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Damon R. Talley

August 15, 2014

Attorney At Law

Mr. Jeff Derouen
Executive Director
Public Service Commission
PO Box 615
Frankfort, KY 40602

RECEIVED

AUG 15 2014

PUBLIC SERVICE
COMMISSION

RE: Hardin County Water District No. 2
Financing

Dear Mr. Derouen:

Case No. 2014-00289

Enclosed for filing are the original and ten (10) copies of the Application of the Hardin County Water District No. 2 for authority to execute a Promissory Note, pursuant to KRS 278.300, for the purpose of acquiring the Elizabethtown Water System.

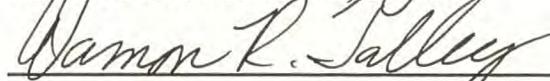
No rate increase will be required.

The tentative Closing date is **October 31, 2014.**

Should you need any additional information, please let me know.

Yours truly,

DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY, ATTORNEY FOR
HARDIN COUNTY WATER DISTRICT NO. 2
drtalley@windstream.net

DRT:ms

Enclosures

cc: Hardin County Water District No. 2

14/HCWD2/Derouen Letter – 8-15-14

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

IN THE MATTER OF:

AUG 15 2014

THE APPLICATION OF THE HARDIN
COUNTY WATER DISTRICT NO. 2 FOR)
AUTHORITY TO EXECUTE A PROMISSORY)
NOTE IN THE PRINCIPAL AMOUNT OF)
\$8,000,000 PURSUANT TO THE PROVISIONS)
OF KRS 278.300 AND 807 KAR 5:001)

PUBLIC SERVICE
COMMISSION
CASE NO. 2014- 00289

** *** ***** **

APPLICATION

** *** ***** **

The Applicant, Hardin County Water District No. 2 (the "District"), files this Petition and Application, pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Public Service Commission of Kentucky (the "Commission") enter an Order: (i) authorizing the District to execute a Promissory Note in favor of the City of Elizabethtown, Kentucky (the "Elizabethtown") in the principal amount of \$8,000,000 for the purpose of acquiring Elizabethtown's Water System Assets; and (ii) authorizing the District to assess Elizabethtown's present rates for service to customers served through the Elizabethtown Water System Assets. In support of the Petition and Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

GENERAL INFORMATION

1. The District was established by the Order of the County Court of Hardin County entered on June 23, 1965, pursuant to the provisions of KRS Chapter 74. The District is now, and has been since its inception, regulated by the Commission. All records and proceedings of the Commission with reference to the District are incorporated in this Application by reference.

2. The governing body of the District is its Board of Commissioners. The District is a public body corporate, with power to make contracts in furtherance of its lawful and proper purposes as provided in KRS 74.070 and all other applicable laws.

3. The mailing address, and other contact information for the District are as follows:

Hardin County Water District No.2
360 Ring Road, P.O. Box 970
Elizabethtown, KY 42702
Attn: James R. Jeffries, General Manager
Telephone: (270) 737-1056
Fax: (270) 737-2301

4. The electronic mail address of the District's General Manager is jjeffries@hardincountywater2.org.

5. The electronic mail address of the District's attorney, Damon R. Talley, is drtalley@windstream.net.

6. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2013 which is on file with the Commission. The Annual Report is incorporated herein by reference.

7. The District proposes to execute a Promissory Note in favor of Elizabethtown in the principal amount of \$8,000,000 for the purpose of acquiring Elizabethtown's Water System Assets. The Promissory Note will be payable in twenty (20) equal annual installments of \$400,000 each. The first installment shall be due and payable one (1) year from the date of the Closing and a like installment shall be due and payable on the same day of each and every year thereafter until the Promissory Note is paid in full. The final installment shall be due and payable twenty (20) years from the date of the Closing.

8. The Promissory Note shall **not** bear any interest.

9. An unexecuted copy of the proposed Promissory Note is attached hereto and incorporated herein by reference as **Exhibit 1**.

10. The Promissory Note constitutes an evidence of indebtedness within the meaning of KRS 278.300.

11. The District represents that it will file a copy of the executed Promissory Note with the Commission within ten (10) days following the Closing.

BACKGROUND

12. As of December 31, 2013, the District provided retail water service to approximately 17,135 customers in portions of Hardin, Hart, and LaRue Counties, Kentucky.¹ It has no wastewater customers.

13. As of June 30, 2014, Elizabethtown provided retail water service to approximately 9,630 customers. Elizabethtown is a city of the fourth class and is located in Hardin County, Kentucky.

14. The District's existing service area completely surrounds Elizabethtown's service area. A map depicting the respective service areas of the District and Elizabethtown is attached hereto and incorporated herein by reference as **Exhibit 2**.

15. The District currently owns and operates water supply, treatment, and distribution facilities (the "District System").

16. Elizabethtown currently owns and operates water supply, treatment, and distribution facilities (the "Elizabethtown Water System").

17. Elizabethtown depends on the District for a supplemental supply of potable water in order to meet the demand of Elizabethtown's customers. Currently, Elizabethtown purchases approximately 1.1 million gallons of potable water per day from the District.

¹ *Annual Report of Hardin County Water District No. 2 to the Kentucky Public Service Commission for the Year Ending December 31, 2013* ("Annual Report") at 27.

18. Both the District's Board of Commissioners and the Elizabethtown City Council have determined that combining and consolidating Elizabethtown's Water System with the District's System will result in economies of scale; it will enable Elizabethtown to forego capital projects costing multiple millions of dollars; and it will allow the combined system to be managed, operated, and maintained in a more cost effective manner.

19. Elizabethtown and the District executed a Letter of Intent, effective September 17, 2013, whereby Elizabethtown expressed its intent to transfer and convey its Water System to the District and the District expressed its intent to acquire Elizabethtown's Water System, subject to the broad terms, conditions, and provisions set forth in the Letter of Intent. A copy of the Letter of Intent is attached hereto and incorporated herein by reference as **Exhibit 3**.

20. On July 28, 2014, Elizabethtown and the District entered into an Asset Purchase Agreement (the "Agreement") whereby Elizabethtown will transfer its Water System to the District for the sum of \$8,000,000. A copy of the Agreement is attached hereto and incorporated herein by reference as **Exhibit 4**.

21. On July 15, 2014, the District adopted Resolution 2014-07-01 authorizing the proposed purchase of the Elizabethtown Water System and approving the Agreement. A copy of the District's Resolution is attached hereto and incorporated herein by reference as **Exhibit 5**.

22. On July 28, 2014, the Elizabethtown City Council enacted Ordinance No. 14-2014 authorizing the proposed sale of its Water System to the District and approving the Agreement. A copy of Elizabethtown's Ordinance is attached hereto and incorporated herein by reference as **Exhibit 6**.

23. The District is not required to obtain Commission approval for the proposed transfer of ownership. KRS 278.020(5) and KRS 278.020(6) require prior Commission approval of the transfer of control or ownership of any "utility." Elizabethtown is a city and, consequently, is not a "utility" as defined by KRS 278.010(3). Therefore, Commission approval of the proposed transfer is not required by KRS 278.020. In a long line of cases, the Commission has consistently held that similar transfer cases do not require Commission approval.²

24. Although Commission approval of the proposed transfer of the Elizabethtown Water System is not actually required, the District cannot incur the long-term debt of \$8,000,000 without Commission approval pursuant to KRS 278.300.

25. Therefore, the District deems it appropriate to fully explain the proposed acquisition of Elizabethtown's Water System Assets.

² See Hardin County Water District No. 1, Case No. 2008-00074 (Ky. PSC April 23, 2008); Ohio County Water District, Case No. 2004-00157 (Ky. PSC July 12, 2004); Northern Kentucky Water District, Case No. 2000-00357 (Ky. PSC July 20, 2000) at 2; Kenton County Water District No. 1, Case No. 1989-00211 (Ky. PSC November 1, 1989) at 3-4.

THE PROPOSED TRANSACTION

26. The Agreement provides that Elizabethtown shall transfer substantially all its Water System Assets to the District.³ In particular, the District shall acquire the following:

- A. Elizabethtown's Source of Water Supply (springs and wells);
- B. City Springs Water Treatment Plant Facilities which has a rated capacity of 3.3 million gallons per day;
- C. Elevated Water Storage Tanks (5 tanks) which have total storage capacity of 2.0 million gallons;
- D. Elizabethtown's entire Water Distribution System; and
- E. Other assets itemized in paragraph 2 of the Agreement.

27. Collectively, the assets being acquired from Elizabethtown shall be referred to as the "Elizabethtown Water System Assets" or as the "Assets."

28. **Excluded** from the proposed transaction are: (a) an obsolete water storage tank currently not in use by Elizabethtown; (b) a redundant water storage tank (100,000 gallons) that is substantially lower in elevation than the District's 1,000,000 gallon elevated water storage tank located nearby; and (c) a booster pump station that supplies water to the redundant tank that the District is not acquiring.⁴

³ Asset Purchase Agreement ("Agreement") at 4, paragraph 2.

⁴ Agreement at 12, paragraph 4.

29. Under the terms of the Agreement, the District will **not** assume any of Elizabethtown's liabilities or debts.⁵

30. As previously stated in paragraph 7 of this Application, the purchase price for the Assets is \$8,000,000. This amount will be financed by Elizabethtown at **no** interest for twenty (20) years. The District shall pay annual installments of \$400,000 per year.⁶

31. The book value of the Assets being purchased is \$7,718,229. A schedule itemizing the book value of each of the major components of the Assets is attached hereto and incorporated herein by reference as **Exhibit 7**.

32. Once the Letter of Intent was executed, the District undertook a thorough analysis, review, and evaluation of the Elizabethtown Water System. The District solicited proposals from engineering firms and selected GRW Engineers, Inc. (the "GRW") to evaluate the physical assets of the Elizabethtown Water System, to prepare a hydraulic model of the combined water distribution system, and to identify assets which might not be needed by the District for operation of the combined system.

33. GRW's evaluation took place over several months. GRW prepared two (2) comprehensive reports for the District.

⁵ Agreement at 15, paragraph 10.

⁶ Agreement at 11, paragraph 3.

34. The first report, “Asset Management Program and Capital Improvement Planning,” is attached hereto and incorporated herein by reference as **Exhibit 8**. **Exhibit 8** is primarily an evaluation of the physical assets of the Elizabethtown Water System.

35. The second report, “Hydraulic Modeling Report,” is attached hereto and incorporated herein by reference as **Exhibit 9**. The Hydraulic Modeling Report makes certain recommendations concerning operation of the combined water distribution system. A Combined System Map depicting the location of the principal assets is included as part of **Exhibit 9**.

36. Both GRW Reports were useful to the District in determining whether to proceed with the proposed acquisition and which assets to exclude from the proposed acquisition.

37. Simultaneous with the engineering evaluation by GRW, the District engaged the services of an accounting firm, Stiles, Carter & Associates, P.S.C., to perform a feasibility study. This firm prepared a forecast of the revenues and expenses reasonably expected for the calendar years of 2015, 2016, 2017, and 2018.

38. A copy of the Stiles Carter Study, “Forecasted Statements of Revenues, Expenses, and Changes In Fund Net Position – Elizabethtown Division,” is attached hereto and incorporated herein by reference as **Exhibit 10**.

39. The Stiles Carter Study shows that the acquisition of the Elizabethtown Water System is expected to result in a positive Change in Net Position ranging from a low of \$2,565,703 in calendar year 2015 to a high of \$3,351,624 in calendar year 2018.

40. The District believes that the Stiles Carter Study used conservative assumptions in forecasting the anticipated revenues from the Elizabethtown water customers. At the same time, the Stiles Carter Study used a pessimistic outlook to forecast the expected expenses. For example, the Study includes not only anticipated operational and maintenance expenses, but also a “Contingency” line item expense for unanticipated repairs. The amount of the Contingency expense starts at \$500,000 in calendar year 2015 and gradually reduces to \$200,000 in calendar year 2018.

41. The Stiles Carter Study contains very detailed assumptions concerning the calculation of the forecasted revenues and expenses. These assumptions are an essential part of the Study.

FINANCIAL INFORMATION

42. The financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 12, and the other information required by 807 KAR 5:001, Section 18, are contained in the 2013 Annual Report which is on file with the Commission. The Annual Report is incorporated herein by reference.

43. The District had gross annual operating revenues of \$8,531,494 during the 2013 calendar year.⁷ Consequently, the provisions of 807 KAR 5:001, Section 12(1)(a) are applicable.

44. Pursuant to KAR 5:001, Section 12, the District hereby states as follows:

- A. **Section 12(2)(a) Stock Authorized:** None. The District is a Water District. Therefore, this provision is not applicable;
- B. **Section 12(2)(b) Stock Issued & Outstanding:** None. The District is a Water District. Therefore, this provision is not applicable;
- C. **Section 12(2)(c) Preferred Stock Preference:** None. The District is a Water District. Therefore, this provision is not applicable;
- D. **Section 12(2)(d) Mortgages:** None. The District does not have any mortgages or trust deeds in effect as of the date hereof;
- E. **Section 12(2)(e) Bonds:** A schedule setting forth all bonds which have been authorized and issued by the District and which are still outstanding is set forth as **Exhibit 11**. The District is the public entity which issued these revenue bonds (the "Bonds"). The Bonds are all secured by a pledge of the District's water system revenues. All Bonds, except for the 2007A Bonds, are held by the general public. The 2007A Bonds were purchased, and are still held, by Rural Development. The total amount of interest paid by the District during the calendar year 2013 was **\$550,958**. **Exhibit 11** itemizes the amount of interest paid on each separate Bond issue;
- F. **Section 12(2)(f) Notes Outstanding:** The District does not have any notes outstanding as of the date hereof;

⁷ Annual Report at 11.

G. **Section 12(2)(g) Other Indebtedness:** None;

H. **Section 12(2)(h) Dividends:** None. The District is a Water District. Therefore, this provision is not applicable; and

I. **Section 12(2)(i) Income Statement & Balance Sheet:** The District's detailed Income Statement for the twelve (12) month period ending on June 30, 2014 and the District's Balance Sheet, as of June 30, 2014, are attached hereto and incorporated herein by reference as **Exhibits 12 and 13** respectively.

45. A copy of the District's audited financial statements for the years ended December 31, 2013 and 2012 is attached hereto and incorporated herein by reference as **Exhibit 14**.

46. A copy of Elizabethtown's audited financial statements for the fiscal year ended June 30, 2013 is attached hereto and incorporated herein by reference as **Exhibit 15**. This is the most recently published financial data available for Elizabethtown. The Balance Sheet for Elizabethtown's water and sewer utility operations is shown on page 69 of **Exhibit 15**. The Income Statement for Elizabethtown's water and sewer utility operations is shown on page 70 of **Exhibit 15**. Page 71 of **Exhibit 15** contains a cash flow analysis for Elizabethtown's water and sewer utility operations for the years ended on June 30, 2013 and 2012.

