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HARDIN COUNTY WATER DISTRICT No. 1
Radcliff, Kentucky

FINANCIAL STATEMENTS
December 31, 2012

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Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 60 Years

1400 Rogersville Road
Radcliff, KY. 40160

March 12, 2013

TO: Hardin County Water District No. 1
Board of Commissioners

SUBJECT: 2012 Annual Report & Managements's Discussion and Analysis

This report is a joint effort of our staff and Ray, Foley, Hensley & Co, PLLC, Certified Public Accountants. This is the eighth year we have retained this firm to complete our annual audit. This report includes the Management Analysis, the Independent Auditor's Report, the basic financial statements of the District and related supplemental information and audit notes.

I would like to recognize the contribution of our Finance & Accounting Manager, Mr. Scott Schmuck and his accounting staff, Ms. Stephanie Strange (Accountant) and Ms. Karen Morrison (Accounting Specialist) for their work assisting the auditors in preparing this information. Mr. Bradley Hayes, CPA/CGFM, was the lead auditor for the firm and field staff to complete the audit.

In February 2012, we began operation of the Ft. Knox Water Utility. This system acquisition culminated a three and a half year process with our partner, the Louisville Water Company ("LWC"), to pursue a 50 year Utilities Privatization contract to own and operate the Ft. Knox Potable Water System. The contract was signed on September 30th, 2011 and operation of the system began on February 1, 2012. Because of the new acquisition, our 2012 financial position has changed considerably from 2011.

In May, 2012, we also entered into a 40 year Water Purchase Agreement with LWC. This will provide a new back-up purchased water source, replacing the Ft. Knox source we have had since 1998. The agreement allows us to purchase up to 3.5 million gallons daily, an increase of 30% compared to the Ft. Knox purchased water source.

A $4.5 million "BRAC" grant from the Kentucky Cabinet of Economic Development has been received to construct a new interconnect facility to the LWC system. Final design is underway on this facility and we hope to have it built and be able to deliver LWC water to our system by late 2014. Several permits will be needed to construct these facilities including permits from U.S. Army Corps of Engineers, Kentucky Environmental Protection Cabinet / Division of Water and the Kentucky Public Service Commission.

Financial Performance & Highlights

Consolidated Financial Performance: Our financial reports now include statements for five distinct enterprise utility funds; County Water, Ft. Knox Water, Ft. Knox Sanitary Sewer, Ft. Knox Storm Sewer and Radcliff Sanitary Sewer. This letter first reviews the overall consolidated financial highlights of the year, with more specific key items by utility.

In November, Moody's Investors Services affirmed an "A1" credit rating on the District's outstanding $5.9M fixed rate water revenue bonds, issued in 2005. This affirmation means these bonds provide upper-middle grade investment with very low credit risk to bond holders. The District has no immediate plans to issue any new debt or revenue bonds. At year end, the District had $12.7 million of

available grants or contributed capital funding still to be used for capital construction, which all are without any fees, interest cost or repayment requirements.

For the year, gross plant assets increased by $15,346,791 (+ 9.7% [percent changes in parentheses represent change from 2011]). Total net assets (net position) increased by $18,878,129 (+ 28.3%). Total revenues, including interest income, increased by $4,076,921(+ 37.4%). Operating income before depreciation increased to $5,373,853 (+ 52.9%) and net income after depreciation (and net of non-operating income and expenses) increased by $1,252,171 to $1,941,314 (+ 181.7%). This amount was 13% (+ 106.4%) of total operating revenues. Total net assets at the end of the year were $85,604,348 (+ 28.3%).

Cash used for capital construction was $6,352,854 (+ 65.3%), of which 96% was provided by government grants (both Kentucky and U.S. Government/Dept. of Defense). Principal payments to reduce bond debt were $843,513 (+ 17%) and at year end the consolidated outstanding debt principal was $10,960,486 (- 3.8%). Total working capital (unrestricted cash + investments) at year end increased by 71% to $10,527,269. Of all reserves (cash + investments), 84% (+ 11%) were unrestricted and available as working capital for capital construction or operations. At the beginning of 2013 we also had total of $12,677,445 of available state or federal grant funding for future capital construction projects.

Individual Fund Highlights:

County Water: Total operating expenses (excluding debt interest and depreciation) were 5.2% less than budgeted. Revenues were 0.7% less than budgeted. Net income after depreciation and interest expense increased by 154% from 2011, mainly due to some general and administrative operating expenses now being shared by the new Ft. Knox Water utility, which lowered this fund's expenses. Water sales also increased slightly. Net assets increased by 3.9%. The bond coverage ratio was 3.17, which is 2.6 times the required 1.20 (+ 8.9% from 2011).

Ft. Knox Water: Financial results were for an eleven month period in 2012, starting February 1. For the first year of operations of this utility, total operating revenues were $3,849,586 (including interest income). Net income before depreciation was $1,327,033. Net income after depreciation and amortized expenses was $926,342 which is 24% of revenues. Net assets at year end were $14,506,823. Construction in progress was valued at $275,600. Working capital and cash available for capital construction was $3,949,510. As part of the privatization contract with the Government, a surcharge payment (shown as customer contributions) during the first five years will generate in excess of $25 million to address existing facility deficiencies throughout the water system. We are in the process of developing plans, specifications and a schedule to complete these projects.

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues increased by 3.7%. Total operating income, before depreciation expense, increased by 9.1% to $1,120,784. Total net assets increased by 14.8%. Total expended for construction was $3,230,392 (+ 222%) of which 61% was provided by contributed capital (direct grants) from the Government. Working capital increased by 5% to $2,361,485 which is available for future Ft. Knox sewer related capital projects and improvements. At the beginning of 2013, the fund had a balance of $4,194,547 in available direct contributed funding, provided by the Government, for construction projects.

Radcliff Sewer: Total revenues (including interest income) were $3,579,459 (+ 1.6%) which was 5.1% below revenue estimates. Total operating expenses (including depreciation) were

0.8% less than budgeted. Total net assets increased 2% to $23,107,910 and at year end we had construction in progress assets of $1,847,721 (+ 14.8%). Of the $1,334,930 expended for construction (- 28%), 48% was funded by state grants. At year end the total cash & investment reserve balance was $3,292,747 (+ 3.7%) of which 89% was unrestricted and available for capital construction or operations. At year end a total of $3,162,241 in state grants are available for future capital construction projects. The fund had an operating income before depreciation and debt interest of $880,329 (+ 5.9%) with a net operating loss of $89,481 (2.5% of revenues) after those expenses (and excluding loss on disposal of equipment), compared to a 2011 net operating loss of $40.498 (+ 121%).

