

Hyden–Leslie County Water District
Hyden, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 17, 2018 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

April 17, 2018

Hyden-Leslie County Water District
 Statements of Net Position
 For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 631,636	\$ 820,516
Investments	1,078,611	1,276,390
Receivables, less allowance for doubtful accounts of \$5,000	220,021	204,004
Unbilled accounts receivable	54,052	33,000
Inventories	35,766	45,376
Prepaid expenses	25,005	23,501
Grants receivable	13,775	-
Other current assets	5,522	5,265
Total Current Assets	<u>2,064,388</u>	<u>2,408,052</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	48,872	47,942
Depreciation reserves	104,400	85,840
Debt and interest funds	194,264	203,032
Total Restricted Assets	<u>347,536</u>	<u>336,814</u>
Capital Assets		
Land and improvements	32,169	32,169
Buildings and improvements	5,630,362	5,630,362
Source of supply and pumping	2,371,287	2,390,478
Water treatment equipment	3,647,342	3,649,814
Transmission and distribution plant	21,107,152	21,093,724
Vehicles and other equipment	978,184	1,006,265
Construction in progress	846,260	525,701
Less: accumulated depreciation	(8,988,765)	(8,232,694)
Net Capital Assets	<u>25,623,991</u>	<u>26,095,819</u>
Total Noncurrent Assets	<u>25,971,527</u>	<u>26,432,633</u>
Total Assets	<u>28,035,915</u>	<u>28,840,685</u>
Deferred Outflows of Resources		
Bond issue costs, net of amortization	38,862	38,862
Total Deferred Outflows of Resources	<u>38,862</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	90,700	89,000
Accounts payable	82,887	70,849
Accrued interest payable	7,361	7,490
Accrued salaries and taxes payable	12,774	11,016
Other current liabilities	3,390	4,178
Total Current Liabilities	<u>197,112</u>	<u>182,533</u>
Noncurrent Assets		
Customer deposits	48,872	47,942
Long-term debt, less current portion	6,036,919	6,062,464
Total Noncurrent Liabilities	<u>6,085,791</u>	<u>6,110,406</u>
Total Liabilities	<u>6,282,903</u>	<u>6,292,939</u>
Net Position		
Net investment in capital assets	19,496,372	19,944,355
Restricted	347,536	336,814
Unrestricted	1,947,966	2,305,439
Total Net Position	<u>\$ 21,791,874</u>	<u>\$ 22,586,608</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Water sales	\$ 1,480,415	\$ 1,473,353
Service charges	3,166	3,107
Tap fees	10,800	39,001
Penalties	46,888	44,749
Other revenues	353	1,848
Total Operating Revenues	<u>1,541,622</u>	<u>1,562,058</u>
Operating Expenses		
Salaries and wages	459,646	433,767
Employee benefits	260,660	239,062
Utilities	306,117	288,142
Chemicals	74,465	79,932
Materials and supplies	87,624	53,811
Contracted services	35,044	33,240
Vehicle and equipment expenses	33,880	31,067
Insurance	49,058	47,498
Bad debt expense, net of recoveries	22,160	15,086
Depreciation	846,466	846,888
Other operating expenses	63,516	50,091
Total Operating Expenses	<u>2,238,636</u>	<u>2,118,584</u>
Operating Income (Loss)	<u>(697,014)</u>	<u>(556,526)</u>
Non-operating Revenues (Expenses)		
Interest income	2,880	18,906
Grant revenue	72,686	53,742
Loss on sale of equipment	(1,514)	-
Interest expense	(171,772)	(157,146)
Total Non-operating Revenues (Expenses)	<u>(97,720)</u>	<u>(84,498)</u>
Change in Net Position	(794,734)	(641,024)
Net Position, Beginning of Year	<u>22,586,608</u>	<u>23,227,632</u>
Net Position, End of Year	<u>\$ 21,791,874</u>	<u>\$ 22,586,608</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
 Statements of Cash Flows
 For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,482,970	\$ 1,524,289
Receipts from other activities	353	1,848
Payments to employees	(458,115)	(441,378)
Payments to suppliers	(832,401)	(830,405)
Payments for other activities	<u>(63,516)</u>	<u>(50,091)</u>
Net Cash Provided by Operating Activities	<u>129,291</u>	<u>204,263</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(371,167)	(117,457)
Principal payments on debt	(89,000)	(87,200)
Interest payments on debt	(171,901)	(177,563)
Proceeds from debt	65,155	107,854
Bond issuance costs	-	(38,862)
Grants	<u>58,911</u>	<u>53,742</u>
Net Cash Used by Capital and Related Financing Activities	<u>(508,002)</u>	<u>(259,486)</u>
Cash Flows From Investing Activities		
Purchases of investments	(236,385)	(666,658)
Proceeds from investments	420,000	646,165
Interest on investments	<u>16,938</u>	<u>21,073</u>
Net Cash Provided by Investing Activities	<u>200,553</u>	<u>580</u>
Net Decrease in Cash and Cash Equivalents	(178,158)	(54,643)
Cash and Cash Equivalents at Beginning of Year	<u>1,157,330</u>	<u>1,211,973</u>
Cash and Cash Equivalents at End of Year	<u>\$ 979,172</u>	<u>\$ 1,157,330</u>
Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:		
Cash and cash equivalents	\$ 631,636	\$ 820,516
Customer deposits	48,872	47,942
Depreciation reserves	104,400	85,840
Debt and interest funds	<u>194,264</u>	<u>203,032</u>
Cash and Cash Equivalents per Statements of Cash Flows	<u>\$ 979,172</u>	<u>\$ 1,157,330</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ (697,014)	\$ (556,526)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	846,466	846,888
(Increase) Decrease in operating assets		
Accounts receivable	(16,017)	(21,505)
Unbilled accounts receivable	(21,052)	-
Inventory	9,610	(605)
Other current assets and prepaid expenses	(1,655)	591
Increase (Decrease) in operating liabilities		
Accounts payable	7,053	(61,595)
Accrued expenses and other liabilities	970	(3,655)
Customer deposits	930	670
	<u>\$ 129,291</u>	<u>\$ 204,263</u>
Net Cash Provided by Operating Activities	<u>\$ 129,291</u>	<u>\$ 204,263</u>