47. Pursuant to KAR 5:001, Section 18, the District hereby states as

follows:

- A. **Section 18(1)(b) Applicant's Property:** A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2013 which is on file with the Commission. The Annual Report is incorporated herein by reference.
- B. **Section 18(1)(c) Stock to be Issued:** None. The District does not propose to issue any stock.
- C. **Section 18(1)(d) Use of Proceeds:** The District proposes to execute a Promissory Note in favor of Elizabethtown in the principal sum of \$8,000,000 (see **Exhibit 1**) as evidence of the indebtedness that it will incur to acquire the Elizabethtown Water System for the sum of \$8,000,000. None of the proceeds will be used for construction, improvement of facilities, or any other purpose;
- D. **Section 18(1)(e) Property to be Acquired:** The District is acquiring the Elizabethtown Water System. A detailed description of the property being acquired is set forth in the Agreement (see **Exhibit 4**, paragraph 2). The book value of the property being acquired is **\$7,718,229**. A schedule itemizing the book value of each of the major components of the Elizabethtown Water System Assets is set forth in **Exhibit 7**;
- E. **Section 18(1)(g) State Local Debt Officer Notification:** Attached as **Exhibit 16** is the District's letter dated August 8, 2014 to the State Local Debt Officer. This letter, together with the attachments, constitute the District's written notification to the State Local Debt Officer and compliance with KRS 65.117;
- F. **Section 18(2)(a) Financial Exhibit:** See paragraph 44 of this Application for the District's Financial Exhibit;

- G. **Section 18(2)(b) Trust Deeds or Mortgages:** None. The District does not have any mortgages or trust deeds in effect as of the date hereof;
- H. **Section 18(2)(b) Bond Resolutions:** The District's six (6) outstanding Bond Issues were issued pursuant to various Bond Authorizing Resolutions. The 2007A Bonds were issued pursuant to the Bond Authorizing Resolution adopted on December 18, 2007. A copy of this Bond Authorizing Resolution is attached hereto and incorporated herein by reference as **Exhibit 17**. These Bonds were purchased, and are still held, by Rural Development. The 2012A Bonds, which is the District's most recent Bond Issue, were issued pursuant to the Bond Authorizing Resolution adopted on August 21, 2012. A copy of this Bond Authorizing Resolution is attached hereto and incorporated herein by reference as **Exhibit 18**. The 2012A Bond Authorizing Resolution supersedes, or incorporates by reference, all the District's prior Bond Authorizing Resolutions, except for the 2007A Bond Authorizing Resolution. Therefore, the 2007A and 2012A Bond Authorizing Resolutions are the only Bond Resolutions which need to be filed with the Commission;
- I. **Section 18(2)(c) Map:** The Map, which is attached hereto and incorporated herein by reference as **Exhibit 19**, depicts the location of the major properties (e.g. water treatment plants, water storage tanks, etc.) which the District will be acquiring from Elizabethtown; and
- J. **Section 18(2)(c) USOA Account Number:** This provision is not applicable because the District is not proposing to construct any new facilities. **Exhibit 7** sets forth the book value of each of the major components of the Elizabethtown Water System Assets which are being acquired by the District.

48. The District believes that the financial information submitted with this Application is sufficient to enable the Commission to adequately, effectively, and efficiently review this Application to issue securities.

49. No rate adjustment for the District's existing customers will be necessary. The proposed acquisition will generate a substantial, positive cash flow, which will enable the District to pay all operational and maintenance expenses incurred for the Elizabethtown Division, to make the \$400,000 annual debt payment to Elizabethtown, and to set aside additional reserves.

TRANSITIONAL RATES FOR ELIZABETHTOWN SERVICE AREA

50. Historically, the District has utilized a unified rate structure. It has a single rate schedule applicable to all its water customers. The District's current water rate schedule is set forth in **Exhibit 6** of the Agreement. A residential customer pays a minimum monthly bill of \$18.50 for usage up to 2,000 gallons.

51. Elizabethtown's customers pay substantially less than the District's customers. When the negotiations between Elizabethtown and the District commenced, an Elizabethtown residential customer paid a minimum monthly bill of \$10.00 for usage up to 2,000 gallons. This is \$8.50 less per month than a District customer pays.

52. Bridging the gap between the lower rates paid by Elizabethtown customers and the higher rates paid by District customers was the most difficult issue to be resolved by the parties during negotiations.

53. The members of Elizabethtown's elected legislative body, the City Council, were especially sensitive to the rates to be paid by Elizabethtown residents if the sale of its Water System occurred. The City Council sought to transition the rate increase over a seven (7) year period to avoid "rate shock."

54. The District's Commissioners were equally concerned with its existing customers and the perceived unfairness if the Elizabethtown customers were charged a lower rate over an extended period of years.

55. A compromise was reached. To avoid "rate shock," to promote the principle of gradualism, to avoid undue hardship, and to promote a spirit of cooperation and goodwill among all customers, the District agreed, subject to Commission approval, to transition the existing Elizabethtown customers from Elizabethtown's rates to the District's rates over a three (3) year period.

56. In anticipation of the proposed sale of its Water System to the District, Elizabethtown enacted Ordinance No. 07-2014 on February 18, 2014 (See **Exhibit 20** for a complete copy of the Ordinance). The Ordinance provides a gradual 4-step transition from Elizabethtown's existing water rates to the District's existing water rates. The effective date of the first step of the 4-step rate increase was timed to coincide with the Closing of the proposed sale of Elizabethtown's Water System Assets to the District. When the transition period ends on July 1, 2017, the Elizabethtown water rates will equalize with the

District's water rates. The following Table presents the amounts of the future rate increases and the time table for implementing these increases.

Elizabethtown's Water Rate Schedule⁸

Usage (Gallons)	Effective 11-1-14	Effective 7-1-15	Effective 7-1-16	Effective 7-1-17
First 2,000	\$ 12.80	\$ 14.70	\$ 16.60	\$ 18.50
Next 3,000	\$ 4.85	\$ 4.95	\$ 5.05	\$ 5.15
Next 5,000	\$ 4.65	\$ 4.85	\$ 5.05	\$ 5.15
Next 490,000	\$ 4.40	\$ 4.65	\$ 4.90	\$ 5.15
Over 500,000	\$ 2.60	\$ 2.70	\$ 2.80	\$ 2.90

57. The amount of the consideration for the sale of the Assets was based, in part, upon the District's agreement to forgo the immediate implementation of its unified rate structure and gradually transition Elizabethtown's existing customers to the District's existing unified rate structure. The District contractually obligated itself, subject to Commission approval, to transition the existing Elizabethtown customers from the Elizabethtown water rates to the District's water rates over a three (3) year period by utilizing the rate structure and time table set forth in Ordinance No. 07-2014 and shown in the Table set forth above in paragraph 56. From and after July 1, 2017, the rates to be charged by the District to all its water

⁸ See Elizabethtown Ordinance 07-2014, which is **Exhibit 20** to the Application.

customers, including those currently served by Elizabethtown, shall be the same.

58. The Agreement for the transfer of Assets is expressly conditioned upon the Commission's approval of the Elizabethtown rate transition plan shown above and contained in Ordinance No. 07-2014.⁹

59. The District requests Commission approval to assess Elizabethtown's present rates for customers served through the Elizabethtown Water System Assets (the "Elizabethtown Service Area"). The Elizabethtown rates are set forth in **Exhibit 20** and in the Table set forth above in paragraph 56.

60. There are at least two (2) similar cases in which the Commission has authorized a jurisdictional utility to assess the customers of a municipal utility being acquired by the jurisdictional utility the rates being charged by the municipal utility.^{10 & 11}

61. In both the Owenton and Radcliff cases, the rates were set by the elected legislative body of the respective municipality. In the instant case, the rates which the District proposes to assess for customers in the Elizabethtown Service Area were set by Elizabethtown's elected legislative body.

⁹ Agreement at 19, paragraph 16 and at 29, paragraph 24D.

¹⁰ Case No. 2005-00206, The Verified Joint Application of the City of Owenton and Kentucky-American Water Company for Approval of the Transfer of the Ownership of the Assets of the City of Owenton to Kentucky-American Water Company (Ky. PSC July 22, 2005).

¹¹ Case No. 2008-00074, Application of the Hardin County Water District No. 1 for Approval to Transfer Ownership of the City of Radcliff, Kentucky Sanitary Sewer System, Assume Existing Debt, and for Proposed Tariff to Provide Sewer Services to the City of Radcliff (Ky. PSC April 23, 2008).

62. Based upon the precedents of the Commission's Orders in the Owenton and Radcliff cases and because the Agreement is conditioned upon the Commission's approval of the Elizabethtown rate transition plan, the District urges the Commission to authorize the District to assess, during the transition period which ends on July 1, 2017, the Elizabethtown rates to customers in the Elizabethtown Service Area.

63. To implement the rate transition plan agreed upon by the parties in the Agreement, the District has issued, pursuant to 807 KAR 5:011, Section 11, a formal Adoption Notice whereby it adopts, for the Elizabethtown Service Area, the rates and charges currently being charged by Elizabethtown. The Adoption Notice is attached hereto and incorporated herein by reference as **Exhibit 21**. The Adoption Notice is being tendered for Commission approval.

BENEFITS OF CONSOLIDATION

64. The public policy of the Commonwealth, as declared in KRS 224A.300(1) and KRS 74.361(1) and (10) is to encourage regionalization, consolidation, and merger of water utilities wherever feasible. The District's proposed acquisition of the Elizabethtown Water System is consistent with, and in furtherance of, this public policy.

65. Combining and consolidating the Elizabethtown Water System with the District's Water System will result in economies of scale and will allow the combined systems to be managed, operated, and maintained in a more cost

effective manner.

66. The District, pursuant to KRS 74.100 and other applicable laws, is authorized to expand its existing Water System by acquiring the Elizabethtown Water System.

67. Both the Elizabethtown City Council and the District's Board of Commissioners have determined that it is economically feasible, desirable, and beneficial and in the best interests of Elizabethtown's customers, the District's customers, and the general public for the proposed transfer of assets to take place.

68. The District has the financial, technical, and managerial abilities to provide reasonable water service to the existing customers of Elizabethtown without causing a financial burden on the District's existing customers or adversely affecting the quality of service presently afforded the existing customers of the District or Elizabethtown.

69. The Promissory Note is the evidence of indebtedness that will be incurred by the District for the acquisition of the Elizabethtown Water System. The District represents that this acquisition will be in the public interest. Execution of the Promissory Note is necessary to enable the District to acquire Elizabethtown's Water System pursuant to the terms of the Agreement. This is a lawful object within the corporate purposes of the District's utility operations. The execution of the Promissory Note is necessary, appropriate for, and

consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

70. The new, long-term debt of \$8,000,000 will **not** be a burden on the District’s existing customers. Currently, the District owes \$15,991,000¹² and has 17,135 customers.¹³ This equates to a debt of \$933 per customer.

71. As a result of the proposed acquisition, the District will incur an additional debt of \$8,000,000. The total debt will be \$23,991,000 (\$15,991,000 + \$8,000,000). The District will gain an additional 9,630 customers.¹⁴ The new customer total will be 26,765. The debt per customer will be \$896, which is a reduction of \$37 per customer (4% reduction). In addition, the new long-term debt is interest free.

72. The Table set forth below illustrates the favorable impact of the proposed acquisition on the District’s existing customers.

Impact of Acquisition Upon Customers

	Before Acquisition	After Acquisition
Debt	\$15,991,000	\$23,991,000
Number of Customers	17,135	26,765
Amount of Debt Per Customer	\$933	\$896

¹² Application, Exhibit 11

¹³ Annual Report at 27.

¹⁴ Application, paragraph 13.

73. The District's proposed acquisition of the Elizabethtown Water System will not adversely impact the District's ability to provide adequate, reasonable, and reliable service to its existing customers. Indeed, just the opposite is true. The proposed acquisition will enhance the District's financial strength.

74. The closing of the proposed acquisition of Elizabethtown's Water System will take place as soon as practicable after the Commission enters its Order authorizing the District to execute the Promissory Note. The scheduled Closing Date is **October 31, 2014**.

75. No rate adjustment will be necessary for the District's existing customers.

76. All the Exhibits which are attached hereto are hereby incorporated herein by reference.

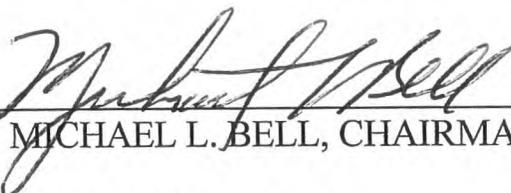
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WHEREFORE, the District respectfully requests that the Commission take the following actions:

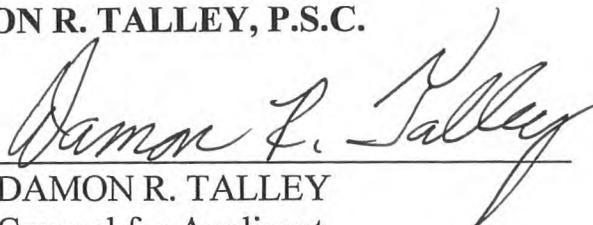
1. Place this Application to issue securities at the head of the docket as provided by KRS 278.300(2);
2. Authorize the District to execute the proposed Promissory Note (see **Exhibit 1**) as requested in the Application prior to the scheduled Closing date of **October 31, 2014**;
3. Authorize the District to assess those customers served through the Elizabethtown Water System Assets (the “Elizabethtown Service Area”) the water rates set forth in the Adoption Notice (see **Exhibit 21**);
4. Process this Application without a formal hearing in order to save time and expense. The District will promptly respond to any inquiries or information requests by the Commission Staff; and
5. Grant the District any and all other appropriate relief.

Respectfully submitted this August 14, 2014.

HARDIN COUNTY WATER DISTRICT NO. 2

BY: 
MICHAEL L. BELL, CHAIRMAN

DAMON R. TALLEY, P.S.C.

BY: 
DAMON R. TALLEY
Counsel for Applicant
PO Box 150
112 N. Lincoln Blvd.
Hodgenville, KY 42748-0150
(270) 358-3187 FAX (270) 358-9560
drtalley@windstream.net

VERIFICATION

The undersigned, MICHAEL L. BELL, being first duly sworn, deposes and states that he is the Chairman of the Commission of Hardin County Water District No. 2; that he has read the foregoing Application and has noted the contents thereof; and that the statements of fact set forth therein are true and correct.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this August 14, 2014.

HARDIN COUNTY WATER DISTRICT NO. 2

BY: 
MICHAEL L. BELL, CHAIRMAN

COMMONWEALTH OF KENTUCKY
COUNTY OF HARDIN

Subscribed and sworn to before me by Michael L. Bell, in his capacity as Chairman of the Commission of the Hardin County Water District No. 2, on this August 14, 2014.



NOTARY PUBLIC, STATE AT LARGE

MY COMMISSION EXPIRES: 6-9-2015

EXHIBIT LIST

HARDIN COUNTY WATER DISTRICT No. 2

1. Promissory Note
2. Map – Elizabethtown Service Area
3. Letter of Intent
4. Asset Purchase Agreement
5. Resolution Approving Agreement
6. Ordinance 14-2014 (Approving Agreement)
7. Book Value of Elizabethtown Assets
8. GRW Asset Evaluation Report
9. GRW Hydraulic Modeling Report
10. Forecasted Income Statement for Elizabethtown Division
11. Schedule of Outstanding Bonds
12. Income Statement 7-1-13 thru 6-30-14
13. Balance Sheet 6-30-14
14. Audit – District FYE 12-31-13
15. Audit – Elizabethtown FYE 6-30-13
16. Notice to State Local Debt Officer
17. Bond Authorizing Resolution (2007A Bonds)
18. Bond Authorizing Resolution (2012A Bonds)
19. Map – Elizabethtown Assets
20. Ordinance 07-2014 (Elizabethtown Rates)
21. Adoption Notice

Exhibit 1

PROMISSORY NOTE

\$8,000,000.00

**OCTOBER 31, 2014
ELIZABETHTOWN, KENTUCKY**

FOR VALUE RECEIVED, the **HARDIN COUNTY WATER DISTRICT NO. 2** (the “District”) hereby promises to pay to the order of the **CITY OF ELIZABETHTOWN, KENTUCKY** (the “City”) the sum of Eight Million Dollars (\$8,000,000.00), which sum bears no interest and is due and payable in twenty (20) equal annual installments of Four Hundred Thousand Dollars (\$400,000.00) each. The first annual installment shall be due and payable on or before one (1) year from the date of this Promissory Note; and a like installment shall be due and payable on or before the same day of each and every year thereafter until the Promissory Note is paid in full. The final installment shall be due and payable on or before October 31, 2034.