During 2012 the Board approved the filing of a rate increase request to the Kentucky Public Service Commission for the Radcliff sewer rates. It is anticipated that the filing will be made by mid 2013 with a projected approval in 2014 or early, 2015.

Operational Changes & Statistics

Since acquiring the Ft. Knox Water system we now own and operate five treatment plants (Pirtle Spring County Water Treatment Plant ("WTP"), Ft. Knox Central and Muldraugh WTP's, Radcliff Wastewater Treatment Plant ("WWTP") and Ft. Knox WWTP.

During 2012 a total of 1,782 MG (million gallons) of potable water was treated (+ 73%) and a total of 51.3 MG was purchased for resale (+ 10.3%). Total water delivered to the systems (now County and Ft. Knox combined) was 1,833.7 MG (+ 77.2%). The maximum demand day was 9.085 MG (+ 140%) and occurred on 1-July. The average daily water demand for the year was 5.024 MG (+ 77%). A total of 68 new water services were installed, down 30% from 2011. Wholesale customers purchased 336.6 MG (+ 1.6%), which was equivalent to 37% of total water sales volume (+ 15.6%).

The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,295.4 MG (- 22%) down due to 2012 having less rainfall, decreasing inflow and infiltration treated at the WWTP's. This resulted in an average daily flow of clean, recycled water into streams of 3.549 MG.

At present we have 23 construction projects in either preliminary or final design and construction. The District, its Board and staff face new challenges and exciting changes as we look forward to new endeavors and improving the reliability and functionality of our utility systems through best practice, asset management systems.

Sincerely,

Mr. Jim Bruce
General Manager

Mr. Scott Schmuck
Finance & Accounting Manager

Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA
Mark R. Wadlington, CPA, CGMA
Gwendolyn B. Young, CPA,CVA

Board of Commissioners
Hardin County Water District No. 1
Radcliff, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Hardin County Water District No.1, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 audit 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 auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Hardin County Water District No.1, as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Other *Matters*

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1-3 and 17-21 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hardin County Water District No. 1's basic financial statements. The combined statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The previously referenced combined statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the previously referenced combined statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with ***Government Auditing Standards***, we have also issued our report dated March 12, 2013, on our consideration of the Hardin County Water District No. 1'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 Hardin County Water District No. 1's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley, & Company, PLLC
March 12, 2013

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED STATEMENT OF NET POSITION
December 31, 2012

ASSETS	Water Total	Sewer Total	Storm Water	2012 Total
Current assets				
Cash and cash equivalents	$ 4,444,052	$ 4,612,237	$ 703,272	$ 9,759,561
Short-term certificates of deposit	767,708	-	-	767,708
Customer accounts receivable, net	736,654	440,844	39,816	1,217,314
Other accounts receivable	1,001,652	711,587	78,199	1,791,438
Interest receivable	1,874	-	-	1,874
Due from other funds	-	80,225	-	80,225
Inventory - materials and supplies	321,754	12,373	-	334,127
Prepaid expenses	69,800	53,183	270	123,253
Total current assets	7,343,494	5,910,449	821,557	14,075,500
Non-current assets				
Restricted assets - reserve funds	1,634,127	338,723	-	1,972,850
Acquisition costs	-	202,103	-	202,103
Total non-current assets	1,634,127	540,826	-	2,174,953
Property, plant and equipment				
Land and easements	273,045	9,544	-	282,589
Plant and lines	45,384,251	111,823,319	1,272,146	158,479,716
Vehicles and equipment	5,773,986	2,300,517	150,212	8,224,715
Construction in progress	876,545	4,803,696	328,520	6,008,761
Total	52,307,827	118,937,076	1,750,878	172,995,781
Less accumulated depreciation	(13,428,672)	(77,223,428)	(131,135)	(90,783,235)
Total property, plant, and equipment	38,879,155	41,713,648	1,619,743	82,212,546
TOTAL ASSETS	$ 47,856,776	$ 48,164,923	$ 2,441,300	$ 98,462,999
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 471,925	$ 823,453	$ 12,839	$ 1,308,217
Due to other funds	69,111	10,333	781	80,225
Customers' deposits	168,032	129,454	-	297,486
Accrued expenses	98,899	26,933	951	126,783
Reserve for unclaimed funds - escheatment	5,231	-	-	5,231
Deferred rent revenue	4,533	-	-	4,533
Liabilities payable from restricted assets:				
Current portion of long-term debt	701,960	278,656	-	980,616
Accrued interest on long-term debt	60,792	6,102	-	66,894
Total current liabilities	1,580,483	1,274,931	14,571	2,869,985
Long-term liabilities				
Bonds payable	8,165,000	1,562,065	-	9,727,065
Other long-term debt	252,805	-	-	252,805
Less unamortized discount and expenses	(162,731)	-	-	(162,731)
Compensated absences	58,363	-	-	58,363
Long-term liabilities, net	8,313,437	1,562,065	-	9,875,502
Other liabilities				
Customer advances for construction	113,164	-	-	113,164
Total liabilities	10,007,084	2,836,996	14,571	12,858,651
Net position				
Invested in capital assets, net of related debt	29,861,329	39,866,825	1,619,743	71,347,897
Restricted	1,634,127	338,723	-	1,972,850
Unrestricted	6,354,236	5,122,379	806,986	12,283,601
Total net position	37,849,692	45,327,927	2,426,729	85,604,348
TOTAL LIABILITIES AND NET POSITION	$ 47,856,776	$ 48,164,923	$ 2,441,300	$ 98,462,999

The accompanying notes are an integral part of the financial statements.

