,200)	(89,000)
Interest payments on debt	(167,149)	(171,901)
Proceeds from debt	23,881	65,155
Bond issuance costs	38,862	-
Grants	<u>57,152</u>	<u>58,911</u>
Net Cash Used by Capital and Related Financing Activities	<u>(379,324)</u>	<u>(508,002)</u>
Cash Flows From Investing Activities		
Purchases of investments	(17,419)	(236,385)
Proceeds from investments	-	420,000
Interest on investments	<u>18,011</u>	<u>16,938</u>
Net Cash Provided by Investing Activities	<u>592</u>	<u>200,553</u>
Net Decrease in Cash and Cash Equivalents	(394,829)	(178,158)
Cash and Cash Equivalents at Beginning of Year	<u>979,172</u>	<u>1,157,330</u>
Cash and Cash Equivalents at End of Year	<u>\$ 584,343</u>	<u>\$ 979,172</u>
Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:		
Cash and cash equivalents	\$ 215,165	\$ 631,636
Customer deposits	51,092	48,872
Depreciation reserves	118,320	104,400
Debt and interest funds	<u>199,766</u>	<u>194,264</u>
Cash and Cash Equivalents per Statements of Cash Flows	<u>\$ 584,343</u>	<u>\$ 979,172</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District  
 Statements of Cash Flows (Continued)  
 For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ (860,937)	\$ (697,014)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	855,250	846,466
(Increase) Decrease in operating assets		
Accounts receivable	(36,310)	(16,017)
Unbilled accounts receivable	25,687	(21,052)
Inventory	(17,181)	9,610
Other current assets and prepaid expenses	(2,845)	(1,655)
Increase (Decrease) in operating liabilities		
Accounts payable	(6,695)	7,053
Accrued expenses and other liabilities	24,714	970
Customer deposits	2,220	930
	<u>\$ (16,097)</u>	<u>\$ 129,291</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (16,097)</u>	<u>\$ 129,291</u>

Hyden-Leslie County Water District  
Notes to Financial Statements  
December 31, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017, 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	40-45 years
Transmission distribution mains	40-50 years
Plant equipment	10-15 years
Meters and services	35-40 years
Other equipment and vehicles	5-10 years

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2018 and 2017

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 1.41% 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, 2018 and 2017 was \$318,086 and \$298,664, respectively. The balance of customer deposits held at December 31, 2018 and 2017 was \$51,092 and \$48,872, respectively.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2018 and 2017

Note 3 – Kentucky Revised Statute

At December 31, 2018 and 2017, \$1,667,986 and \$2,070,863, 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, 2018, and 2017, \$325,765 and \$740,827, respectively, of the District's total deposits at banks of \$1,667,986 and \$2,070,863 respectively, were exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	325,765	740,827
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
<b>Total</b>	<b>\$ 325,765</b>	<b>\$ 740,827</b>

Note 5 – Investments

As of December 31, 2018, and 2017, the District had the following investments:

		<u>Fair Value</u>	
	<u>Rating</u>	<u>2018</u>	<u>2017</u>
Mutual Funds/Cash in Money Market Account	Not Rated	\$ 263,974	\$ 261,715
Certificates of Deposit	Not Rated	817,018	816,896
<b>Total</b>		<b>\$ 1,080,992</b>	<b>\$ 1,078,611</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, 2018 and 2017 were 24.4% and 24.3%, respectively, of the District's total investments.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2018 and 2017

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, 2018:

	Balance Dec. 31, 2017	Additions	Dispositions	Balance Dec. 31, 2018
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,630,362	2,043	-	5,632,405
Source of supply and pumping	2,371,287	-	-	2,371,287
Water treatment equipment	3,647,342	-	-	3,647,342
Transmission and distribution plant	21,107,152	193,704	29,442	21,271,414
Vehicles and other equipment	978,184	46,644	800	1,024,028
Construction in progress	846,260	189,439	176,016	859,683
Totals at historical cost	<u>34,612,756</u>	<u>431,830</u>	<u>206,258</u>	<u>34,838,328</u>
Less accumulated depreciation for:				
Building and improvements	784,141	108,043	-	892,184
Source of supply and pumping	588,566	74,764	-	663,330
Water treatment equipment	445,891	87,336	-	533,227
Transmission and distribution plant	6,721,750	542,973	29,446	7,235,277
Vehicles and other equipment	448,417	42,138	800	489,755
Total accumulated depreciation	<u>8,988,765</u>	<u>855,254</u>	<u>30,246</u>	<u>9,813,773</u>
Capital assets - net	<u>\$ 25,623,991</u>	<u>\$ (423,424)</u>	<u>\$ 176,012</u>	<u>\$ 25,024,555</u>

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2018 and 2017

Note 6 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2017:

	<u>Dec. 31, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Dec. 31, 2017</u>
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,630,362	-	-	5,630,362
Source of supply and pumping	2,390,478	6,061	25,252	2,371,287
Water treatment equipment	3,649,814	-	2,472	3,647,342
Transmission and distribution plant	21,093,724	45,108	31,680	21,107,152
Vehicles and other equipment	1,006,265	4,425	32,506	978,184
Construction in progress	525,701	352,382	31,823	846,260
Totals at historical cost	<u>34,328,513</u>	<u>407,976</u>	<u>123,733</u>	<u>34,612,756</u>
Less accumulated depreciation for:				
Building and improvements	676,189	107,952	-	784,141
Source of supply and pumping	539,874	73,944	25,252	588,566
Water treatment equipment	361,027	87,336	2,472	445,891
Transmission and distribution plant	6,211,033	540,883	30,166	6,721,750
Vehicles and other equipment	444,571	36,352	32,506	448,417
Total accumulated depreciation	<u>8,232,694</u>	<u>846,467</u>	<u>90,396</u>	<u>8,988,765</u>
Capital assets - net	<u>\$ 26,095,819</u>	<u>\$ (438,491)</u>	<u>\$ 33,337</u>	<u>\$ 25,623,991</u>

Note 7 – Long-Term Debt

On February 1, 2016, the District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation (KRWFC) to borrow funds with a fixed rate of 2.00%. The District entered into the agreement and used all loan proceeds to advance refund their outstanding Series 2013F loan with KRWFC. As a result, the Series 2013F bonds are considered defeased. The agreement matures February 1, 2018. The agreement was refinanced in 2018 and again in 2019 with a new maturity date of February 1, 2020. Permanent financing has not been secured and repayment terms have not been determined.

The following is a summary of long-term debt transactions for the year ended December 31, 2018:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>Dec. 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Dec. 31, 2018</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%	\$ 417,000	\$ -	\$ 34,500	\$ 382,500	\$ 35,000

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2018 and 2017

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2018</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%	243,000	-	6,200	236,800	6,500
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 4.5%	1,044,500	-	14,000	1,030,500	14,500
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%	1,822,000	-	35,500	1,786,500	36,500
Loan payable to Kentucky Rural Water Finance Corporation, principal payable upon maturity on February 1, 2020; interest payable on a semi-annual basis at the rate of 4.00%	2,601,119	23,881	-	2,625,000	-
	<u>\$ 6,127,619</u>	<u>\$ 23,881</u>	<u>\$ 90,200</u>	<u>\$ 6,061,300</u>	<u>\$ 92,500</u>

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2018 and 2017

Note 7 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2017:

	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2017</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%	\$ 452,000	\$ -	\$ 35,000	\$ 417,000	\$ 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%	249,000	-	6,000	243,000	6,200
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%	1,058,000	-	13,500	1,044,500	14,000
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%	1,856,500	-	34,500	1,822,000	35,500

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2018 and 2017

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to Kentucky Rural Water Finance Corporation, principal payable upon maturity on February 1, 2019; interest payable on a semi-annual basis at the rate of 1.25%	2,535,964	65,155	-	2,601,119	-
	<u>\$ 6,151,464</u>	<u>\$ 65,155</u>	<u>\$ 89,000</u>	<u>\$ 6,127,619</u>	<u>\$ 90,700</u>

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>
2019	\$ 92,500	\$ 208,069	\$ 300,569
2020	2,718,800	105,627	2,824,427
2021	98,183	93,445	191,628
2022	102,900	90,437	193,337
2023	104,800	87,368	192,168
2024-2028	551,917	387,724	939,641
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
2049-2053	389,000	17,210	406,210
	<u>\$ 6,061,300</u>	<u>\$ 1,833,879</u>	<u>\$ 7,895,179</u>

Note 8 – 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 9 – 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 years ended December 31, 2018 and 2017, the District purchased materials and supplies from a hardware store, which is owned by a Commissioner's brother, in the amounts of \$1,461 and \$1,449, respectively.

Hyden-Leslie County Water District  
Notes to Financial Statements (Continued)  
December 31, 2018 and 2017

Note 10 - Subsequent Events

Date of Management Evaluation

Management of the District has evaluated subsequent events through April 24, 2019, 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, 2018, and the related notes to the financial statements, which collectively comprise Hyden-Leslie County Water District's basic financial statements and have issued our report thereon dated April 24, 2019.

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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (See items 2018-1 and 2018-2).

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 or 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, PLLC*

Christian Sturgeon, PLLC  
London, Kentucky

April 24, 2019

Hyden-Leslie County Water District  
Schedule of Findings and Responses (Continued)  
December 31, 2018

Findings – Financial Statements

2018-1

**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.*

2018-2

**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.*