Prepayment Privilege. The District shall have the right to prepay all, or any part thereof, of the unpaid principal of this Promissory Note on any date, without premium or penalty.

Acceleration Clause. If any installment of principal is not paid at the time specified herein, or within thirty (30) days after the due date of said installment, with time being of the essence hereof, the holder of this Promissory Note may, without notice or demand, declare the entire remaining unpaid balance immediately due and payable.

Attorney Fees. In the event it becomes necessary for the holder of this Promissory Note to enforce collection of it by legal action, then it shall be entitled to recover the then unpaid amount of this Promissory Note, plus accrued interest, Court costs, and reasonable attorney fees.

Purpose. This Promissory Note evidences the indebtedness incurred by the District for the purchase of the City's Water System pursuant to the terms of the Asset Purchase Agreement dated July 28, 2014.

Security. The District hereby pledges the income and revenues of its water system to the City as security for the payment of principal hereunder; provided, however, that the pledge of such income and revenues is subordinate, and subject in all respects, to the pledges, liens, rights, and contractual commitments securing the District's Water System Revenue Bonds, Water System Refunding Revenue Bonds, and Revenue Bond Anticipation Notes issued pursuant to KRS Chapter 74

or other applicable law (the “Bonds”) to finance or refinance improvements to the District’s water system, regardless of whether such Bonds were issued by the District before or after the date of this Promissory Note.

No Assumption. No third party may assume the obligations of the District hereunder, in whole or in part, without the prior written consent of the City; provided, however, nothing herein shall prohibit or preclude the assumption of the obligations of the District hereunder by an entity that is the successor of the District by operation of law, consolidation, or merger.

Authority. Michael L. Bell, Chairman of the District, is executing this Promissory Note for and on behalf of the District pursuant to authority granted him by Resolution 2014-07-01 adopted by the of the Board of Commissioners of the District at a meeting held on July 15, 2014.

Immunity of Officials and Officers. Michael L. Bell is executing this Promissory Note in his official capacity as Chairman of the District and not as an individual. He is not incurring any individual or personal liability whatsoever by executing this Promissory Note. In addition, no recourse shall be had for the payment of any amount due hereunder against any present or future Commissioner or officer of the District.

HARDIN COUNTY WATER DISTRICT No. 2

By: _____ **To Be Executed At Closing**
Michael L. Bell, Chairman

ATTEST:

By: _____
Morris L. Miller, Secretary

14/HCWD 2/Promissory Note – E-Town 2014

EXHIBIT LIST

HARDIN COUNTY WATER DISTRICT No. 2

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21. Adoption Notice

Hardin County Water District No. 2 and City of Elizabethtown Service Areas

Exhibit 2



LETTER OF INTENT

THIS Letter of Intent, having an effective date of September 17, 2013, is made and entered into by and between:

CITY OF ELIZABETHTOWN, KENTUCKY (“E-TOWN”)
P.O. Box 550
Elizabethtown, KY 42702

And

HARDIN COUNTY WATER DISTRICT NO. 2 (“DISTRICT”)
P.O. Box 970
360 Ring Road
Elizabethtown, KY 42702

WITNESSETH:

WHEREAS, the City of Elizabethtown, Kentucky (“E-Town”) is a duly organized and existing municipal corporation and city of the fourth class of the Commonwealth of Kentucky;

WHEREAS, E-Town currently owns and operates water supply, treatment, and distribution facilities (“E-Town Water System”);

WHEREAS, Hardin County Water District No. 2 (“District”) is a water district organized under the provisions of KRS Chapter 74;

WHEREAS, the District currently owns and operates water supply, treatment, and distribution facilities (“District System”);

WHEREAS, E-Town depends on the District for a supplemental supply of potable water in order to meet the demand of E-Town's customers. Currently, E-Town purchases approximately 1.1 million gallons of potable water per day from the District;

WHEREAS, because of the continued growth of the District's aggregate customer base and the low flow of the Nolin River during drought conditions, the District has long sought additional sources of water. The District identified the Louisville Water Company ("LWC") as the most reliable and cost effective source of supplemental water;

WHEREAS, on March 19, 2013, the District entered into a Water Purchase Agreement with LWC whereby LWC will provide a supplemental supply of potable water to the District;

WHEREAS, the current free chlorine disinfectant method used by both the District and by E-Town is not compatible with the chloramine disinfectant method used by LWC;

WHEREAS, the District plans to commence a conversion of the disinfectant process at its White Mills Water Treatment Plant to be compatible with the chloramine disinfectant method of LWC;

WHEREAS, E-Town will also be required to take action to resolve its disinfectant incompatibility with regard to future water volumes supplied by the District;

WHEREAS, if E-Town chooses to operate its Water System as an autonomous water system, it will be required to construct capital projects costing multiple millions of dollars for water storage tanks and other system improvements;

WHEREAS, it appears that combining and consolidating E-Town's Water System with the District's System will result in economies of scale; it will enable E-Town to forego capital projects costing multiple millions of dollars; and it will allow the combined system to be managed, operated, and maintained in a more cost effective manner; and

WHEREAS, E-Town desires to state its intention to transfer and convey its Water System to the District, and the District desires to state its intention to acquire E-Town's Water System, subject to the terms, conditions, and provisions hereinafter set forth.

NOW, THEREFORE, for and in consideration of the mutual benefits to be derived from combining and consolidating E-Town's Water System with the District's System, E-Town and the District state as follows:

1. **Agreement.** E-Town and the District formally declare and state their intent to negotiate the terms of, and enter into, an Asset Purchase Agreement ("Agreement"). The Agreement will contain the detailed provisions for the transfer of E-Town's Water System to the District.

2. **Transfer of Certain Assets.** Subject to the terms and conditions of the Agreement, E-Town hereby states its intent to transfer and convey to the District and the District hereby states its intent to acquire from E-Town, the Water System owned and operated by E-Town.

3. **Excluded Assets.** The Parties acknowledge and agree that some of E-Town's Water System assets (e.g. Freeman Lake, motor vehicles, mowing equipment, office computers, etc.) will either not be needed by the District or will not be deemed to be a critical Water System asset, and, therefore, will be retained by E-Town and excluded from the proposed transaction.

4. **Consideration.** As consideration for the transfer of E-Town's Water System, the District shall pay E-Town the sum of Eight Million Dollars (\$8,000,000.00), without interest, which shall be paid in twenty (20) equal annual installments of Four Hundred Thousand Dollars (\$400,000.00) each, with the first

payment being due and payable one (1) year from the date of the closing of the proposed transaction and actual transfer of assets (“Closing”) and continuing annually thereafter on the anniversary date of the Closing until paid in full.

5. **Perpetual Lease.** The Parties contemplate that E-Town shall remain the fee simple owner of most, if not all, of the parcels of real estate on which the above ground structures or assets of the E-Town Water System are located. E-Town shall execute a perpetual lease in favor of the District whereby the District shall own the improvements or assets located on the various parcels of real estate and shall have the perpetual use of the real estate, together with reasonable rights of ingress and egress.

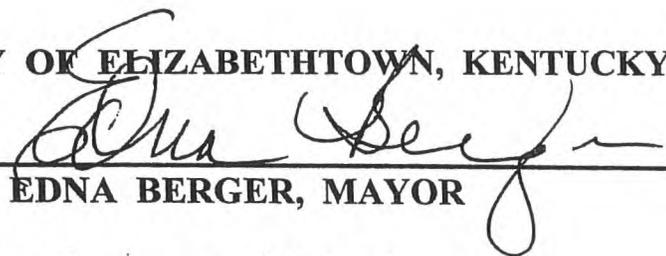
6. **Exclusive Negotiations.** The Parties agree to engage in good faith negotiations exclusively with each other, and that neither Party shall engage in talks, discussions, communications, or the like with any other water utility or entity concerning the proposed transfer of the E-Town Water System.

7. **Cooperation.** E-Town and the District agree: (a) to cooperate and assist each other with the hydraulic analysis and other studies that will need to be conducted, but such cooperation does not require any financial obligation by E-Town; (b) to facilitate and expedite negotiations which are intended to result in a mutually advantageous Agreement and the ultimate transfer of E-Town’s Water

System to the District as contemplated by this Letter of Intent; (c) to exchange information; and (d) to promptly take all other necessary actions.

IN TESTIMONY WHEREOF, this Letter of Intent has been approved by the E-Town City Council and the Board of Commissioners of the Hardin County Water District No. 2 and has been executed by the duly authorized officials and officers of the Parties.

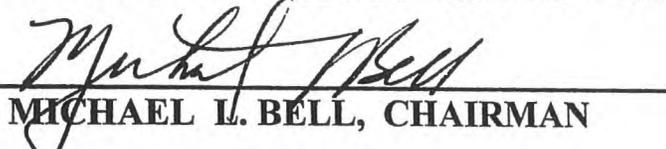
CITY OF ELIZABETHTOWN, KENTUCKY

BY: 
EDNA BERGER, MAYOR

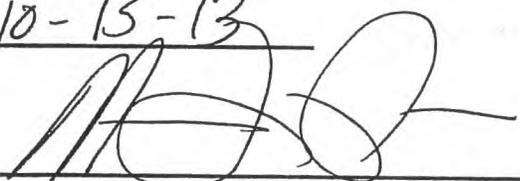
DATE: October 14, 2013

ATTEST: 
MARY CHAUDOIN, CITY CLERK

HARDIN COUNTY WATER DISTRICT NO. 2

BY: 
MICHAEL L. BELL, CHAIRMAN

DATE: 10-15-13

ATTEST: 
MORRIS L. MILLER, SECRETARY

ASSET PURCHASE AGREEMENT

BETWEEN

CITY OF ELIZABETHTOWN

AND

**HARDIN COUNTY WATER
DISTRICT No. 2**

JULY 28, 2014

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EXHIBITS

- Exhibit 1 City Springs WTP Equipment**
- Exhibit 2 Distribution System Equipment & Inventory**
- Exhibit 3 Freeman Lake WTP Assets & Equipment**
- Exhibit 4 Schedule of Communication Antenna Leases**
- Exhibit 5 Elizabethtown's Water Rates**
- Exhibit 6 District's Water Rates**
- Exhibit 7 Elizabethtown's Water Rate Ordinance No. 07-2014**
- Exhibit 8 Litigation & Administrative Proceedings**

ASSET PURCHASE AGREEMENT

This is an Asset Purchase Agreement (“Agreement”), to be effective as of July 28, 2014, made and entered into by and between:

CITY OF ELIZABETHTOWN, KENTUCKY (“E-TOWN”)
P.O. Box 550
Elizabethtown, KY 42702

And

HARDIN COUNTY WATER DISTRICT NO. 2 (“DISTRICT”)
P.O. Box 970
360 Ring Road
Elizabethtown, KY 42702

WITNESSETH:

WHEREAS, the City of Elizabethtown, Kentucky (“E-Town”) is a duly organized and existing municipal corporation and city of the fourth class of the Commonwealth of Kentucky;

WHEREAS, E-Town currently owns and operates water supply, treatment, and distribution facilities (“E-Town Water System”);

WHEREAS, Hardin County Water District No. 2 (“District”) is a water district organized under the provisions of KRS Chapter 74;

WHEREAS, the District currently owns and operates water supply, treatment, and distribution facilities (“District System”);

WHEREAS, E-Town depends on the District for a supplemental supply of potable water in order to meet the demand of E-Town's customers. Currently, E-Town purchases approximately 1.1 million gallons of potable water per day from the District;

WHEREAS, because of the continued growth of the District's aggregate customer base and the low flow of the Nolin River during drought conditions, the District has long sought additional sources of water. The District identified the Louisville Water Company ("LWC") as the most reliable and cost effective source of supplemental water;

WHEREAS, on March 19, 2013, the District entered into a Water Purchase Agreement with LWC whereby LWC will provide a supplemental supply of potable water to the District;

WHEREAS, the current free chlorine disinfectant method used by both the District and by E-Town is not compatible with the chloramine disinfectant method used by LWC;

WHEREAS, the District has commenced a conversion of the disinfectant process at its White Mills Water Treatment Plant to be compatible with the chloramine disinfectant method of LWC;

WHEREAS, the owner of the E-Town Water System will also be required to take action to resolve the disinfectant incompatibility with regard to future water volumes supplied by the District;

WHEREAS, if E-Town chooses to operate its Water System as an autonomous water system, it will be required to construct capital projects costing multiple millions of dollars for water storage tanks and other system improvements;

WHEREAS, it appears that combining and consolidating E-Town's Water System with the District's System will result in economies of scale; it will enable E-Town to forego capital projects costing multiple millions of dollars; and it will allow the combined system to be managed, operated, and maintained in a more cost effective manner; and

WHEREAS, E-Town and the District executed a Letter of Intent, effective September 17, 2013, whereby E-Town expressed its intent to transfer and convey its Water System to the District and the District expressed its intent to acquire E-Town's Water System, subject to the terms, conditions, and provisions hereinafter set forth.

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual promises, covenants and conditions contained herein, it is agreed by and between the Parties as follows:

1. **TRANSFER OF CERTAIN ASSETS.** Subject to the terms and conditions of this Agreement, E-Town hereby agrees to sell, transfer, and convey to the District and the District hereby agrees to purchase from E-Town those assets described in paragraph 2 of this Agreement (the “Assets”) for the consideration set forth in paragraph 3 of this Agreement.

2. **ASSETS BEING TRANSFERRED.** At the Closing, E-Town shall transfer to the District the entire E-Town Water System, **except** for those assets specifically excluded in paragraph 4 of this Agreement. The Assets being transferred to the District (the “Assets”) include, but are not limited to, the following:

A. **City Spring.** The right to withdraw water from the City Spring and to use the concrete dike, wetwell, valves, appurtenances, and the raw water line which connects the City Spring to the Raw Water Reservoir. The City Spring is located on Valley Creek approximately 500 feet behind the City Springs Water Treatment Plant (“WTP”);

B. **Gaither Spring.** The right to withdraw water from the Gaither Spring and to use the concrete dike/dam, wetwell, two (2) vertical turbine raw water pumps, electrical control panel, valves, appurtenances, and the raw water line which connects the Gaither Spring to the Raw Water Reservoir. The Gaither Spring is located approximately 1.5 miles southwest of the City Springs WTP;

C. **Water Wells.**

- (1) **Water Well No. 1.** Water Well No. 1 and the right to withdraw water therefrom, a submersible raw water pump, electrical control panel, valves, yard piping, appurtenances, and the raw water line which connects Water Well No. 1 to the Raw Water Reservoir. The Water Well No. 1 is located in the City Springs WTP yard;
- (2) **Water Well No. 2.** Water Well No. 2 and the right to withdraw water therefrom, pump house, a submersible raw water pump, electrical control panel, valves, yard piping, appurtenances, and the raw water line which connects Water Well No. 2 to the Raw Water Storage Tank. The Water Well No. 2 is located adjacent to the Raw Water Storage Tank;
- (3) **Water Well No. 3.** Water Well No. 3 and the right to withdraw water therefrom, a submersible raw water pump, electrical control panel, valves, yard piping, appurtenances, and the raw water line which connects Water Well No. 3 to the Raw Water Reservoir. The Water Well No. 3 is located in a parking lot near the E-Town Public Works Facility;

- (4) **Water Well No. 4.** Water Well No. 4 and the right to withdraw water therefrom, a raw water pump, electrical control panel, valves, yard piping, appurtenances, and the raw water line which connects Water Well No. 4 to the Transfer Pumping Station. The Water Well No. 4 is located approximately 0.5 miles southwest of the City Springs WTP and approximately 40 feet from the Transfer Pumping Station; and
- (5) **Water Well No. 6.** Water Well No. 6 and the right to withdraw water therefrom. The Water Well No. 6 is located approximately 30 feet from the Gaither Spring (Well No. 6 is currently out of service).