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2012

	Water Total	Sewer Total	Storm Water	2012 Total
OPERATING REVENUE				
Metered water sales	$ 6,538,415	$ -	$ -	$ 6,538,415
Wholesale sales	647,969	-	-	647,969
Sewer billing contract revenue	18,335	-	-	18,335
Sewer service revenue	-	6,256,675	-	6,256,675
Stormwater service revenue	-	-	477,792	477,792
Penalties, service fees and reimbursements	662,107	267,920	18,194	948,221
Total operating revenue	7,866,826	6,524,595	495,986	14,887,407
OPERATING EXPENSES				
Treatment	777,035	-	-	777,035
Distribution	1,175,956	-	-	1,175,956
Customer service	249,581	612,048	-	861,629
General & administrative expenses	2,277,310	3,911,432	-	6,188,742
Purchased water	85,289	-	-	85,289
General maintenance	91,070	-	-	91,070
Source of supply	34,837	-	-	34,837
Stormwater	-	-	298,996	298,996
Total operating expense	4,691,078	4,523,480	298,996	9,513,554
Operating income before depreciation	3,175,748	2,001,115	196,990	5,373,853
Depreciation and amortization expense	(1,449,633)	(1,557,218)	(37,214)	(3,044,065)
OPERATING INCOME	1,726,115	443,897	159,776	2,329,788
Non-operating income (expenses)				
Interest income	43,715	39,165	4,713	87,593
Interest expense	(296,635)	(82,779)	-	(379,414)
Gain (loss) on disposal of equipment	3,250	(99,903)	-	(96,653)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,476,445	300,380	164,489	1,941,314
Capital Contributions				
Grants	237,953	642,224	-	880,177
Tap fees	46,333	3,000	-	49,333
Customer contributions	13,619,294	1,963,758	424,253	16,007,305
CHANGE IN NET POSITION	15,380,025	2,909,362	588,742	18,878,129
Net position, beginning of year	22,469,667	42,418,565	1,837,987	66,726,219
NET POSITION, END OF YEAR	$ 37,849,692	$ 45,327,927	$ 2,426,729	$ 85,604,348

The accompanying notes are an integral part of the financial statements.

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED STATEMENT OF CASH FLOWS
for the year ended December 31, 2012

	Water Total	Sewer Total	Storm Water	2012 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 6,212,212	$ 6,114,213	$ 428,145	$ 12,754,570
Payments to suppliers	(2,690,467)	(4,150,132)	(334,499)	(7,175,098)
Payments for employee services and benefits	(1,727,828)	-	-	(1,727,828)
Net cash provided by operating activities	1,793,917	1,964,081	93,646	3,851,644
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	(575,151)	(268,362)	-	(843,513)
Borrowings	75,151	-	-	75,151
Principal paid on line of credit	(32,683)	-	-	(32,683)
Interest paid on long-term debt	(299,110)	(83,707)	-	(382,817)
Contributions in aid of construction	4,719,696	2,608,982	424,253	7,752,931
Grants	281,382	-	-	281,382
Proceeds from sale of equipment	7,412	4,640	-	12,052
Acquisition and construction of capital assets	(1,787,532)	(4,063,447)	(501,875)	(6,352,854)
Cash (paid) received under advance construction contract	(13,237)	-	-	(13,237)
Net cash provided by (used in) capital and related financing activities	2,375,928	(1,801,894)	(77,622)	496,412
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	42,837	39,688	4,713	87,238
Redemption of investments	508,442	335,230	-	843,672
Purchase of investments	(582,672)	(338,723)	-	(921,395)
Net cash provided by (used in) investing activities	(31,393)	36,195	4,713	9,515
NET INCREASE IN CASH	4,138,452	198,382	20,737	4,357,571
Cash and cash equivalents, beginning of year	305,600	4,413,855	682,535	5,401,990
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,444,052	$ 4,612,237	$ 703,272	$ 9,759,561
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 1,726,115	$ 443,897	$ 159,776	$ 2,329,788
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	1,449,633	1,557,218	37,214	3,044,065
Change in assets and liabilities:				
Accounts receivable	(1,398,019)	(616,919)	(78,199)	(2,093,137)
Prepaid expenses	(3,136)	189,903	162	186,929
Due from other funds	40,498	(3,198)	-	37,300
Inventory	(38,035)	-	-	(38,035)
Accounts payable	234,237	391,909	(35,665)	590,481
Accrued expenses	34,171	24,476	-	58,647
Due to other funds	(256,881)	(19,675)	10,358	(266,198)
Other payables	5,334	(3,530)	-	1,804
Net cash provided by operating activities	$ 1,793,917	$ 1,964,081	$ 93,646	$ 3,851,644
Schedule of non-cash capital and financing activities:				
Contributed water mains from developers	$ 8,945,931	$ -	$ -	$ 8,945,931
Construction in process included in accounts payable	$ 334,765	$ 1,873	$ -	$ 336,638

The accompanying notes are an integral part of the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hardin County Water District No. 1 (the District) is organized pursuant to provision of Chapter 74 of the Kentucky Revised Statutes in order to provide a water supply for citizens and residents of Radcliff, Kentucky and parts of Hardin, Meade and Breckinridge Counties. The District is regulated by the Kentucky Public Service Commission.

Reporting Entity

The Hardin County Water District No. 1's financial statements include the operations of all entities for which the District exercises oversight responsibilities. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The only entity included in these financial statements are the general operations of the Hardin County Water District No. 1.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

The District reports all revenue and expenses as operating, except interest income and expense, gains and losses on asset sales or disposals and capital contributions.

The District's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*".

The District applies all applicable FASB and AICPA pronouncements issued on or before November 30, 1989 that are not in conflict with applicable GASB pronouncements.

Fund Accounting

The District maintains a County Water Fund, Ft. Knox Water Fund, Ft. Knox Sewer Fund, Radcliff Sewer Fund and a Ft. Knox Stormwater Fund.

Accounts Receivable

The Water Fund's accounts receivable is net of an allowance for uncollectible accounts of $2,193 as of December 31, 2012. The allowance is increased by charges to bad debts and decreased by write-offs. Management's periodic evaluation of the adequacy of the allowance is based on the District's aged accounts receivable balances. The sewer funds and stormwater fund do not have an allowance for doubtful accounts.

Interfund Transfers

The asset "due from other funds" and the liability "due to other funds" represent amounts transferred between the funds owed for personnel and other operating and non-operating expenses.

Inventory

The water fund's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance and repairs and new water lines. The sewer fund's inventory consists of equipment. The inventory is stated at the lower of cost (first-in, first-out method) or market.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted Assets

The water and sewer funds' restricted assets consist of U.S. Treasury Notes and Bonds, certificates of deposit, money market funds, and non-interest-bearing accounts. The carrying value of the investments approximates market value.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used.

Investments

It is the policy of the District to invest public funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the District and conforming to all state statutes and District regulations governing the investment of public funds. The carrying value of the investments approximates market value.

Property and Equipment

The water, sewer and stormwater fund's property and equipment assets are recorded at cost or, if contributed, at donor cost or appraised value at date of acquisition. Interest relating to the financing of projects under construction is capitalized due to the District's capital financing plans and rate-setting methodology. Depreciation is computed by the straight-line method based on the estimated useful life of the depreciable property. Plant and lines are capitalized with lives ranging from 5-65 years and vehicles and equipment are capitalized with lives ranging from 5-35 years. Land is not subject to depreciation. Expenditures for maintenance and repairs are charged to expense as incurred whereas expenditures, including associated labor, for installation, renewals or betterments are generally capitalized.