Hyden-Leslie County Water District
Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016

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 0.66% 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, 2017 and 2016 was \$298,664 and \$288,872, respectively. The balance of customer deposits held at December 31, 2017 and 2016 was \$48,872 and \$47,942, respectively.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2017 and 2016

Note 3 – Kentucky Revised Statute

At December 31, 2017 and 2016, \$2,070,863 and \$2,245,543, 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, 2017, and 2016, \$740,827 and \$869,626, respectively, of the District's total deposits at banks of \$2,070,863 and \$2,316,396 respectively, were exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</u>
Uninsured and uncollateralized	\$ -	\$ 70,853
Uninsured and collateral held by pledging bank	740,827	798,773
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	\$ 740,827	\$ 869,626

Note 5 – Investments

As of December 31, 2017, and 2016, the District had the following investments:

		Fair Value	
	Rating	<u>2017</u>	<u>2016</u>
Mutual Funds/Cash in Money Market Account	Not Rated	\$ 261,715	\$ 229,681
Certificates of Deposit	Not Rated	816,896	1,046,709
Total		\$ 1,078,611	\$ 1,276,390

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, 2017 and 2016 were 24.3% and 18.0%, respectively, of the District's total investments.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2017 and 2016

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, 2017:

	Dec. 31, 2016	Additions	Dispositions	Dec. 31, 2017
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>

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2017 and 2016

Note 6 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2016:

	Balance Dec. 31, 2015	Additions	Dispositions	Balance Dec. 31, 2016
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,630,361	1	-	5,630,362
Source of supply and pumping	2,385,585	4,893	-	2,390,478
Water treatment equipment	3,648,978	836	-	3,649,814
Transmission and distribution plant	20,971,153	122,571	-	21,093,724
Vehicles and other equipment	966,925	39,340	-	1,006,265
Construction in progress	548,395	85,210	107,904	525,701
Totals at historical cost	<u>34,183,566</u>	<u>252,851</u>	<u>107,904</u>	<u>34,328,513</u>
Less accumulated depreciation for:				
Building and improvements	568,237	107,952	-	676,189
Source of supply and pumping	466,258	73,616	-	539,874
Water treatment equipment	273,715	87,312	-	361,027
Transmission and distribution plant	5,668,767	542,266	-	6,211,033
Vehicles and other equipment	408,829	35,742	-	444,571
Total accumulated depreciation	<u>7,385,806</u>	<u>846,888</u>	<u>-</u>	<u>8,232,694</u>
Capital assets - net	<u>\$ 26,797,760</u>	<u>\$ (594,037)</u>	<u>\$ 107,904</u>	<u>\$ 26,095,819</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 with a new maturity date of February 1, 2019. Permanent financing has not been secured and repayment terms have not been determined. Bond issuance costs associated with the advance refunding are shown as deferred outflows of resources on the statement of net position and will be amortized over the life of the loan when permanent financing terms have been established.

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

	Balance Dec. 31, 2016	Additions	Payments	Balance Dec. 31, 2017	Due Within One Year
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

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2017 and 2016

Note 7 – Long-Term Debt (Continued)

	<u>Balance Dec. 31, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance Dec. 31, 2017</u>	<u>Due Within 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%	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
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>

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2017 and 2016

Note 7 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2016:

	<u>Balance</u> <u>Dec. 31, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2016</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%	\$ 487,000	\$ -	\$ 35,000	\$ 452,000	\$ 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%	254,700	-	5,700	249,000	6,000
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%	1,070,500	-	12,500	1,058,000	13,500

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2017 and 2016

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2016</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 2.25%	1,890,500	-	34,000	1,856,500	34,500
Loan payable to Kentucky Rural Water Finance Corporation, principal payable upon maturity on February 1, 2018; interest payable on a semi-annual basis at the rate of 2.00%	2,428,110	107,854	-	2,535,964	-
	<u>\$ 6,130,810</u>	<u>\$ 107,854</u>	<u>\$ 87,200</u>	<u>\$ 6,151,464</u>	<u>\$ 89,000</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>
2018	\$ 90,700	\$ 133,472	\$ 224,172
2019	2,693,619	101,682	2,795,301
2020	93,800	96,510	190,310
2021	98,183	93,445	191,628
2022	102,900	90,437	193,337
2023-2027	557,183	403,833	961,016
2028-2032	425,834	332,134	757,968
2033-2037	474,500	266,154	740,654
2038-2042	524,400	189,502	713,902
2043-2047	555,500	114,419	669,919
2048-2052	511,000	30,259	541,259
	<u>\$ 6,127,619</u>	<u>\$ 1,851,847</u>	<u>\$ 7,979,466</u>

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2017 and 2016

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, 2017 and 2016, the District purchased materials and supplies from a hardware store, which is owned by a Commissioner's brother, in the amounts of \$1,449 and \$1,034, respectively.

Note 10 - Subsequent Events

Date of Management Evaluation

Management of the District has evaluated subsequent events through April 17, 2018, 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, 2017, 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 17, 2018.

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 2017-1 and 2017-2).

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 & Associates, PSC

Christian Sturgeon & Associates, PSC
London, Kentucky

April 17, 2018

Hyden-Leslie County Water District
Schedule of Findings and Responses (Continued)
December 31, 2017

Findings – Financial Statements

2017-1

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.

2017-2

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.