D. **Transfer Pumping Station (Raw Water).** The Transfer Pumping Station, which is located approximately 0.5 miles southwest of the City Springs WTP, a raw water pump, electrical control panel, valves, yard piping, appurtenances, and the raw water line which connects the Transfer Pumping Station to the Raw Water Storage Tank. The Transfer Pumping Station receives water from Water Well No. 4;

E. **Raw Water Reservoir and Pumps.** The Raw Water Reservoir and the adjacent Raw Water Pump House, two (2) vertical turbine pumps, electrical control panel, chemical feed pump and equipment, valves, yard piping, appurtenances, and the raw water line

which connects the Raw Water Reservoir to the Raw Water Roundhouse;

F. **Raw Water Storage Tank.** The 3,000,000 gallon ground level Raw Water Storage Tank, which is located adjacent to the City Springs WTP, valves, yard piping, appurtenances, and the raw water line which connects the Raw Water Storage Tank to the Raw Water Roundhouse;

G. **Raw Water Roundhouse.** The Raw Water Roundhouse, wetwell, two (2) submersible, centrifugal pumps, electrical control panel, pH meter, Hach High Range Turbidimeter, valves, yard piping, appurtenances, and the raw water line which connects the Raw Water Roundhouse to the City Springs WTP;

H. **Chemical Storage Building.** The Chemical Storage Building, which is located adjacent to the City Springs WTP, electrical control panel, chemical feed pumps and metering equipment, valves, yard piping, and appurtenances;

I. **City Springs WTP Facilities.** The City Springs WTP Facilities, which are located at 401 Waterworks Drive, including the main WTP building, Head Tank, ClairCone Clarifier (with a rated

capacity of 3.3 MGD), four (4) filters, piping gallery, two (2) clearwells, six (6) high service pumps, electrical control panels, transfer switch, steam boiler. **Exhibit 1**, which is attached hereto and incorporated herein by reference, contains a partial listing of the equipment, furniture, and other miscellaneous items of personal property used to operate the City Springs WTP;

J. **Helmwood Tank.** The 200,000 gallon elevated water storage tank designated as the Helmwood Tank, which is located on Helmwood Drive (See Deed Book 128, Page 402 of record in the Office of the Hardin County Clerk), the parcel of real estate on which the tank is located, valve vault, altitude valve, and appurtenances associated therewith;

K. **Pear Orchard Tank.** The 300,000 gallon elevated water storage tank designated as the Pear Orchard Tank, which is located on North Miles Street (See Deed Book 211, Page 366 of record in the Office of the Hardin County Clerk), the parcel of real estate on which the tank is located, valve vault, altitude valve, flow meter, chlorine residual analyzer, and appurtenances associated therewith;

L. **Mulberry Tank.** The 500,000 gallon elevated water storage tank designated as the Mulberry Tank, which is located on North Mulberry Street (See Deed Book 141, Page 193 of record in the Office of the Hardin County Clerk), the parcel of real estate on which the tank is located, valve vault, altitude valve, flow meter, chlorine residual analyzer, and appurtenances associated therewith;

M. **Industrial Park Tank.** The 500,000 gallon elevated water storage tank designated as the Industrial Park Tank, which is located on Peterson Drive (See Deed Book 1332, Page 541 of record in the Office of the Hardin County Clerk), the parcel of real estate on which the tank is located, valve vault, altitude valve, flow meter, chlorine residual analyzer, and appurtenances associated therewith;

N. **South End Tank.** The 500,000 gallon elevated water storage tank designated as the South End Tank, which is located on Locust Grove Road (See Deed Book 823, Page 543 of record in the Office of the Hardin County Clerk), the parcel of real estate on which the tank is located, valve vault, altitude valve, flow meter, chlorine residual analyzer, and appurtenances associated therewith;

O. **Master Meter Vaults.**

- (1) **South End Master Meter Vault.** The South End Master Meter Vault, flow metering equipment, valves, and appurtenances are located inside the fenced area of the South End Tank property;
- (2) **Ring Road Master Meter Vault.** The Ring Road Master Meter Vault, flow metering equipment, valves, and appurtenances are located at 380 Ring Road;
- (3) **Buffalo Creek Drive Master Meter Vault.** The Buffalo Creek Drive Master Meter Vault, flow metering equipment, valves, and appurtenances are located at the end of Buffalo Creek Drive; and
- (4) **Oaklawn Master Meter Vault.** The Oaklawn Master Meter Vault, flow metering equipment, valves, and appurtenances are located at 209 Pear Orchard Road Northwest.

P. All other real estate easements and the improvements thereon, licenses, encroachment permits, rights-of-way or other interests in real estate owned by E-Town and used in the operation of the E-Town Water System;

Q. E-Town's entire water distribution system including, but not limited to, the following: all transmission mains, distribution lines, valves, meter vaults, meters, fire hydrants, flush hydrants, tap installations, fittings, spare parts and pumps, the complete Supervisory Control and Data Acquisition (the "SCADA") System,

and all other tools, equipment and inventory presently owned by E-Town and utilized in the operation of its water distribution system. **Exhibit 2**, which is attached hereto and incorporated herein by reference, contains a partial listing of the equipment, SCADA System, pipe inventory, fire hydrant inventory, and other miscellaneous items of personal property used to operate the E-Town distribution system;

R. All maps, drawings, operating manuals, engineering reports and “As Built” plans pertaining to E-Town’s Water System;

S. All business records pertaining to E-Town’s Water System, including, but not limited to, all customer records and customer agreements; and

T. Any and all other tangible and intangible rights, permits, licenses, or authorizations owned by E-Town and utilized in the operation of its Water System.

3. **CONSIDERATION.** As consideration for the transfer of E-Town’s Water System, the District shall pay E-Town the sum of Eight Million Dollars (\$8,000,000.00), without interest, which shall be paid in twenty (20) equal annual installments of Four Hundred Thousand Dollars (\$400,000.00) each, with the first payment being due and payable one (1) year from the date of the closing of the

proposed transaction and actual transfer of Assets (“Closing”) and continuing annually thereafter on the anniversary date of the Closing until paid in full.

4. **EXCLUDED ASSETS.** The Parties acknowledge and agree that the following E-Town Water System assets shall be excluded from this transaction and shall not be transferred to the District:

A. **Oaklawn Tank.** The 100,000 gallon elevated water storage tank designated as the Oaklawn Tank (located on Pear Orchard Road Northwest), valve vault, altitude valve, appurtenances, and the parcel of real estate on which the tank is located;

B. **Hawkins Drive Tank.** The 100,000 gallon elevated water storage tank designated as the Hawkins Drive Tank (located adjacent to I-65), valve vault, altitude valve, appurtenances, and the parcel of real estate on which the tank is located;

C. **Oaklawn Booster Pump Station.** The Oaklawn Booster Pump Station, which is located off N. Dixie Highway (U.S. 31W) near the Freeman Lake Water Treatment Plant;

D. **Water Well No. 5.** Water Well No. 5 and the right to withdraw water therefrom, the submersible raw water pump, electrical control panel, valves, yard piping, and appurtenances associated

therewith. The Water Well No. 5 is located approximately 1 mile southwest of the City Springs WTP and near the retired settling lagoon. E-Town needs Water Well No. 5 to provide water for use at its Multipurpose Storage Facility;

E. **Motor Vehicles and Mowers.** All motor vehicles, ATVs and mowing equipment; and

F. **Revenue from Cell Antenna Leases.** See paragraph 5 of this Agreement for full explanation.

5. **CELL ANTENNA LEASES.** The Parties acknowledge that, pursuant to written leases with E-Town, certain cellular companies have attached communication antennas to some of E-Town's water storage tanks and have installed generators and related facilities on the ground adjacent to these tanks. Some of these water storage tanks will be transferred to the District. **Exhibit 4**, which is attached hereto and incorporated herein by reference, contains a schedule of the communication antenna leases which affect these water storage tanks. E-Town shall assign all its rights, **except** for the right to receive the lease payments, in and to these communication antenna leases to the District.

E-Town shall continue to receive the lease payments from each of these existing communication antenna leases until the Expiration Date of each of

the current leases as set forth in **Exhibit 4**. After the Expiration Date of a current lease, the District shall have the right to negotiate a new communication antenna lease and to receive, thereafter, the revenue from the new lease.

6. **E-TOWN COMMUNICATION ANTENNAS.** The Parties acknowledge that E-Town owns, for the benefit of its Police, Fire, Public Works, and other Departments or Agencies and City Facilities, numerous communication antennas and equipment which are attached to some of its water storage tanks. The District shall become the owner of some of these water storage tanks. Following the Closing, E-Town shall have the right, without payment of any rental fee, to access and utilize these tanks for the purpose of operating and maintaining its communication antennas and equipment. E-Town pledges to cooperate fully with the District and the cellular companies, which also utilize these tanks, to ensure that E-Town's use is fully compatible with these other uses.

7. **PERPETUAL LEASE.** The Parties contemplate that E-Town shall remain the fee simple owner of all parcels of real estate, except for the five (5) water storage tank sites, on which the above ground structures or Assets of E-Town Water System are located. E-Town shall execute a perpetual lease in favor of the District whereby the District shall own the improvements or Assets located on the various parcels of real estate and shall have the perpetual use of the real

estate, for as long as the Assets are utilized by the District, together with reasonable rights of ingress and egress.

8. **FREEMAN LAKE WTP.** E-Town shall execute a five (5) year lease in favor of the District to enable the District to operate, maintain, and repair the Freeman Lake WTP facilities. The equipment and other miscellaneous items of personal property used to operate the Freeman Lake WTP are listed in **Exhibit 3**, which is attached hereto and incorporated herein by reference. In addition, the District shall have the right to renew the Freeman Lake WTP lease for an additional period of five (5) years.

9. **CUSTOMER DEPOSITS.** E-Town collects a combined customer deposit for its water, wastewater, and natural gas utility services. Since E-Town will retain ownership of, and will continue operating, its wastewater and natural gas utility systems, E-Town needs to continue to hold the customer deposits for its wastewater and natural gas utility customers. Therefore, E-Town shall **not** transfer any customer deposits to the District at the time of Closing.

10. **LIABILITIES EXCLUDED.** The District is not assuming nor paying any of E-Town's liabilities or debts. E-Town represents and warrants to the District that it does not have any outstanding debt obligations which were incurred for the purpose of constructing or improving the E-Town Water System.

11. **PLANNED CONSTRUCTION.** The Parties acknowledge that E-Town, pursuant to the terms of a Consent to Annexation executed by the Hardin County Extension District Board and other property owners, has agreed to extend natural gas, water, and wastewater services to the Hardin County Extension District Board property located at the intersection of Ring Road (KY Highway 3005) and the Western Kentucky Parkway. Following the Closing, E-Town shall remain responsible for extending these utility services. The District shall not incur any liability whatsoever with respect to extending water service to this site, but the District shall provide construction inspection of the water line extension. Upon completion of the project, E-Town shall direct any person desiring water service along this water line to the District for the final customer service connection.

In addition, E-Town shall be responsible for completing any and all water projects currently under construction, which it is currently obligated to perform, or which, prior to the Closing, it may become obligated to perform. The District shall not incur any liability whatsoever with respect to these projects.

12. **FIRE PROTECTION STANDARDS.** The District recognizes the importance of safeguarding and promoting public safety, including fire protection. The District also appreciates E-Town's concern for its residents and their property as well as E-Town's need to ensure that all future developments within its

corporate limits comply with E-Town's minimum fire protection standards and requirements. Therefore, the District agrees that it will withhold water service from all future developments within E-Town's corporate limits unless the developer complies with the minimum water line size, water flow rates, and fire hydrant requirements contained in E-Town's Code of Ordinances (see Chapter 93) and E-Town's Subdivision Regulations – Design and Improvement Standards.

13. **REGULATORY AGENCY APPROVALS.** The District shall be responsible for the following: (a) for obtaining all the necessary approvals from regulatory agencies, including the Kentucky Public Service Commission (the "PSC") and the Division of Water; (b) for obtaining the transfer of the water withdrawal permit from E-Town to the District; (c) for obtaining the transfer of all other necessary permits and licenses from E-Town to the District; and (d) for taking other necessary actions to facilitate the transfer of E-Town's Water System to the District. The District shall initiate all the proceedings to obtain these necessary approvals and transfers. E-Town pledges its full cooperation and assistance to expedite these matters and to ensure a smooth transition.

14. **JOINT PROJECTS.** E-Town and the District have a long history of participation in joint water system improvement projects. Historically, E-Town has provided the materials and the District has provided the labor and equipment

necessary for each joint project. The Parties pledge to continue this practice. The Parties shall evaluate each proposed joint project on a project-by-project basis.

15. **EASEMENT.** At the Closing, E-Town shall execute and deliver to the District an easement granting the District reasonable rights of access, ingress, and egress to the Assets and the right to repair, maintain, replace and remove water pipelines and related appurtenances under, across, along and through city streets, roads, sidewalks and other city property, including the right to cut or bore under said streets, roads and sidewalks as directed by E-Town; but subject to any and all of E-Town's ordinances, rules and regulations regarding obtaining permits before cutting or boring under streets and sidewalks;

16. **TRANSITIONAL RATES.** A schedule of E-Town's current water rates is set forth in **Exhibit 5**. A schedule of the District's current water rates is set forth in **Exhibit 6**. The District is regulated by the Kentucky Public Service Commission (the "PSC"). Therefore, under existing laws, PSC regulations, PSC case precedents, and PSC policies, it will be necessary for the District to continue utilizing a unified rate structure. This means the District must charge all its water customers, including those currently served by E-Town, the same water rates.

Because the District's water rates are higher than E-Town's water rates, E-Town's current water customers will experience a significant "rate shock"

if the District immediately commences to charge the current E-Town water customers the same rates which the District's existing water customers are paying. To avoid this "rate shock," to promote the principle of gradualism, to avoid undue hardship, and to promote a spirit of cooperation and goodwill among all customers, the District agrees, subject to PSC approval, to transition the existing E-Town customers from E-Town's rates to the District's rates over a three (3) year period.

In anticipation of the proposed sale of the E-Town Water System to the District, E-Town enacted Ordinance No. 07-2014 on February 18, 2014 (See **Exhibit 7** for a complete copy of the Ordinance). The Ordinance provides a gradual 4-step transition from E-Town's existing water rates to the District's existing water rates. Commencing on July 1, 2017, under the provisions of the Ordinance, the E-Town water rates will equalize with the District's water rates.