Amortization

The water and sewer funds' bond discounts and issue costs are being amortized using the straight-line method over the life of the bond issue. The sewer funds' City of Radcliff sewer acquisition costs are being amortized using the straight-line method over a period of twenty-five years.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Investments classified as restricted assets are not included as a cash and cash equivalent.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 period. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

The Hardin County Water District's deposits and investments at December 31, 2012 were covered entirely by federal depository insurance, by collateral held by the custodial banks in the District's name, or invested in money market and government backed securities.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States Government or its agencies.

The following is a detail of the District's cash deposit coverage at December 31, 2012:

FDIC insured (or equivalent)	$ 1,339,739
Collateralized by securities held by the bank in the District's name	9,908,395
United States Treasury Securities and money market funds	1,297,460
Total cash in banks	$ 12,545,594

Cash and investments are classified as follows as of December 31, 2012:

Unrestricted:	
Cash & cash equivalents:	
Revenue fund	$ 985,253
Other	8,774,308
	9,759,561
Short-term investments:	
Certificates of deposit	767,708
Total unrestricted	10,527,269
Restricted:	
Long-term investments:	
1997 KIA Debt service reserve	338,723
2002 B&I redemption fund – FMV	86,667
2005 B&I redemption fund – FMV	201,122
2005 Debt service reserve – FMV	594,307
Depreciation fund – FMV	752,031
Total restricted	1,972,850
Total reported cash & investments	$ 12,500,119

NOTE 3 – CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

	Balance Jan 1, 2012	Additions	Retirements	Balance Dec. 31, 2012
Capital assets not depreciated:				
Land and easements	$ 282,589	$ -	$ -	$ 282,589
Construction in process	2,923,721	5,100,100	2,015,060	6,008,761
Capital assets that are depreciated:				
Plant and lines	147,776,949	10,884,307	181,540	158,479,716
Vehicles and equipment	6,665,731	1,621,452	62,468	8,224,715
Total plant and equipment	157,648,990	17,605,859	2,259,068	172,995,781
Less: accumulated depreciation	87,903,807	3,014,979	135,551	90,783,235
Plant and equipment, net	$ 69,745,183	$ 14,590,880	$ 2,123,517	$ 82,212,546

Depreciation expense for all combined funds totaled $3,014,979 for the year ended December 31, 2012.

NOTE 4 - COMPLIANCE WITH BOND INDENTURE

Under covenants of the bond ordinance, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Bond and Interest Redemption Funds – There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2005 issue. These funds are used to pay maturing bond and interest coupons on the aforementioned issue.

Bond Reserve Fund - This fund shall receive, on a monthly basis, within five years of the issue date, an amount equal to the average annual principal and interest requirements on the 2005 issue outstanding. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. At December 31, 2012, the District had reserves of $594,307 invested with the bond custodian. At December 31, 2012, the requirement for the reserve totaled $594,457.

Depreciation Fund - This fund receives $8,500 monthly after the above transfers have been made until the total sum of $750,000 has been established and maintained. This fund also receives the proceeds from the sale of any property and equipment. This fund may be used to purchase new or replacement property and equipment. Monies from this account are held by the bond custodian. At December 31, 2012, the District was required to fund the account in the amount of $750,000 and the assets in this account totaled $752,031.

Operating and Maintenance Fund - This fund receives, on a monthly basis, the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. Any surplus left, after operating expenses have been met, may be added to Debt Service Reserve.

Wastewater Revolving Loan Reserve – This loan requires the District to fund a reserve account in the amount of $310,000. At December 31, 2012, the District had funded this reserve in the amount of $338,723.

2002 Adjustable Revenue Bonds – The District filed Supplement No.1 to Trust Indenture dated April 1, 2010. This supplement allows for a letter of credit to be issued by Cecilian Bank via a wrap around letter of credit from the Federal Home Loan Bank of Cincinnati as collateral for the original bond issue. As a result, the District is no longer required to fulfill the debt service reserve and depreciation fund requirements with The Bank of New York Mellon Trust Company however, the District continues to carry $86,667 in an account for this bond issue.

The bond ordinance calls for "net annual revenues" to exceed the maximum annual debt requirements of fixed rate bonds by 1.20 for the Water Fund. For the year ended December 31, 2012, the water fund ratio was 3.17.

NOTE 5 – LONG-TERM LIABILITIES

Some of the construction costs of the District's water and sewer facilities have been financed by issuance of revenue bonds and revolving notes authorized under Kentucky Revised Statutes.

Bonds payable of the water and Radcliff sewer funds consists of the following at December 31, 2012:

2005 Revenue Bonds, various semi-annual principal and interest payments at 4.125% through September 1, 2025, secured by the revenues of the District.	$ 5,895,000
2002 Revenue Bonds, various semi-annual principal payments with monthly interest payments at a variable rate which is to be the lowest interest rate on the determination date at which the bonds can be remarketed at par for the interest rate period through September 1, 2022, secured by a letter of credit issued from Cecilian Bank.	2,890,000
1997 KIA Wastewater Revolving Loan, various semi-annual principal and interest payments at a rate of interest of 3.8% through December 1, 2018, secured by the revenues of the District.	1,840,721
2012 agreement with Louisville Water, reimbursement of costs associated with the acquisition of the Fort Knox water system, 60 monthly payments of $6,830, bearing no interest, maturing January 2017.	334,765
Total debt	10,960,486
Less: current portion	980,616
Total long-term debt	$ 9,979,870

In 1998, the District refunded its 1989 and 1992 issues through the issuance of a 1998 fixed rate refunding issue. The District defeased these bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. The trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

In 1998 the District issued variable rate bonds to fund the construction of the new service center and the Fort Knox interconnect project. In 2005 the District issued fixed rate bonds to fund the construction of the New Salem Church Road project and to refund the 1998 variable rate bonds. The District paid off the 1998 bond issue two years early, in September 2010, as approved by the Board of Commissioners during its May 18th 2010 meeting, saving the district approximately $51,000 in interest.

During April 2008, the District assumed two debt issues as part of the Radcliff sewer acquisition. The District assumed a 1997 Wastewater Revolving Loan through the Kentucky Infrastructure Authority and a 2001 refunding revenue bond issue through the Kentucky League of Cities. The district paid off the 2001 issue during 2010.

NOTE 5 – LONG-TERM LIABILITIES, continued

Bond maturities and sinking fund requirements for the District water fund in each of the next five years are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 620,000	$ 370,270	$ 990,270
2014	650,000	343,493	993,493
2015	665,000	315,630	980,630
2016	680,000	287,404	967,404
2017	705,000	257,936	962,936
2018-2022	3,825,000	818,990	4,643,990
2023-2025	1,640,000	137,157	1,777,157
	$ 8,785,000	$ 2,530,880	$ 11,315,880

Debt maturities and sinking fund requirements for the Radcliff sewer fund in each of the next five years are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 278,656	$ 70,869	$ 349,525
2014	289,345	59,616	348,961
2015	300,445	47,933	348,378
2016	311,970	35,800	347,770
2017	323,938	23,203	347,141
2018	336,367	10,123	346,490
	$ 1,840,721	$ 247,544	$ 2,088,265
Total bond and related debt maturities	$ 10,625,721	$ 2,778,424	$ 13,404,145

Debt maturities for the Fort Knox water fund in each of the next five years are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 81,960	$ -	$ 81,960
2014	81,960	-	81,960
2015	81,960	-	81,960
2016	81,960	-	81,960
2018	6,925	-	6,925
Total other debt maturities	$ 334,765	$ -	$ 334,765

Changes in long-term liabilities are as follows:

	Balance Jan 1, 2012	Additions	Payments	Balance Dec. 31, 2012	Due within one year
Long-term debt	$ 11,394,083	$ 409,916	($ 843,513)	$ 10,960,486	$ 980,616
Bond amortization	(178,279)	-	15,548	(162,731)	-
Compensated absences	47,311	11,052	-	58,363	-
Net long-term liabilities	$ 11,263,115	$ 420,968	($ 827,965)	$ 10,856,118	$ 980,616

NOTE 6 – LINE OF CREDIT

The District maintains a $2,500,000 line of credit that is designated for use in various construction projects if needed. The principal was due September 25, 2012. Accrued interest was payable quarterly at a rate of 3.25%. Changes in the line of credit are as follows:

Balance Jan 1, 2012	Additions	Payments	Balance Dec. 31, 2012
$ 32,683	$ -	$ 32,683	$ -

NOTE 7 - OTHER LIABILITIES

The water fund's other liabilities in the amount of $113,164 at December 31, 2012 represent customers' advances for construction and extension of water mains beyond limits now provided by the District. These advances will be repaid in accordance with the terms of the agreements. The terms call for a portion of the revenue from these waterlines to be refunded to customers.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 – RETIREMENT PLAN

Hardin County Water District No.1 is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2012, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 6.00% for employees hired after September 1, 2008. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statue Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Participating employers contributed 18.96% of each non-hazardous employee's wages from January 1, 2012 through June 30 and 19.55% from July 1 through December 31, 2012, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

NOTE 9 – RETIREMENT PLAN, continued

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

Required Year	Contribution	Percentage Contributed
2012	$ 454,042	100%
2011	$ 373,637	100%
2010	$ 330,866	100%

NOTE 10 – CAPITAL ACQUISITION

Effective, February 1, 2012, the District acquired the assets of the Fort Knox water utility from the United States Army for a net $0 price. The assets associated with the system had an estimated net book value of $8,902,502 at the date of acquisition. This value has been included as part of contributed capital on the statement of revenues, expenses and changes in net position. The District also entered into a five-year agreement with Louisville Water giving them addition water supply if needed.

NOTE 11 – SUBSEQUENT EVENTS

The District has evaluated and considered the need to recognize or disclose subsequent events through March 12, 2013, which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2012, have not been evaluated by the District.

SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
COUNTY WATER FUND
for the year ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	$ 3,088,000	$ 3,088,000	$ 3,073,779	$ (14,221)
Wholesale sales	656,315	656,315	647,969	(8,346)
Sewer billing contract revenue	11,125	11,125	18,335	7,210
Penalties, service fees and reimbursements	302,100	302,100	287,555	(14,545)
Total operating revenue	4,057,540	4,057,540	4,027,638	(29,902)
OPERATING EXPENSES				
Treatment	768,956	768,956	777,035	8,079
Transmission and Distribution	679,596	679,596	667,160	(12,436)
Customer service	275,199	275,199	249,581	(25,618)
General & administrative expenses	389,416	389,416	273,951	(115,465)
Purchased water	74,700	74,700	85,289	10,589
General maintenance	82,227	82,227	91,070	8,843
Source of supply	31,000	31,000	34,837	3,837
Total operating expense	2,301,094	2,301,094	2,178,923	(122,171)
Operating income before depreciation	1,756,446	1,756,446	1,848,715	92,269
Depreciation and amortization expense	(931,232)	(931,232)	(1,038,544)	(107,312)
OPERATING INCOME	825,214	825,214	810,171	(15,043)
Non-operating income (expenses)				
Interest income	26,000	26,000	33,317	7,317
Interest expense	(290,500)	(290,500)	(296,635)	(6,135)
Loss on sale of equipment	-	-	3,503	3,503
INCOME BEFORE CAPITAL CONTRIBUTIONS	560,714	560,714	550,356	(10,358)
Government contributions	1,132,000	1,132,000	237,953	(894,047)
Tap Fees	75,000	75,000	41,464	(33,536)
Customer Contribution	-	-	43,429	43,429
CHANGE IN NET POSITION	$ 1,767,714	$ 1,767,714	$ 873,202	$ (894,512)

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX WATER FUND
for the year ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	$ 3,467,821	$ 3,467,821	$ 3,464,636	$ (3,185)
Penalties, service fees and reimbursements	328,980	328,980	374,552	45,572
Total operating revenue	3,796,801	3,796,801	3,839,188	42,387
OPERATING EXPENSES				
Transmission and Distribution	486,606	486,606	508,796	22,190
General & administrative expenses	2,165,887	2,165,887	2,003,359	(162,528)
Total operating expense	2,652,493	2,652,493	2,512,155	(140,338)
Operating income before depreciation	1,144,308	1,144,308	1,327,033	182,725
Depreciation and amortization expense	(50,000)	(50,000)	(411,089)	(361,089)
OPERATING INCOME	1,094,308	1,094,308	915,944	(178,364)
Non-operating income (expenses)				
Interest income	2,500	2,500	10,398	7,898
Loss on disposal of equipment	-	-	(253)	(253)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,096,808	1,096,808	926,089	(170,719)
Government contributions	-	-	-	-
Tap Fees	-	-	4,869	4,869
Customer Contribution	4,629,719	4,629,719	13,575,865	8,946,146
CHANGE IN NET POSITION	$ 5,726,527	$ 5,726,527	$ 14,506,823	$ 8,780,296