The amount of the consideration for the sale of the Assets is based, in part, upon the District's agreement to forgo the immediate implementation of its unified rate structure and gradually transition E-Town's existing customers to the District's existing unified rate structure. The District contractually obligates itself, subject to PSC approval, to transition the existing E-Town customers from the E-Town water rates to the District's water rates over a three (3) year period by utilizing the rate structure and time table set forth in Ordinance No. 07-2014.

From and after July 1, 2017, the rates to be charged by the District to all its water customers, including those currently served by E-Town, shall be the same.

17. **PRE-PAID CONNECTIONS.** In the event E-Town collects any water connection fees prior to the Closing but has not installed all the meters for which payment has been received (the “Pre-paid Connections”), then E-Town shall be responsible for installing the water connections, under District supervision, following the Closing.

18. **CONTINUED OPERATION OF SYSTEM.** Until the time of the Closing, E-Town shall continue to operate and maintain its Water System in substantially the same manner as it has previously been operated and maintained. Immediately following the Closing, the District shall commence operating and maintaining the Water System.

19. **REPRESENTATIONS AND WARRANTIES OF E-TOWN.**
E-Town represents and warrants to the District as follows:

A. E-Town is a duly organized and validly existing municipal corporation and city of the fourth class of the Commonwealth of Kentucky. It has the requisite right, power and authority: (1) to carry on its utility business as it is now being conducted; and (2) to own and operate its facilities which it currently

owns and operates. E-Town has, and at all relevant times has had, full power and authority to own its facilities, including the Assets, and to conduct its utility business.

B. E-Town has full capacity, right, power, and authority to enter into, deliver, and perform this Agreement. This Agreement has been approved by its City Council. All other consents, approvals, authorizations, or other requirements prescribed by law, rule or regulation which must be obtained or satisfied by E-Town and which are necessary in order for it to enter into and perform this Agreement have been satisfied. This Agreement has been duly executed and delivered by E-Town and constitutes a legal, valid and binding obligation, enforceable against it in accordance with its terms.

C. The execution, delivery, performance and the consummation of the transactions contemplated in this Agreement do not and will not: (1) conflict with or result in a violation or breach of any of the terms, conditions, or provisions of or constitute a default of any instrument, agreement, mortgage, judgment, order, writ, award, decree, or other restriction to which either E-Town is a Party, or to which any of E-Town's Assets are subject, or by which E-Town is

bound or any statute or regulatory provision affecting E-Town; (2) require the approval, consent, or authorization of any federal, state, or local court, governmental authority, or regulatory body or of any creditor of E-Town or of any other person or entity; nor (3) give any Party with rights under any instrument, agreement, mortgage, judgment, order, writ, award, decree or other restriction the right to terminate, modify, or otherwise change E-Town's rights or obligations thereunder.

D. E-Town has complied with all existing laws, rules, regulations, ordinances, orders, judgments and decrees now or hereafter applicable to E-Town's Assets. E-Town is not aware of any proposed laws, rules, regulations, ordinances, orders, judgments, decrees, governmental takings, condemnations, or other proceedings which would be applicable to E-Town's Assets or which might adversely affect E-Town's Assets either before or after the date of this Agreement.

E. E-Town has not received any notice or notification from any court or governmental agency, authority, or body that it is in violation of, or not in compliance with, any federal, state, or local law,

statute, ordinance, rule, regulation, decree, or order or permit relating to its utility business or that upon the passage of time it will be in violation of any of the foregoing. E-Town's operation of its utility business complies in all respects with all governmental requirements relating to the collection, treatment and disposal of wastewater.

F. E-Town is the true and lawful owner of the Assets and has good, marketable, and insurable title to all of the Assets. None of the Assets will, after Closing, be subject to any mortgage, pledge, lien, charge, security interest, encumbrance, restriction, lease, license, easement, liability or adverse claim of any nature whatsoever, direct or indirect, whether accrued, absolute, contingent or otherwise. All the Assets are in good operating condition and repair and are suitable for the purposes used.

G. Upon execution and delivery of the necessary leases, deeds, bills of sale, easements, assignments and other instruments of transfer by E-Town pursuant to this Agreement, the District shall acquire good and valid title to the Assets, free and clear of all claims, liens, security interests, agreements, restrictions, charges and encumbrances of any nature whatsoever.

H. No other person or entity, except for the District, now has, nor at any time prior to the Closing will have, the right to purchase, own, use, or sell any of the Assets.

I. E-Town is not insolvent as of the date of this Agreement. E-Town is able to meet all business obligations as they become due and will not be insolvent or unable to meet its business obligations as a result of completing the transactions described herein.

J. With the exception of the matters listed in **Exhibit 8**, there is no claim, legal action, suit, arbitration, governmental investigation or other legal or administrative proceeding, nor any order, decree or judgment in progress, pending or in effect, or threatened, against or relating to E-Town, its officers, council members, employees or utility business, the Assets, or the transactions contemplated by this Agreement, and E-Town neither knows nor has reason to be aware of any basis for the same.

K. Between the date of this Agreement and the Closing, E-Town shall operate its Water System diligently and substantially in the same manner as heretofore conducted prior to the date of this Agreement. Prior to the Closing, E-Town shall not, without the

District's prior written approval, change its rates or charges, institute any new methods of accounting or operation or engage in any transaction or activity, enter into any agreement or make any commitment, except in the ordinary course of business and consistent with past practice.

L. Prior to the Closing, E-Town shall not permit any of the Assets to be subjected to a mortgage, pledge, lien or encumbrance, without notice to, and approval of, the District, and further shall not dispose of any of the Assets.

M. E-Town shall maintain until the Closing the insurance policies presently in effect on the Assets.

N. E-Town's current rates for water service are set forth in **Exhibit 5**.

O. E-Town shall not perform any act or omit to perform any act or permit any act or omission that will cause a breach or default in this Agreement.

P. No representation or warranty by E-Town in this Agreement, nor any statement or certificate furnished or to be furnished by it to the District or its representatives in connection

herewith or pursuant hereto, contains or will contain any untrue statement of material fact or will omit a statement of any material fact required to make the statements herein or therein contained not misleading. E-Town has disclosed to the District in writing all material adverse facts known to it relating to E-Town, its utility business or the Assets. E-Town is not aware of any circumstances or facts which could be detrimental to its utility business other than those disclosed to the District in writing.

Q. All books and records and other documents maintained by E-Town with respect to the Assets are true, complete and accurate.

R. All representations and warranties of E-Town contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall be true as of the Closing as well as of the date of this Agreement.

20. **DISTRICT'S REPRESENTATIONS AND WARRANTIES.** The District represents and warrants to E-Town as follows:

A. That it is a duly organized and existing water district.

B. That the execution and delivery of this Agreement and the consummation of the transactions herein contemplated have been duly authorized by its Board of Commissioners.

C. Because of the age of a substantial portion of E-Town's Water System and the myriad repairs and relocations of water lines and other facilities that have occurred over the years, the District acknowledges the inherent inaccuracies that may exist in E-Town's maps and records. Therefore, the District shall make its own independent investigation, as it deems necessary, of water line locations, property boundaries, and easement rights before it commences to repair or replace water lines or other facilities.

D. That it has the financial, technical, and managerial abilities to provide reasonable water service to E-Town's existing customers.

E. That its current rates for water service are set forth in **Exhibit 6**.

21. **CLOSING.** The closing of this transaction (the "Closing") shall take place at a mutually convenient date, time and place.

22. **ACCESS TO BOOKS.** Between the date of this Agreement and the Closing, the District and its authorized representatives shall have the right to examine and to obtain copies of any and all pertinent books, plats, maps, plans and records of E-Town upon reasonable notice and at mutually convenient times.

23. **FINAL BILLING.** No later than one (1) month prior to the Closing, E-Town shall provide the District with a current list of all names, addresses, meter identification numbers and account numbers of E-Town's customers. At Closing, E-Town shall also provide the District with the last meter reading for each customer. E-Town shall bill all its customers for water service rendered prior to the Closing. E-Town shall be entitled to all revenue derived from the final bill it sends its customers. The District shall be entitled to all revenue derived from water service rendered on and after the date of the Closing.

24. **CLOSING REQUIREMENTS.** The obligations of the Parties are expressly conditioned on the following, each of which is a condition precedent to the validity and enforcement of this Agreement:

A. The representations and warranties of each of the Parties shall be true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing.

B. Each of the Parties to this Agreement shall have performed and complied in all material respects with all of its respective obligations under this Agreement which are due to be performed or complied with by such Party prior to or at the Closing.

C. At and as of the Closing, no litigation, proceedings, investigations or inquiries shall be pending or threatened by any person, firm, corporation, governmental agency, or governmental official to enjoin or prevent the consummation of this transaction.

D. The PSC shall have entered a final order authorizing the District to incur the long-term debt associated with the purchase of the Assets and to adopt, for the existing E-Town customers, E-Town's Water Rate Schedule set forth in **Exhibit 5**.

E. The Hardin County Judge/Executive shall have entered an Order expanding the territorial boundaries of the District to include all territory within E-Town's current water service area.

25. **CONVEYANCE AND TRANSFERS.** E-Town shall not convey, lease, or in any other way dispose of the Assets until the Closing. At the Closing, E-Town shall execute and deliver to the District such leases, deeds, assignments, bills of sale, and other instruments of transfer as are necessary or requested by the

District to vest the District with good and marketable, unencumbered title to the Assets, without the need for further approval or consent by any other person or entity.

26. DUE AT CLOSING.

A. DUE FROM E-TOWN TO DISTRICT: Unless the District provides a written waiver of any item listed herein, E-Town shall deliver to the District at Closing the following:

- (1) Perpetual leases, a short term lease for the Freeman Lake WTP Facilities, Deeds for the water storage tank sites, and an Assignment of Easements enabling the District to operate and maintain the real property described in paragraph 2 of this Agreement;
- (2) Such bills of sale, assignments and other instruments of transfer, all dated the Closing Date, as shall be necessary or requested by the District to vest the District with good and marketable, unencumbered title to the Assets;
- (3) A schedule which contains a current listing of the name, address, account number, meter identification number, meter reading, and any other relevant information for each customer;
- (4) An easement granting the District the right to repair, maintain, replace and remove water pipelines, and related appurtenances under, across, along and through city streets, roads, sidewalks and other city property, including the right to cut or bore under said streets, roads and sidewalks as directed by E-Town;

but subject to any and all of E-Town's ordinances, rules and regulations regarding obtaining permits before cutting or boring under streets and sidewalks;

- (5) Duly certified copy of the ordinance of the City Council authorizing the execution, delivery and performance of this Agreement by E-Town, which ordinance shall be in full force and effect at, and as of, the Closing;
- (6) An opinion from E-Town's counsel, dated the Closing Date and in a form satisfactory to the District, as to the representations, warranties and other matters set forth in paragraph 17 of this Agreement;
- (7) A certificate, signed by the Mayor of E-Town and dated as of the Closing Date, representing and warranting to the District (i) that the representations, warranties and other matters set forth in paragraph 17 of this Agreement are true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing, and (ii) that the Closing Requirements set forth in paragraph 22 of this Agreement have been fully satisfied;
- (8) All records for the water customers;
- (9) Possession of the Assets;
- (10) A list of any Pre-paid Connections; and
- (11) Such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

B. DUE FROM DISTRICT TO E-TOWN: Unless E-Town provides a written waiver of any item listed herein, the District shall deliver to E-Town at Closing the following:

- (1) A certified copy of the District's resolution approving this Agreement, authorizing the Chairman to execute and deliver this Agreement and the Promissory Note, and further authorizing the appropriate officials to take all actions necessary to consummate the transactions contemplated by this Agreement;
- (2) A Promissory Note evidencing the District's obligation to pay the sum of \$8,000,000.00 according to the terms set forth in paragraph 3 of this Agreement;
- (3) An opinion from Damon R. Talley, P.S.C., counsel to the District, dated the Closing Date and in a form satisfactory to E-Town, as to the representations, warranties and other matters set forth in paragraph 18 of this Agreement; and
- (4) Such receipts as may be reasonably requested by E-Town and such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

27. SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

The representations, warranties, and agreements of the Parties contained in this Agreement, or in any certificate or other writing delivered pursuant hereto, shall survive the making of this Agreement and the Closing.

28. **RESPONSIBLE PARTIES.** E-Town shall be solely responsible for any loss, claim, action, suit, proceeding, deficiency or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by E-Town under this Agreement, including the exhibits, or any documents delivered to the District in connection with this Agreement; (b) claims of negligence or strict liability arising from the operation of the Water System prior to the Closing; and (c) all contingent liabilities relating to E-Town, its Water System or the Assets with respect to any state of facts or occurrences existing at or prior to the Closing.

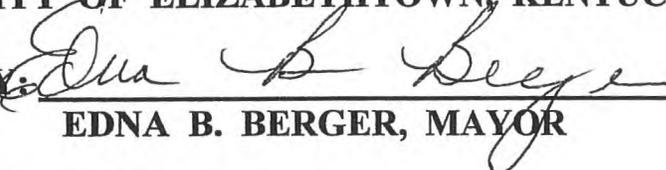
The District shall be solely responsible for any loss, claim, action, suit, proceeding, deficiency or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by District under this Agreement, including the exhibits, or any documents delivered to E-Town in connection with this Agreement; and (b) claims of negligence or strict liability arising from the operation of the Water System after the Closing.

29. **ENTIRE AGREEMENT.** This Agreement, including all of its exhibits, which are hereby incorporated by reference, constitutes the entire agreement of the Parties with respect to the subject matter hereof and may not be modified or amended or terminated except by written agreement specifically referring to this Agreement, and signed by all of the Parties hereto.

[Remainder of page intentionally left blank]

IN TESTIMONY WHEREOF, this Agreement has been executed in multiple counterparts, each of which is deemed to be an original, by the duly authorized officers of the Parties, as of the effective date of this Agreement.