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX SEWER FUND
for the year ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	$ 2,898,595	$ 2,898,595	$ 2,883,989	$ (14,606)
Penalties, service fees and reimbursements	133,966	133,966	85,270	(48,696)
Total operating revenue	3,032,561	3,032,561	2,969,259	(63,302)
OPERATING EXPENSES				
Professional services	9,916	9,916	26,062	16,146
Contractual obligations	1,785,214	1,785,214	1,743,599	(41,615)
Allocated expense	(41,606)	(41,606)	(34,788)	6,818
Insurance	20,000	20,000	20,027	27
Customer service	96,899	96,899	85,198	(11,701)
Other	13,900	13,900	8,377	(5,523)
Total operating expense	1,884,323	1,884,323	1,848,475	(35,848)
Operating income before depreciation	1,148,238	1,148,238	1,120,784	(27,454)
Depreciation and amortization expense	(632,418)	(632,418)	(644,937)	(12,519)
OPERATING INCOME	515,820	515,820	475,847	(39,973)
Non-operating income (expenses)				
Interest income	9,600	9,600	15,042	5,442
Interest expense	(1,400)	(1,400)	(1,127)	273
INCOME BEFORE CAPITAL CONTRIBUTIONS	524,020	524,020	489,762	(34,258)
Government contributions	3,044,679	3,044,679	1,963,758	(1,080,921)
CHANGE IN NET POSITION	$ 3,568,699	$ 3,568,699	$ 2,453,520	$ (1,115,179)

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
RADCLIFF SEWER FUND
for the year ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	$ 3,550,249	$ 3,550,249	$ 3,372,686	$ (177,563)
Penalties, service fees and reimbursements	198,300	198,300	182,650	(15,650)
Total operating revenue	3,748,549	3,748,549	3,555,336	(193,213)
OPERATING EXPENSES				
Professional services	16,527	16,527	11,929	(4,598)
Contractual obligations	2,223,399	2,223,399	2,102,540	(120,859)
Allocated expense	(88,329)	(88,329)	(88,329)	-
Insurance	27,900	27,900	29,231	1,331
Customer service	232,113	232,113	526,850	294,737
System maintenance	273,038	273,038	92,784	(180,254)
Total operating expense	2,684,648	2,684,648	2,675,005	(9,643)
Operating income before depreciation	1,063,901	1,063,901	880,331	(183,570)
Depreciation and amortization expense	(930,806)	(930,806)	(912,281)	18,525
OPERATING INCOME	133,095	133,095	(31,950)	(165,045)
Non-operating income (expenses)				
Interest income	25,000	25,000	24,123	(877)
Interest expense	(87,870)	(87,870)	(81,652)	6,218
Loss on disposal of equipment	-	-	(99,903)	(99,903)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	70,225	70,225	(189,382)	(259,607)
Government contributions	1,775,000	1,775,000	642,224	(1,132,776)
Tap fees	7,500	7,500	3,000	(4,500)
CHANGE IN NET POSITION	$ 1,852,725	$ 1,852,725	$ 455,842	$ (1,396,883)

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
STORMWATER FUND
for the year ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Stormwater revenue	$ 477,792	$ 477,792	$ 477,792	$ -
Penalties, service fees and reimbursements	56,399	56,399	18,194	(38,205)
Total operating revenue	534,191	534,191	495,986	(38,205)
OPERATING EXPENSES				
Professional services	2,445	2,445	2,127	(318)
Contractual obligations	280,984	280,984	278,811	(2,173)
Allocated expense	(10,585)	(10,585)	(10,585)	-
Insurance	1,700	1,700	1,729	29
Customer service	286	286	254	(32)
Other	33,506	33,506	26,660	(6,846)
Total operating expense	308,336	308,336	298,996	(9,340)
Operating income before depreciation	225,855	225,855	196,990	(28,865)
Depreciation and amortization expense	(36,646)	(36,646)	(37,214)	(568)
OPERATING INCOME	189,209	189,209	159,776	(29,433)
Non-operating income (expenses)				
Interest income	5,300	5,300	4,713	(587)
INCOME BEFORE CAPITAL CONTRIBUTIONS	194,509	194,509	164,489	(30,020)
Government contributions	1,281,789	1,281,789	424,253	(857,536)
CHANGE IN NET POSITION	$ 1,476,298	$ 1,476,298	$ 588,742	$ (887,556)

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED WATER STATEMENT OF NET POSITION
December 31, 2012

	County Water	Ft. Knox Water	2012 Total	2011 Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 494,542	$ 3,949,510	$ 4,444,052	$ 305,600
Short-term certificates of deposit	767,708	-	767,708	741,397
Customer accounts receivable, net	244,310	492,344	736,654	255,481
Other accounts receivable	53,990	947,662	1,001,652	84,806
Interest receivable	1,874	-	1,874	996
Due from other funds	-	-	-	11,599
Inventory - materials and supplies	296,113	25,641	321,754	283,719
Prepaid expenses	56,672	13,128	69,800	66,664
Total current assets	1,915,209	5,428,285	7,343,494	1,750,262
Other assets				
Restricted funds	1,634,127	-	1,634,127	1,586,094
Property, plant and equipment				
Land and easements	273,045	-	273,045	273,045
Plant and lines	36,557,889	8,826,362	45,384,251	36,014,189
Vehicles and equipment	4,667,679	1,106,307	5,773,986	4,465,361
Construction in progress	600,945	275,600	876,545	571,712
Total	42,099,558	10,208,269	52,307,827	41,324,307
Less: accumulated depreciation	(13,017,583)	(411,089)	(13,428,672)	(12,036,140)
Total property, plant, and equipment	29,081,975	9,797,180	38,879,155	29,288,167
TOTAL ASSETS	$ 32,631,311	$ 15,225,465	$ 47,856,776	$ 32,624,523
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 154,090	$ 317,835	$ 471,925	$ 237,688
Due to other funds	28,899	40,212	69,111	297,093
Customers' deposits	168,032	-	168,032	162,667
Accrued expenses	83,461	15,438	98,899	75,120
Reserve for unclaimed funds - escheatment	5,231	-	5,231	5,262
Deferred rent revenue	4,533	-	4,533	643
Line of credit	-	-	-	32,683
Liabilities payable from restricted assets:				
Current portion of long-term debt	620,000	81,960	701,960	500,000
Accrued interest on long-term debt	60,792	-	60,792	63,267
Total current liabilities	1,125,038	455,445	1,580,483	1,374,423
Long-term liabilities				
Bonds payable	8,165,000	-	8,165,000	8,785,000
Other long-term debt	-	252,805	252,805	-
Less: unamortized discount and expenses	(162,731)	-	(162,731)	(178,279)
Compensated absences	47,971	10,392	58,363	47,311
Total long-term liabilities	8,050,240	263,197	8,313,437	8,654,032
Other liabilities				
Customer advances for construction	113,164	-	113,164	126,401
Total liabilities	9,288,442	718,642	10,007,084	10,154,856
Net position				
Invested in capital assets, net of related debt	20,398,914	9,462,415	29,861,329	20,085,496
Restricted	1,634,127	-	1,634,127	1,586,094
Unrestricted	1,309,828	5,044,408	6,354,236	798,077
Total net position	23,342,869	14,506,823	37,849,692	22,469,667
TOTAL LIABILITIES AND NET POSITION	$ 32,631,311	$ 15,225,465	$ 47,856,776	$ 32,624,523

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2012

	County Water	Fort Knox Water	2012 Total	2011 Total
OPERATING REVENUE				
Metered water sales	$ 3,073,779	$ 3,464,636	$ 6,538,415	$ 3,049,775
Wholesale sales	647,969	-	647,969	635,903
Sewer billing contract revenue	18,335	-	18,335	8,612
Penalties, service fees and reimbursements	287,555	374,552	662,107	291,411
Total operating revenue	4,027,638	3,839,188	7,866,826	3,985,701
OPERATING EXPENSES				
Treatment	777,035	-	777,035	841,684
Distribution	667,160	508,796	1,175,956	648,360
Customer service	249,581	-	249,581	280,777
General & administrative expenses	273,951	2,003,359	2,277,310	529,157
Purchased water	85,289	-	85,289	75,939
General maintenance	91,070	-	91,070	77,861
Source of supply	34,837	-	34,837	36,872
Total operating expense	2,178,923	2,512,155	4,691,078	2,490,650
Operating income before depreciation	1,848,715	1,327,033	3,175,748	1,495,051
Depreciation and amortization expense	(1,038,544)	(411,089)	(1,449,633)	(996,715)
OPERATING INCOME	810,171	915,944	1,726,115	498,336
Non-operating income (expenses)				
Interest income	33,317	10,398	43,715	40,909
Interest expense	(296,635)	-	(296,635)	(305,120)
Gain (loss) on sale of equipment	3,503	(253)	3,250	(17,260)
INCOME BEFORE CAPITAL CONTRIBUTIONS	550,356	926,089	1,476,445	216,865
Capital Contributions				
Grants	237,953	-	237,953	144,170
Tap fees	41,464	4,869	46,333	64,182
Customer contributions	43,429	13,575,865	13,619,294	330,375
CHANGE IN NET POSITION	873,202	14,506,823	15,380,025	755,592
Net position, beginning of year	22,469,667	-	22,469,667	21,714,075
NET POSITION, END OF YEAR	$ 23,342,869	$ 14,506,823	$ 37,849,692	$ 22,469,667

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED WATER STATEMENT OF CASH FLOWS
for the year ended December 31, 2012

	County Water	Ft. Knox Water	2012 Total	2011 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 3,813,030	$ 2,399,182	$ 6,212,212	$ 4,407,953
Payments to suppliers	(966,735)	(1,723,732)	(2,690,467)	(1,246,290)
Payments for employee services and benefits	(1,284,513)	(443,315)	(1,727,828)	(1,492,648)
Net cash provided by operating activities	1,561,782	232,135	1,793,917	1,669,015
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	(500,000)	(75,151)	(575,151)	(460,000)
Borrowings	-	75,151	75,151	32,683
Principal paid on line of credit	(32,683)	-	(32,683)	-
Interest paid on long-term debt	(299,110)	-	(299,110)	(307,183)
Contributions in aid of construction	41,464	4,678,232	4,719,696	208,352
Grants	281,382	-	281,382	-
Proceeds from sale of equipment	7,412	-	7,412	15,547
Acquisition and construction of capital assets	(816,277)	(971,255)	(1,787,532)	(993,298)
Cash (paid) received under advance construction contract	(13,237)	-	(13,237)	(3,826)
Net cash (used in) capital and related financing activities	(1,331,049)	3,706,977	2,375,928	(1,507,725)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	32,439	10,398	42,837	40,847
Redemption of investments	508,442	-	508,442	2,493,077
Purchase of investments	(582,672)	-	(582,672)	(2,581,452)
Net cash provided by investing activities	(41,791)	10,398	(31,393)	(47,528)
NET INCREASE IN CASH	188,942	3,949,510	4,138,452	113,762
Cash and cash equivalents, beginning of year	305,600	-	305,600	191,838
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 494,542	$ 3,949,510	$ 4,444,052	$ 305,600
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 810,171	$ 915,944	$ 1,726,115	$ 498,336
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	1,038,544	411,089	1,449,633	996,715
Change in assets and liabilities:				
Accounts receivable	41,987	(1,440,006)	(1,398,019)	144,971
Prepaid expenses	9,992	(13,128)	(3,136)	6,168
Due from other funds	40,498	-	40,498	40,750
Inventory	(12,394)	(25,641)	(38,035)	156,904
Accounts payable	(83,598)	317,835	234,237	(413,089)
Accrued expenses	8,341	25,830	34,171	5,178
Due to other funds	(297,093)	40,212	(256,881)	236,531
Other payables	5,334	-	5,334	(3,449)
Net cash provided by operating activities	$ 1,561,782	$ 232,135	$ 1,793,917	$ 1,669,015
Schedule of non-cash capital and financing activities:				
Contributed water mains from developers	$ 43,429	$ 8,902,502	$ 8,945,931	$ 330,375
Construction in process included in accounts payable	$ -	$ 334,765	$ 334,765	$ 27,394

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED SEWER STATEMENT OF NET POSITION
December 31, 2012