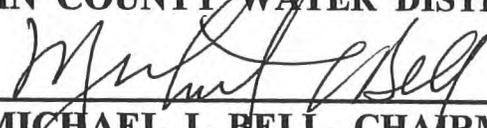
CITY OF ELIZABETHTOWN, KENTUCKY

BY: 
EDNA B. BERGER, MAYOR

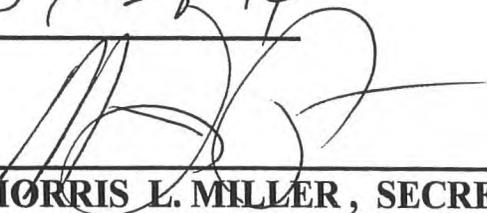
DATE: July 28, 2014

ATTEST: 
MARY CHAUDOIN, CITY CLERK

HARDIN COUNTY WATER DISTRICT NO. 2

BY: 
MICHAEL L. BELL, CHAIRMAN

DATE: 7-28-14

ATTEST: 
MORRIS L. MILLER, SECRETARY

EXHIBITS

- Exhibit 1 City Springs WTP Equipment**
- Exhibit 2 Distribution System Equipment & Inventory**
- Exhibit 3 Freeman Lake WTP Assets & Equipment**
- Exhibit 4 Schedule of Communication Antenna Leases**
- Exhibit 5 Elizabethtown's Water Rates**
- Exhibit 6 District's Water Rates**
- Exhibit 7 Elizabethtown's Water Rate Ordinance No. 07-2014**
- Exhibit 8 Litigation & Administrative Proceedings**

EXHIBIT 1

CITY SPRINGS WTP EQUIPMENT

1. Benchtop Turbidimeter
2. Hach Pocket Colorimeter – Fluoride
3. Hach Pocket Colorimeter – Chlorine
4. Burette Titration Glassware for Alkalinity and Hardness
5. pH Meter with Probe
6. Lab Glassware and Miscellaneous Lab Equipment
7. Jar Testing Machine
8. Fluoride Transfer Pump
9. Kitchen Table and Chairs
10. Refrigerator in Kitchen
11. Electric Range in Kitchen
12. Microwave
13. Lab Table and Chairs
14. Desks and Chairs in Office
15. Fire Extinguishers
16. Drum Dolly
17. All Spare Parts for Pumps and Chemical Feed Equipment
18. Pallet Jack
19. Floor Buffer
20. Supervisory Control and Data Acquisition (SCADA) Equipment & Software (located at City Springs WTP)
 - a. MTU-1 – adgo Engineering & Controls custom panel consisting of an Allen Bradley PLC, Cal Amp Viper 100 Intelligent IP router, battery backup, and an Allen Bradley Panel View Plus 1000, all housed within a single enclosure
 - b. Antenna
 - c. Two (2) - Dell Precision T-3500 Desktop computers each with dual monitors and battery backup

EXHIBIT 2

DISTRIBUTION SYSTEM EQUIPMENT AND INVENTORY

1. Wachs Valve Exerciser
2. Pipe Repair Bands – Various Sizes – Complete Inventory
3. Bell Joint Repair Clamps – Various Sizes – Complete Inventory
4. Fire Hydrants and Repair Parts - Complete Inventory
5. Ductile Iron Pipe Fittings – Various Sizes and Types – Complete Inventory
6. Valves – Various Sizes – Complete Inventory
7. Brass Service Line Fittings – Various Sizes and Types – Complete Inventory
8. Water Pipes– Various Sizes - Complete Inventory
9. Tapping Machines (Large and Small) and Accessories
10. Chlorine Analyzers at each Water Storage Tank site
11. Supervisory Control and Data Acquisition (SCADA) Equipment & Software (located at Freeman Lake WTP Filter Building)
 - a. MTU-2 – adgo Engineering & Controls custom panel consisting of an Allen Bradley PLC, Cal Amp Viper 100 Intelligent IP router, battery backup, and an Allen Bradley Panel View Plus 1000, all housed within a single enclosure
 - b. Antenna
 - c. One (1) - Dell Precision T-3500 Desktop computer with dual monitors and battery backup
12. SCADA Remote Terminal Unit (RTU) consisting of an Allen Bradley Micro Logix 1100 PLC, Cal Amp Viper SC 100 Intelligent IP router, and a battery backup, all within a single enclosure, and Antenna located at the following sites:
 - a. Helmwood Tank
 - b. Industrial Park Tank
 - c. Pear Orchard Tank
 - d. Mulberry Tank
 - e. South End Tank
 - f. Oaklawn Tank (for use as spare parts)
 - g. Buffalo Creek Master Meter Vault
 - h. Oaklawn Master Meter Vault
 - i. Ring Road Master Meter Interconnect
 - j. South End Master Meter Vault

EXHIBIT 3

FREEMAN LAKE WTP ASSETS AND EQUIPMENT

1. Freeman Lake WTP Filter Building
2. 600,000 Gallon Clearwell
3. Upflow Clarifier
4. 3 – High Service Pumps
5. 5 – Filters with Pumps
6. Raw Water Pump Station
7. 3 – Raw Water Pumps
8. Plunge Pool
9. 6 – On-Line Turbidimeters
10. 2 – On-Line Chlorine Analyzers
11. 3 – 1100 Gallon Bulk Chemical Storage Tanks
12. 2 – Polymer Feed Pumps
13. 1 – Fluoride Feed Pump
14. Pre and Post Chlorine Feeders
15. Sump Pump in Basement
16. Air Compressor
17. Lab Equipment (Miscellaneous Items) Used to Perform Routine Daily Tests

EXHIBIT 4

SCHEDULE OF COMMUNICATION ANTENNA LEASES

	Tenant	Tank	Lease Date	Start Date	Initial Term (Years)	Renewal Length (Years)	Expiration Date
1	Sprint	Helmwood	7-28-97	7-28-97	5	20	7-28-22
2	Powertel/KY (T-Mobile)	Helmwood	9-1-05	9-1-06	5	25	9-1-36
3	Bluegrass Cellular	Helmwood	3-24-06	4-1-06	5	15	4-1-26
4	Cellco Partnership d/b/a Verizon Wireless	Helmwood	12-1-10	12-1-10	5	20	12-1-35
5	Powertel/Memphis (T-Mobile)	Pear Orchard	9-14-07	9-14-08	10	20	9-14-38
6	Cellco Partnership d/b/a Verizon Wireless	Industrial Park	12-1-10	12-1-10	5	20	12-1-35

EXHIBIT 5

ELIZABETHTOWN'S WATER RATES

Usage (Gallons)	Effective 11-1-14	Effective 7-1-15	Effective 7-1-16	Effective 7-1-17
First 2,000	\$ 12.80	\$ 14.70	\$ 16.60	\$ 18.50
Next 3,000	\$ 4.85	\$ 4.95	\$ 5.05	\$ 5.15
Next 5,000	\$ 4.65	\$ 4.85	\$ 5.05	\$ 5.15
Next 490,000	\$ 4.40	\$ 4.65	\$ 4.90	\$ 5.15
Over 500,000	\$ 2.60	\$ 2.70	\$ 2.80	\$ 2.90

NOTES:

1. The above rates are for water bills rendered after the dates shown above.

2. The Rate Schedule shown above is contained in City of Elizabethtown Ordinance No. 07-2014 enacted on February 18, 2014.

EXHIBIT 6

WATER RATES FOR HARDIN COUNTY WATER DISTRICT No. 2

Usage (Gallons)	Current	Proposed
First 2,000	\$ 18.50	\$ 18.50
Next 498,000	\$ 5.15	\$ 5.15
Over 500,000	\$ 2.10	\$ 2.90

NOTES:

1. The minimum bill amount shown above (\$18.50) is the minimum bill for a 5/8 x 3/4 inch connection (typical residential meter). Larger size meters have larger minimum bills as reflected in the District's Tariff which has been approved by the Kentucky Public Service Commission.

2. As part of the District's Interconnection Project with the Louisville Water Company, the District's lender, USDA - Rural Development, is requiring the District to increase its water rates as shown above under the "Proposed" column. The District anticipates that the "Proposed" rates will be approved by the Kentucky Public Service Commission on or before July 1, 2015 and effective thereafter.

EXHIBIT 7

CITY OF ELIZABETHTOWN'S WATER AND SEWER RATE ORDINANCE No. 07-2014

Enacted on February 18, 2014

ORDINANCE NO. 07 - 2014

**AN ORDINANCE OF THE CITY OF ELIZABETHTOWN, KENTUCKY
AMENDING PREVIOUS ORDINANCES FIXING WATER AND SEWER RATES**

WHEREAS, the City of Elizabethtown in Hardin County, Kentucky, owns and operates a municipal waterworks and sanitary sewer system, and said City presently has outstanding Kentucky Infrastructure Authority loans payable from the income and revenues of said system, and

WHEREAS, it is deemed necessary and desirable and for the best interest of the City that certain rates and charges for the services provided by said waterworks and sanitary sewer system be increased in order to adequately provide for the proper operation of said system, including additions, extensions, and improvements thereto, and to meet the City's obligations for outstanding Kentucky Infrastructure Authority loans payable from the revenues of said system;

NOW, THEREFORE, THE CITY OF ELIZABETHTOWN, KENTUCKY DOES ORDAIN AS FOLLOWS:

Section 1. PREVIOUS RATE ORDINANCES AMENDED.

All previous Rate Ordinances of the City fixing the respective water and sewer rates applicable to water and sewer services furnished by the municipal waterworks and sanitary sewer system of the City are hereby amended so as to increase the applicable water and sewer rates for services rendered by the municipal waterworks and sanitary sewer system of the City.

Section 2. MONTHLY WATER AND SEWER RATES.

The rates and charges to residents and users of the existing municipal waterworks and sanitary sewer system of the City of Elizabethtown are hereby fixed and established on a monthly basis as follows:

A. MONTHLY WATER RATES – FOR BILLS RENDERED AFTER NOVEMBER 1, 2014

<u>Number of Gallons of Water per Month</u>	<u>Monthly Water Charge</u>
First 2,000 gallons	\$12.80 Minimum Bill
Next 3,000 gallons	\$4.85/1,000 gallons
Next 5,000 gallons	\$4.65/1,000 gallons
Next 490,000 gallons	\$4.40/1,000 gallons
Over 500,000 gallons	\$2.60/1,000 gallons

B. MONTHLY WATER RATES – FOR BILLS RENDERED AFTER JULY 1, 2015

<u>Number of Gallons of Water per Month</u>	<u>Monthly Water Charge</u>
First 2,000 gallons	\$14.70 Minimum Bill
Next 3,000 gallons	\$4.95/1,000 gallons
Next 5,000 gallons	\$4.85/1,000 gallons
Next 490,000 gallons	\$4.65/1,000 gallons
Over 500,000 gallons	\$2.70/1,000 gallons

C. MONTHLY WATER RATES – FOR BILLS RENDERED AFTER JULY 1, 2016

<u>Number of Gallons of Water per Month</u>	<u>Monthly Water Charge</u>
First 2,000 gallons	\$16.60 Minimum Bill
Next 3,000 gallons	\$5.05/1,000 gallons
Next 5,000 gallons	\$5.05/1,000 gallons
Next 490,000 gallons	\$4.90/1,000 gallons
Over 500,000 gallons	\$2.80/1,000 gallons

D. MONTHLY WATER RATES – FOR BILLS RENDERED AFTER JULY 1, 2017

<u>Number of Gallons of Water per Month</u>	<u>Monthly Water Charge</u>
First 2,000 gallons	\$18.50 Minimum Bill
Next 3,000 gallons	\$5.15/1,000 gallons
Next 5,000 gallons	\$5.15/1,000 gallons
Next 490,000 gallons	\$5.15/1,000 gallons
Over 500,000 gallons	\$2.90/1,000 gallons

E. MONTHLY SEWER RATES – FOR BILLS RENDERED AFTER JULY 1, 2013 REAFFIRMED

The rates or charges for sewer service shall be based upon the quantity of water supplied in each month to the respective premises as follows:

<u>Number of Gallons of Sewer Per Month</u>	<u>Monthly Sewer Charge</u>
First 2,000 gallons	\$10.00 Minimum Bill
Over 2,000 gallons	\$4.40/1,000 gallons

- F. Sewer charges shall be paid for all structures served by any water service if sewer service is available to the property.

Section 3. RATES UNIFORM; SURCHARGES FOR EXTRA STRENGTH SEWER WASTE.

A. UNIFORM RATES

The schedule of rates herein prescribed for both monthly water and sewer service shall be uniformly charged to all customers of the waterworks and sanitary sewer systems.

B. SURCHARGE FOR EXTRA STRENGTH WASTES

The City may allow for the treatment of extra strength wastes, the constituents, requirements and charges of such shall be as provided by the Sewer Use Ordinance. The surcharges for extra strength wastes are as follows:

NH3-N	\$0.70/pound over	30	mg/l monthly average
BOD	\$0.34/pound over	250	mg/l monthly average
COD	\$0.03/pound over	1000	mg/l monthly average
TSS	\$0.14/pound over	250	mg/l monthly average

Section 4. TAPPING OR CONNECTION FEES. (WATER)

Tapping or connection fees, not including material costs, for water services shall be as follows:

<u>Size of Service</u>	<u>Fee</u>
¾"	\$150.00
1"	\$150.00
1 ½"	\$150.00
2"	\$150.00
3"	\$300.00
4"	\$300.00
6"	\$300.00
8"	\$300.00

Section 5. TAPPING OR CONNECTION FEE. (SEWER)

Tapping or connection fees for sewer service shall be \$300.00.

Section 6. STANDBY FIRE PROTECTION TAPS.

There shall be charged a yearly rate for standby fire protection taps located outside the City limits as follows:

<u>Size of Service</u>	<u>Cost per year</u>
4" Tap	\$250.00
6" Tap	\$500.00
8" Tap	\$1,000.00
12" Tap	\$1,500.00

Section 7. PRIVATE FIRE HYDRANTS OUTSIDE CITY.

It is hereby levied a charge of \$100.00 per year on all private fire hydrants located on private property outside the City limits.

Section 8. DEPOSIT REQUIRED.

Deposit for service shall be required of customers at the rate of \$30.00 for residents and \$60.00 for commercial and industrial users.

Section 9. SPECIAL CONTRACTS.

The City reserves the right to enter into separate contracts with specific users of sanitary sewer services including collection or treatment services and to provide for said contracts by municipal order.

Section 10. FINANCIAL RECORDS

Subsection 1: The revenues collected, as a result of the user charges levied, shall be deposited in a separate non-lapsing fund known as the Operation, Maintenance and Replacement Fund.

Subsection 2: Fiscal year-end balances in the operation, maintenance, and replacement fund shall be used for no other purposes than those designated Monies which have been transferred from other sources to meet temporary shortages in the operation, maintenance and replacement fund shall be returned to their respective accounts upon appropriate adjustment of the user charge rates for operation, maintenance and replacement. The user charge rate shall be adjusted such that the transferred monies will be returned to their respective accounts within six months of the fiscal year in which the monies were borrowed.

Subsection 3: The City shall maintain financial records to accurately account for revenues generated by the water and wastewater treatment systems and expenditures for operation and maintenance of the system, including normal replacement costs.

Subsection 4. The City shall review not less often than annually the sewage contribution of users, the total cost of operation and maintenance of the sewage works, debt services obligations, and sewer service charges. Based on such review, the City shall revise, when necessary, the schedule of sewer service charges to accomplish the following:

- 1) Maintain an equitable distribution of operations and maintenance cost among users of the treatment system, and
- 2) Generate sufficient revenues to offset costs associated with the proper operation and maintenance of the sewage system and to meet debt service requirements of all outstanding Revenue Bond Issues and the Kentucky Infrastructure Authority.

Subsection 5: Each user shall be notified, at least annually, in conjunction with a regular bill, of the rate and that portion of the total charge which is attributable to operation and maintenance of the Sewage System.

Section 11. BILLING PROCEDURES

Users shall be billed monthly. Payments are due within ten (10) days after the bills are rendered. Any payment not received on their due date shall be delinquent. When any bill is more than thirty (30) days in default water and/or sewer service to such premise may be discontinued until such bill plus an applicable service charges are paid.

Section 12. ALL OTHER EXISTING PROVISIONS REAFFIRMED.

All existing provisions as to reading of meters, rendition of bills and payments, collection and disconnection charges and related provision of existing ordinances are hereby reaffirmed, re-enacted and readopted, except to the extent that same may be inconsistent herewith.

Section 13. RATES SUBJECT TO FUTURE REVISIONS.

That said rates shall be revised from time to time as necessary to meet the requirements or any Ordinances authorizing the issuance of Bonds or Loans constituting an encumbrance against said waterworks and sanitary sewer system, or for such other reasons as may be deemed necessary.

Section 14. ORDINANCE EFFECTIVE DATE.