	Ft. Knox Sewer	Radcliff Sewer	2012 Total	2011 Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 1,658,213	$ 2,954,024	$ 4,612,237	$ 4,413,855
Customer accounts receivable, net	236,529	204,315	440,844	458,690
Grant receivable	625,526	86,061	711,587	76,822
Interest receivable	-	-	-	523
Due from other funds	-	80,225	80,225	287,516
Inventory	12,373	-	12,373	12,373
Prepaid expenses	7,675	45,508	53,183	49,985
Total current assets	2,540,316	3,370,133	5,910,449	5,299,764
Other assets				
Restricted assets - reserve funds	-	338,723	338,723	335,230
Radcliff acquisition costs, net	-	202,103	202,103	211,203
Total other assets	-	540,826	540,826	546,433
Property, plant and equipment				
Land and easements	-	9,544	9,544	9,544
Plant and lines	78,529,716	33,293,603	111,823,319	110,680,787
Vehicles and equipment	1,161,926	1,138,591	2,300,517	2,051,075
Construction in progress	2,955,975	1,847,721	4,803,696	2,334,274
Total	82,647,617	36,289,459	118,937,076	115,075,680
Less accumulated depreciation	(62,487,200)	(14,736,228)	(77,223,428)	(75,773,746)
Total property, plant, and equipment	20,160,417	21,553,231	41,713,648	39,301,934
TOTAL ASSETS	$ 22,700,733	$ 25,464,190	$ 48,164,923	$ 45,148,131
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 464,696	$ 358,757	$ 823,453	$ 431,544
Due to other funds	10,333	-	10,333	11,087
Customers' deposits	-	129,454	129,454	124,214
Accrued expenses	5,687	21,246	26,933	46,608
Liabilities payable from restricted assets:				
Current portion of long-term debt	-	278,656	278,656	268,362
Accrued interest on long-term debt	-	6,102	6,102	7,030
Total current liabilities	480,716	794,215	1,274,931	888,845
Long-term liabilities				
Bonds payable	-	1,562,065	1,562,065	1,840,721
Total liabilities	480,716	2,356,280	2,836,996	2,729,566
Net position				
Invested in capital assets, net of related debt	20,160,417	19,706,408	39,866,825	37,185,821
Restricted	-	338,723	338,723	335,230
Unrestricted	2,059,600	3,062,779	5,122,379	4,897,514
Total net position	22,220,017	23,107,910	45,327,927	42,418,565
TOTAL LIABILITIES AND NET POSITION	$ 22,700,733	$ 25,464,190	$ 48,164,923	$ 45,148,131

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED SEWER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2012

	Ft. Knox Sewer	Radcliff Sewer	2012 Total	2011 Total
OPERATING REVENUE				
Sewer service revenue	$ 2,883,989	$ 3,372,686	$ 6,256,675	$ 6,143,337
Penalties, service fees and reimbursements	85,270	182,650	267,920	202,689
Total operating revenue	2,969,259	3,555,336	6,524,595	6,346,026
OPERATING EXPENSES				
Customer service	85,198	526,850	612,048	476,050
Sewer operations	1,763,277	2,148,155	3,911,432	4,011,541
Total operating expense	1,848,475	2,675,005	4,523,480	4,487,591
Operating income before depreciation	1,120,784	880,331	2,001,115	1,858,435
Depreciation and amortization expense	(644,937)	(912,281)	(1,557,218)	(1,436,108)
OPERATING INCOME	475,847	(31,950)	443,897	422,327
Non-operating income (expenses)				
Interest income	15,042	24,123	39,165	50,836
Interest expense	(1,127)	(81,652)	(82,779)	(93,453)
Bad debts recovered	-	-	-	9,449
Gain (loss) on sale of equipment	-	(99,903)	(99,903)	(48,903)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	489,762	(189,382)	300,380	340,256
Grants	-	642,224	642,224	1,383,176
Tap fees	-	3,000	3,000	8,700
Customer contributions	1,963,758	-	1,963,758	891,785
CHANGE IN NET POSITION	2,453,520	455,842	2,909,362	2,623,917
Net position, beginning of year	19,766,497	22,652,068	42,418,565	39,794,648
NET POSITION, END OF YEAR	$ 22,220,017	$ 23,107,910	$ 45,327,927	$ 42,418,565

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED SEWER STATEMENT OF CASH FLOWS
for the year ended December 31, 2012

	Ft. Knox Sewer	Radcliff Sewer	2012 Total	2011 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 2,388,338	$ 3,725,875	$ 6,114,213	$ 6,348,902
Payments to suppliers	(1,554,200)	(2,595,932)	(4,150,132)	(4,945,108)
Net cash provided by operating activities	834,138	1,129,943	1,964,081	1,403,794
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	-	(268,362)	(268,362)	(258,447)
Interest paid on long-term debt	(1,127)	(82,580)	(83,707)	(94,315)
Contributions in aid of construction	1,963,758	645,224	2,608,982	1,828,186
Proceeds from sale of equipment	-	4,640	4,640	3,000
Acquisition and construction of capital assets	(2,728,517)	(1,334,930)	(4,063,447)	(2,812,497)
Net cash (used in) capital and related financing activities	(765,886)	(1,036,008)	(1,801,894)	(1,334,073)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	15,043	24,645	39,688	53,647
Redemption of investments	-	335,230	335,230	770,165
Purchase of investments	-	(338,723)	(338,723)	(335,230)
Net cash provided by investing activities	15,043	21,152	36,195	488,582
NET INCREASE IN CASH	83,295	115,087	198,382	558,303
Cash and cash equivalents, beginning of year	1,574,918	2,838,937	4,413,855	3,855,552
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,658,213	$ 2,954,024	$ 4,612,237	$ 4,413,855
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 475,847	$ (31,950)	$ 443,897	$ 422,327
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	644,937	912,281	1,557,218	1,436,108
Change in assets and liabilities:				
Accounts receivable	(606,325)	(10,594)	(616,919)	266,978
Prepaid expenses	-	189,903	189,903	(13,738)
Inventory	-	-	-	(12,373)
Due from other funds	(504)	(2,694)	(3,198)	(226,954)
Accounts payable	299,102	92,807	391,909	(384,152)
Accrued expenses	25,404	(928)	24,476	(45,005)
Due to other funds	(4,323)	(15,352)	(19,675)	(37,148)
Other payables	-	(3,530)	(3,530)	(2,249)
Net cash provided by operating activities	$ 834,138	$ 1,129,943	$ 1,964,081	$ 1,403,794
Schedule of non-cash capital and financing activities:				
Construction in process included in accounts payable	$ 1,873	$ -	$ 1,873	$ 69,167

Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

HARDIN COUNTY WATER DISTRICT No. 1
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*

Independent Auditors' Report

Board of Commissioners
Hardin County Water District No.1
Radcliff, 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 Hardin County Water District No. 1, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise Hardin County Water District No. 1's financial statements, and have issued our report thereon dated March, 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hardin County Water District No. 1'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hardin County Water District No.1's internal control. Accordingly, we do not express an opinion on the effectiveness of Hardin County Water District No. 1'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 a 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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HARDIN COUNTY WATER DISTRICT No. 1
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*, continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin County Water District No. 1'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*.

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.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
March 12, 2013