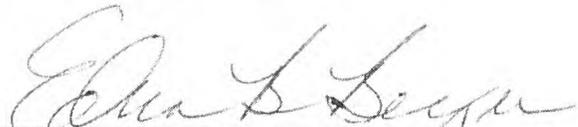
This Ordinance shall become effective forthwith upon its passage, approval and publication as provided by law and the rates hereinabove provided shall be for all billings rendered after the dates hereinabove set out.

Section 15. IN EVENT PARTS OF ORDINANCE DECLARED UNCONSTITUTIONAL OR UNENFORCEABLE.

In the event a part or parts of this Ordinance are declared unconstitutional or unenforceable, then the same shall not affect the enforceability of the remaining portions of this Ordinance.

READ first time this the 3rd day of February, 2014.

READ, ADOPTED AND APPROVED this the 18th day of February, 2014.


EDNA B. BERGER, MAYOR

ATTESTED TO:


MARY CHAUDOIN, CITY CLERK

EXHIBIT 8

LITIGATION AND ADMINISTRATIVE PROCEEDINGS

NONE

RESOLUTION 2014-07-01

RESOLUTION OF THE HARDIN COUNTY WATER DISTRICT NO. 2 AUTHORIZING THE ACQUISITION OF THE WATER SYSTEM OF THE CITY OF ELIZABETHTOWN, KENTUCKY; APPROVING THE ASSET PURCHASE AGREEMENT BETWEEN THE CITY OF ELIZABETHTOWN, KENTUCKY, AS SELLER, AND THE HARDIN COUNTY WATER DISTRICT NO. 2, AS BUYER; AND AUTHORIZING THE CHAIRMAN TO EXECUTE SAID AGREEMENT AND OTHER DOCUMENTS NECESSARY TO CONSUMMATE THE ACQUISITION.

WHEREAS, Hardin County Water District No. 2 (the “District”) is a water district organized under the provisions of KRS Chapter 74;

WHEREAS, the District currently owns and operates water supply, treatment, and distribution facilities (the “District System”);

WHEREAS, the City of Elizabethtown, Kentucky (“E-Town”) is a duly organized and existing municipal corporation and city of the fourth class of the Commonwealth of Kentucky;

WHEREAS, E-Town currently owns and operates water supply, treatment, and distribution facilities (the “E-Town Water System”);

WHEREAS, E-Town depends on the District for a supplemental supply of potable water in order to meet the demand of E-Town's customers. Currently, E-Town purchases approximately 1.1 million gallons of potable water per day from the District;

WHEREAS, it appears that combining and consolidating E-Town's Water System with the District's System will result in economies of scale; it will enable E-Town to forego capital projects costing multiple millions of dollars; and it will allow the combined system to be managed, operated, and maintained in a more cost effective manner;

WHEREAS, E-Town and the District executed a Letter of Intent, effective September 17, 2013, whereby E-Town expressed its intent to transfer and convey its Water System to the District and the District expressed its intent to acquire E-Town's Water System, subject to the broad terms, conditions, and provisions set forth in the Letter of Intent;

WHEREAS, it appears that the District has the financial, technical, and managerial abilities to provide reasonable water service to E-Town's existing customers without adversely affecting the quality of service presently afforded the District's existing customers;

WHEREAS, the District has the authority, pursuant to KRS Chapters 74 and 106 and other applicable laws, to acquire E-Town's Water System; and

WHEREAS, certain representatives of the District and certain representatives of E-Town have negotiated the detailed terms of an Asset Purchase Agreement (the "Agreement") whereby the District will acquire E-Town's Water System, subject to the approval and execution of the Agreement by E-Town and the approval and execution of the Agreement by the District.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE HARDIN COUNTY WATER DISTRICT NO. 2 AS FOLLOWS:

Section 1. The facts, recitals, and statements contained in the foregoing preamble of this Resolution are true and correct and are hereby affirmed and incorporated as a part of this Resolution.

Section 2. It is hereby determined and declared to be necessary and in the public interest for the District to acquire E-Town's Water System pursuant to the terms, conditions and provisions contained in the Agreement. The Agreement, in substantially the form submitted to the District with such modifications as the Chairman, may subsequently approve, as evidenced by his signature thereon, is hereby approved, and the Chairman is authorized and directed to execute and deliver the Agreement for and on behalf of the District.

Section 3. The Chairman, General Manager and all other appropriate officers, officials, employees or representatives of the District are hereby authorized and directed to take any and all actions and to execute and deliver all documents as may be reasonably necessary to effectuate the acquisition of E-Town's Water System and consummation of the transactions contemplated by the Agreement.

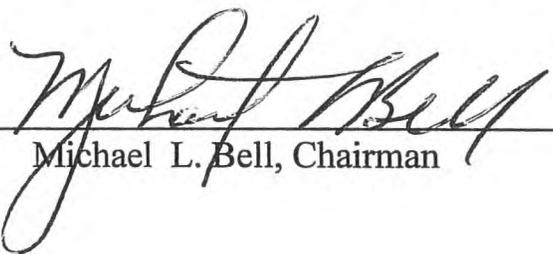
Section 4. After obtaining authorization and approval from the Public Service Commission for the District to incur the long-term debt associated with the purchase of E-Town's Water System, the Chairman is authorized to execute and deliver a Promissory Note evidencing the District's obligation to pay the sum of \$8,000,000.00 according to the terms set forth in the Agreement.

Section 5. Following the Closing of the E-Town Water System acquisition, the District shall incorporate the E-Town Water System assets into the District's System. Thereafter, the District shall operate such combined facilities as a combined and consolidated utility system.

Section 6. This Resolution shall take effect upon its adoption.

The Chairman declared the foregoing Resolution duly adopted on July 15, 2014.

HARDIN COUNTY WATER DISTRICT NO. 2

BY: 
Michael L. Bell, Chairman

ATTEST:


Morris L. Miller, Secretary

CERTIFICATION

I, the undersigned, do hereby certify that I am the duly qualified and acting Secretary of the Hardin County Water District No. 2. As such Secretary I further certify that the foregoing is a true, correct, and complete copy of a Resolution duly adopted by the Board of Commissioners of said District at a duly convened meeting held on July 15, 2014, signed by the Chairman, attested under seal by me as Secretary, and now in full force and effect, all as appears from the official records of said District in my possession and under my control.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of July, 2010.



MORRIS L. MILLER, SECRETARY

ORDINANCE NO. 14-2014

AN ORDINANCE OF THE CITY OF ELIZABETHTOWN, KENTUCKY AUTHORIZING THE TRANSFER OF ITS WATER SYSTEM TO HARDIN COUNTY WATER DISTRICT NO. 2; APPROVING THE ASSET PURCHASE AGREEMENT BETWEEN THE CITY OF ELIZABETHTOWN, KENTUCKY, AS SELLER, AND HARDIN COUNTY WATER DISTRICT NO. 2, AS BUYER; AND AUTHORIZING THE MAYOR TO EXECUTE SAID AGREEMENT AND OTHER DOCUMENTS NECESSARY TO CONSUMMATE THE TRANSFER.

WHEREAS, the City of Elizabethtown, Kentucky (the “City”) is a duly organized and existing municipal corporation and City of the fourth class of the Commonwealth of Kentucky;

WHEREAS, the City currently owns and operates water supply, treatment, and distribution facilities (the “City Water System”);

WHEREAS, Hardin County Water District No. 2 (the “District”) is a water district organized under the provisions of KRS Chapter 74 and is also a governmental agency within the meaning of KRS 82.083(3)(a) and other applicable laws;

WHEREAS, the District currently owns and operates water supply, treatment, and distribution facilities (the “District System”);

WHEREAS, The City depends on the District for a supplemental supply of potable water in order to meet the demand of the City's customers. Currently, the City purchases approximately 1.1 million gallons of potable water per day from the District;

WHEREAS, because of the continued growth of the District's aggregate customer base and the low flow of the Nolin River during drought conditions, the District has long sought additional sources of water. The District identified the Louisville Water Company (the "LWC") as the most reliable and cost effective source of supplemental water;

WHEREAS, on March 19, 2013, the District entered into a Water Purchase Agreement with LWC whereby LWC will provide a supplemental supply of potable water to the District;

WHEREAS, the current free chlorine disinfectant method used by both the District and by the City is not compatible with the chloramine disinfectant method used by LWC;

WHEREAS, the District has commenced a conversion of the disinfectant process at its White Mills Water Treatment Plant to be compatible with the chloramine disinfectant method of LWC;

WHEREAS, the owner of the City Water System will also be required to take action to resolve the disinfectant incompatibility with regard to future water volumes supplied by the District;

WHEREAS, if the City chooses to operate its Water System as an autonomous water system, it will be required to construct capital projects costing multiple millions of dollars for water storage tanks and other system improvements;

WHEREAS, it appears that combining and consolidating the City's Water System with the District's System will result in economies of scale; it will enable the City to forego capital projects costing multiple millions of dollars; and it will allow the combined system to be managed, operated, and maintained in a more cost effective manner;

WHEREAS, it appears that the District has the financial, technical, and managerial abilities to provide reasonable water service to the City's existing customers without adversely affecting the quality of service presently afforded those customers;

WHEREAS, the City has the authority, pursuant to KRS Chapters 82, 96 and 106 and other applicable laws, to transfer the City's Water System to another governmental agency (i.e. the District);

WHEREAS, the City and the District executed a Letter of Intent, effective September 17, 2013, whereby the City expressed its intent to transfer and convey its Water System to the District and the District expressed its intent to acquire the City's Water System, subject to the broad terms, conditions, and provisions set forth in the Letter of Intent; and

WHEREAS, certain representatives of the City and certain representatives of the District have negotiated the detailed terms of an Asset Purchase Agreement (the "Agreement") whereby the District will acquire the City's Water System, subject to the approval and execution of the Agreement by the City and the approval and execution of the Agreement by the District.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF ELIZABETHTOWN, KENTUCKY DOES HEREBY ORDAIN AS FOLLOWS:

Section 1. The facts, recitals and statements contained in the foregoing preamble of this Ordinance are true and correct and are hereby affirmed and incorporated as a part of this Ordinance.

Section 2. It is hereby determined and declared to be necessary, desirable, and in the public interest for the City of Elizabethtown, Kentucky to transfer its Water System to Hardin County Water District No. 2 pursuant to the terms,

conditions and provisions contained in the Agreement. The Agreement, in substantially the form submitted to the City Council, with such modifications as the Mayor, upon advice of counsel, may subsequently approve, as evidenced by her signature thereon, is hereby approved, and the Mayor is authorized and directed to execute and deliver the Agreement for and on behalf of the City of Elizabethtown, Kentucky.

Section 3. BE IT FURTHER ORDAINED that the Mayor of the City of Elizabethtown, Kentucky and/or her designate be and she is authorized and directed to take all steps necessary to perfect this Ordinance.

Section 4. This Ordinance shall take effect forthwith upon its passage, approval, and publication as provided by law. This Ordinance may be published in summary.

READ THE FIRST TIME the 21st day of July, 2014.

READ, ADOPTED AND APPROVED this 28th day of July, 2014.

CITY OF ELIZABETHTOWN, KENTUCKY



EDNA B. BERGER, MAYOR

ATTEST:



MARY CHAUDOIN, CITY CLERK

CERTIFICATION

Ordinance No. 14-2014 Enacted on 7-28-14

I, the undersigned, do hereby certify that I am the duly qualified and acting City Clerk of the City of Elizabethtown, Kentucky. As such City Clerk, I further certify that the attached Ordinance No. 14-2014 is a true, correct, and complete copy of Ordinance No. 14-2014 duly enacted by the City Council of the City of Elizabethtown, Kentucky at a duly convened meeting held on July 28, 2014, signed by the Mayor, and attested by me as City Clerk, all as appears from the official records of the City of Elizabethtown, Kentucky in my possession and under my control. I further certify that said Ordinance has not been modified nor rescinded and is still in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand this 28th day of July, 2014.

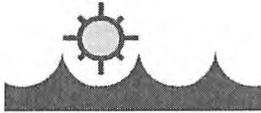


MARY CHAUDOIN, CITY CLERK

Exhibit 7

Hardin County Water District 2

Asset Book Values



Item	Book Value
Lines and Meters	2,862,554
City Springs Plant	14,423
City Springs Storage	53
City Springs Tank	71,450
City Springs Expansion	862,500
Water Wells	210,720
City Springs Renovation	1,991,859
Freeman Lake Treatment Building	36,624
Freeman Lake Treatment Building	782,465
North Mulberry Tank	4,524
Helmwood Tank	4,428
Pear Orchard (Shepherdsville) Tank	7,881
South End Tank	812,400
Industrial Park Tank	56,348
Total	7,718,229



Exhibit 8



Asset Management Program and Capital Improvement Planning

Acquisition of Elizabethtown
Water Works Project

Hardin County Water District No. 2
May 20, 2014



engineering | architecture | geospatial

HCWD 2

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-Chapter 1- Introduction

1.1 Purpose of Study

At this time Hardin County Water District No. 2 is in the negotiation process of purchasing the Elizabethtown Water Works (water production facilities and distribution system). The purpose of this study was to conduct a detailed review of all the assets associated with the Elizabethtown Water Works. The desired outcome of this review process is intended to; 1) provide a recommendation of assets from the Elizabethtown Water Works system or the Hardin County Water District No. 2's system that may become redundant when the systems are merged and would not be required for future operation of the merged systems; 2) provide an opinion of the current mechanical status, projected significant maintenance needed, and the expected remaining life of each asset, and 3) provide an opinion of probable costs for maintenance, repairs, and upgrades associated with the assets. To accomplish this task, GRW Engineers was selected to first construct and evaluate a computerized hydraulic model of the merged systems in order to help in determining what deficiencies may exist, the operation and usefulness of various assets, and identify any improvements that may be necessary to combine the two systems.

1.2 Scope of Study

The first step in the asset review process was to document and inventory all of the assets associated with the Elizabethtown Water Works. The Asset Inventory Analysis consisted of GRW Engineers traveling to Elizabethtown and conducting an inspection of all the various water system assets that were being considered in the purchase (excluding the review of buried piping and buried valves). GRW then made an evaluation on the condition of the asset(s) with respect to age, remaining useful life, maintenance, and other relevant parameters. Concurrently with the asset review, GRW Engineers conducted a hydraulic model analysis of the merged distribution systems to determine the operation and function of the various facilities. Next, GRW Engineers identified what renovations or repairs and what capital improvements were necessary to facilitate the merger of the two systems. GRW Engineers then developed an Asset Management Plan that included asset renewal and replacement planning with priority given to effective useful life and developed an estimated yearly budget to account for the items identified in the plan. GRW Engineers also developed a Capital Improvements Program to provide opinions of probable costs to account for assets that were beyond repair and/or did not meet industry standards or codes. These costs were presented to Hardin County Water District No. 2 to allow them to make an informed decision of the potential costs associated in the purchase of a water system.

1.3 Background

Hardin County Water District No. 2 is currently in the process of acquiring the City of Elizabethtown's Water Works. With the increasingly stricter requirements of the EPA's Stage 2 Disinfection Byproduct Rule, Elizabethtown made a decision that it was in their best interest to sell their water treatment and water distribution system assets to Hardin County Water District No. 2. Elizabethtown was under pressure to meet the ever growing peak dry weather demands and also balance the system to handle times when there are low demands and high water age in the distribution system. At this time, both Elizabethtown Water Works and Hardin County Water District No.2 utilize a free chlorine residual for disinfection in their distribution systems.

Hardin County Water District No. 2 is a growing utility district that encompasses the boundaries of Elizabethtown. Hardin County Water District No. 2 currently supplies water to parts of Hardin Co., Larue Co., Hart Co., and to the Elizabethtown Water Works through four (4) master meter connections to supplement Elizabethtown's water treatment production during high demand periods.

Water supply and production has been an important concern for Hardin County Water District No. 2. In order for Hardin County Water District No. 2 to provide a dependable potable water supply to its customers, they have entered into a purchase agreement with the Louisville Water Company. This connection will comprise of a 24-inch ductile iron water main and a 10 MGD pumping station at Colesburg. The Louisville Water Company utilizes chloramines as their distribution system disinfectant. Chloramines allow a utility to reduce disinfection by-products and maintain a longer lasting disinfection residual out in the distribution system. As part of the decision to purchase water from the Louisville Water Company, Hardin County Water District No. 2 has also chosen to change over to chloramines as their distribution disinfectant. This will allow the two different water treatment sources (LWC & Hardin County Water District No. 2) to be compatible within the distribution system.

This changeover to chloramines also weighed in on Elizabethtown's decision to sell their water treatment and water distribution system assets to Hardin County Water District No. 2. With the purchase of the Elizabethtown Water Works, Hardin County Water District No. 2 can convert Elizabethtown over to chloramines, thus making all their water customers compatible with a reliable, long term potable water solution for years to come.

-Chapter 2- Asset Inventory Analysis

2.1 Existing Elizabethtown Facilities Assessment

The Asset Inventory Analysis was the first step in developing an Asset Management Program. To accomplish this task, GRW Engineers completed a number of on-site field visits to Water Treatment Plants, a booster pump station, raw water sources, and elevated storage tanks to conduct an inspection and review all of the Elizabethtown Water Works assets. These visits allowed GRW the opportunity to speak with the Elizabethtown staff and plant operators, which was imperative to learn and gain an understanding of how the system operates. The Asset Inventory Analysis consisted of GRW Engineers traveling to Elizabethtown and conducting an inspection of all the various water system assets (excluding the buried piping and buried valves) that were being considered for transfer of ownership as part of the purchase of the Water Works.

2.2 Redundant Assets Assessment

One of the tasks indicated in the Request for Proposal was to provide a recommendation of what assets, if any, which may become redundant and would not be required for future operation after the systems have been merged. GRW Engineers developed a computerized hydraulic model of the combined systems in order to help aid in the review of all assets being considered. The hydraulic model allowed GRW Engineers to run different scenarios of operation to include or not include certain assets in order to see how the combined systems responded. The hydraulic model showed that the Freeman Lake WTP did not provide an indispensable supply of water that merged systems could not operate without. The average day and peak day water production from Freeman Lake WTP was easily covered by connection to the Hardin County Water District No. 2 system. It was determined that Hardin County Water District No. 2 can then elect not to purchase the Freeman Lake Water Treatment Plant. It is also recommended that 100,000 gallon Oaklawn Tank, the Oaklawn Booster Pump Station, or the high service pumps at Freeman Lake not be considered after acquisition, as the Oaklawn pressure zone was easily integrated into the surrounding Hardin County Water District No. 2 pressure zone. Since these previously described assets have been determined to be redundant, they are not discussed further in the report hereinafter.

Redundant Assets: *Freeman Lake WTP and High Service Pumps
 100,000 Oaklawn Elevated Storage Tank
 Oaklawn Booster Pump Station

- * The Freeman Lake WTP will need to remain in service temporarily to cover summer peak loading demands until the 24" main connection to the Louisville Water Company in 2016.

2.3 Raw Water Sources

2.3.1 *City Spring*

City Spring is located approximately 500 feet behind the City Spring Water Treatment Plant on the opposite side of Valley Creek. A concrete dike and wetwell separate the spring from the creek on the southern bank. The wetwell appears to be in fair condition and the Elizabethtown staff indicated that they have never had a problem with operation. It was indicated that when the creek is high and spills over the dike into the wetwell, they have to remove debris from the spring wetwell. Raw water from the spring wetwell travels by gravity approximately 185 feet under the creek to the Raw Water Reservoir Pump House wetwell. Currently there is no instrumentation in place at the City Spring Raw Water source to indicate a change in pH to signal contamination to the natural springs in the case of a chemical spill. Access to the property is limited by a manmade crossing/dam that is not traversable when the creek level is up. The Elizabethtown staff indicated that the wetwell may also be accessed from the southeast off of Waterworks Drive by a small unpaved road. There is some fencing on the southern side (backside) of the spring location along the property line, but the site security as a whole does not meet industry standard.



2.3.2 *Gaither Spring*

Gaither Spring wetwell and pumps are located approximately one and a half miles southwest of the City Springs WTP. Gaither Spring naturally feeds west into Valley Creek and a manmade dike/dam between the spring and the creek allows the spring water to pool and enter the concrete pump wetwell. The concrete wetwell structure is elevated approximately 5 feet above the spring pool with the top of the structure even with and accessible from the top of bank. The concrete wetwell structure appears to be in fairly good condition and has fall protection railing around the perimeter as well as a ladder attached running down the north face to access the wetwell intake. The wetwell houses two (2) vertical turbine raw water pumps that pump directly to the raw water reservoir at City Springs WTP. The Elizabethtown staff indicated that they alternate running one pump at a time with the goal of having continuous pumping. At the time of our site visits, both pumps were down due to maintenance and the staff stated that they are replacing both pumps with new 20 horsepower pumps with a maximum flow rate capacity of 600 gpm each.



The staff also indicated that they struggle with silt build-up in the wetwell; specifically at the pump intake screen. The current method of backflushing, to clean the intake when clogged with silt, occurs when an operator turns off the pump and opens the check valve. This allows the flow of water to reverse direction away from the higher pressure in the discharge main resulting in the flushing out of the silt from the intake screen. This method of backflushing the intake screen is inefficient and has to be performed multiple times a week.

Also, as with the City Springs raw water source, there is no instrumentation in place at the Gaither Spring Raw Water source to indicate a change in pH to signal contamination to the natural springs in the case of a chemical spill.

The well operation is not controlled through the plant SCADA system and a staff member must drive to the site to manually turn pumps on and off. The pump control panel is located on a nearby wooden platform. Currently the pumps are manually alternated and run in hand position only. The float controls, assumed to be stop and high level float switches, do not appear to operate. An existing pole mounted pump and float wiring termination box keeps wiring termination out of the flood elevation, but needs to be replaced and waterproofed. Gaither Spring is not on the WTP's radio-based telemetry system.

There is some existing fencing on the north side of the spring, along the property line. It consists of a four foot fence and the entrance has a lockable swinging pole gate. Along the east side of the property, the adjacent railroad right-of-way is lined with four foot fencing. As a whole, the site security does not meet industry standard.

2.3.3 Well 1

Raw water Well 1 is located in the City Springs WTP yard between the building and the clarifiers. The well appears to be in fairly good condition with all exposed components being recently repainted. The well operation is controlled through the plant SCADA system and is pumped directly in to the raw water reservoir. According to the Elizabethtown staff, the well runs constantly and produces clear, good water quality at a rate of approximately 400 gpm. The well is pumped by a submersible pump with the electrical wiring coming up through the top of the casing. The electrical wiring then enters conduit and runs underground to the control panel that is mounted to the outside of the WTP building. The control panel appears to be in decent condition. However, the age of the control panel would suggest replacement in the near future. The installation of the pump power/control cable through the top of the pump casing is not ideal and could benefit from being reworked/reconfigured. The staff could not provide a date as to when the last time the well was serviced.



2.3.4 Well 2

Raw water Well 2 is located in a small stand-alone building next to the existing 3 million gallon raw water storage tank. The building is currently without ventilation and gets hot in the summer months and cold in the winter months. A new detachable roof structure was installed within the last few years for service access when the well pump needs to be pulled out of its casing for repairs/maintenance. This process was described as cumbersome due to the need for multiple cranes; one to pull off the roof and one to pull the well pump. The well operation is controlled through the plant SCADA system and is pumped directly in to the 3 million gallon raw water storage tank. According to the Elizabethtown staff, they try to run the well only when Valley Creek is clear. The well appears to be in fair physical condition and is pumped by a submersible pump with the electrical wiring coming up through the top of the casing. The control panel appears to be in decent condition. However, the age of the control panel would suggest replacement in the near future. The staff could not verify a production rate of the well. They also did not provide an exact date as to when the last time the well was serviced but did indicate that the well was inspected during the same time the new detachable roof was installed. This building has a wooden door and frame with only a standard lockset (no keycode entrance).



2.3.5 Well 3

Raw water Well 3 is located in one of the Public Works parking lots adjacent to the City Springs WTP. The physical condition of the well appears poor with crude repair clamps on the discharge piping and visibly exposed electrical pump cords not in conduit. The exposed electrical pump power/control cables pose a safety threat as well as a potential point of failure. The control panel is in decent condition, but the associated wooden electrical equipment rack needs replacement. The well operation is not controlled through the plant SCADA system and a staff member must manually operate the well which is pumped directly into the raw water reservoir. According to the Elizabethtown staff, the well runs as often as necessary and produces clear, good water quality at a rate of approximately 250 gpm. They could not provide a date as to when the last time the well was serviced. Based on the appearance, condition, and location, raw water Well 3 appears to be at the end of its useful life.



2.3.6 Well 4

Raw water Well 4 is located approximately a half mile southwest of the City Springs WTP within approximately forty (40) feet of the Transfer Pumping Station. The physical condition of the well appears poor with visible oxidation on all exposed components, a crude repair clamp, and a lack of insulation on the discharge piping. The control panel appears to be in poor condition. The enclosure is rusted and the components show age.



These conditions would suggest replacement in the near future. The well operation is not controlled through the plant SCADA system and a staff member must drive out to manually operate the well. This well pumps directly into the Transfer Pumping Station. According to the Elizabethtown staff, the well runs as often as necessary and produces clear, good water quality at a rate of approximately 300 gpm. They could not provide a date as to when the last time the well was serviced. Based on the condition, raw water Well 4 appears to be at the end of its useful life.

2.3.7 Well 5

Raw water Well 5 is located approximately one mile southwest of the City Springs WTP around the far end of the retired settling lagoon. The physical condition of the well appears poor with visible oxidation on all exposed components, and a lack of insulation on the discharge piping. The control panel appears to be in poor condition. The enclosure is rusted and the components show age. These conditions would suggest replacement in the near future. The well operation is not controlled through the plant SCADA system and a staff member must drive out to manually operate the well. This well pumps directly into the Transfer Pumping Station. According to the Elizabethtown staff, the well runs as often as necessary and produces clear, good water quality at a rate of approximately 100 gpm. They stated that the well screen was rehabilitated and a new pump was installed in 2011 to try and increase flow rate. However the newly installed pump did not increase the well's flow rate. Based on the condition and performance, raw water Well 5 appears to be at the end of its useful life.



2.3.8 Transfer Pumping Station

The Transfer Pumping Station is located approximately one and a half miles southwest of the City Springs WTP. Both raw water Wells 4 and 5 directly discharge into the wetwell and the float controlled Transfer Pumping Station sends waters directly into the 3 million gallon raw water storage tank. The physical condition of the wetwell and transfer pumps appears poor with exposed electrical wiring, floats that do not always perform as needed, visible oxidation on all exposed components, and crude plating over the top of the wetwell. The control panel and associated equipment rack appear to be in poor condition. The enclosure and rack are rusted and the components show age. These conditions would suggest replacement in the near future. Based on the condition and operation, the Transfer Pumping Station appears to be at the end of its useful life.



2.3.9 Well 6

Raw water Well 6 is located approximately (30) thirty feet from the Gaither Springs wetwell. It has been out of service for a number of years due to poor performance.

2.4 Raw Water Storage and Pumping

2.4.1 *Raw Water Reservoir and Pump House*

The raw water reservoir was drained, dredged, cleaned, and spot repaired in 2010/2011 according to Elizabethtown staff. No structural issues were reported. Outdated hand railing exists around the perimeter of the Raw Water Reservoir that may not meet current OSHA safety requirements. Attached to the reservoir is the Raw Water Pump House which collects the raw water in a wetwell by gravity from nearby City Spring and pumps it up into the raw water reservoir. Interior and exterior paint of the Raw Water Pump House is in fair condition. There are two (2) vertical turbine pumps in the pump house. Elizabethtown staff indicated that both pump and motor on each of the two (2) pump assemblies have either been rebuilt or replaced within the last two (2) years. Potassium permanganate is hand mixed inside building in day tank drum and metered by a small chemical feed pump into the wetwell. The control panel appears to be in decent condition. However, the age of the control panel would suggest replacement in the near future. Wooden pole mounted area lighting is inoperable. The circuit feeding the light has been disconnected. The pump house building contains a wooden door and frame with only standard lockset (no keycode entrance).



2.4.2 *3 Million Gallon Raw Water Storage Tank*

The 3 Million Gallon Raw Water Storage Tank paint appears to be in satisfactory condition. Elizabethtown staff indicated that the tank was drained and had sludge cleaned out approximately 8 years ago. Both the interior and exterior surfaces of the tank were repainted in 2001 and little to no visible rust or pitting was observed during the site visits. The staff also mentioned that they have a problem with debris being thrown and/or falling into the open top of the tank. The staff indicated that the tank overflows to nearby creek if necessary.



2.4.3 *Raw Water Roundhouse (Low Lift Pump Station)*

The Raw Water Roundhouse is considered to be the oldest structure, dating back to pre-1920, in the Elizabethtown Waterworks System. All of the raw water from both the reservoir and the 3 million gallon storage tank flow by gravity into the Raw Water Roundhouse wetwell. Elizabethtown staff pointed out that thousands of dollars have been spent on this building over the last several years including a new roof, raw water operator control valve, and repainted surfaces. The interior and exterior of the brick building shows signs of distress with cracking and crude



repairs to areas of brick and mortar. Due to the building's age, there is no ventilation or heat source for the building. The pump hoist, grating and hand railing are serviceable but are in poor condition. Two inefficient submersible centrifugal type pumps are used to pump an average flow of approximately 2,000 gpm. The flow from the raw water pumps is controlled by a butterfly valve with a modulating electric operator and is tied to the plant SCADA. These pumps lift water to the head tank of the clarifier. The staff indicated that the pH meter is aged and is due for replacement. There is a Hach Surface Scatter 7 sc High Range Turbidimeter to measure the raw water turbidity and appears to be in good operation condition. Grating, hatches, and handrailing are in poor but serviceable condition. The pump station main disconnect, panelboard, and pump control panel are installed incorrectly violating required electrical code equipment and working clearances. The building has a single entrance with a wooden door and frame and only a standard lockset (no keycode entrance).

2.5 Chemical Storage and Feed

2.5.1 *Chemical Building*

A new chemical building was built in 2010/2011 to move three hazardous chemical from the second and third floors and out of the main WTP building. The new chemical building contains separate storage and feed rooms for chlorine gas and another room to store powder activated carbon and fluoride. The fluoride is housed in a small room within the carbon room.

The chlorine storage room houses ton cylinders of chlorine gas on dual trunnion scales. Ton cylinders are loaded into and out of the storage with a 2 ton electric hoist connected to a monorail. Gas is fed from the storage cylinders to the chlorinators under a vacuum. The connections to the active storage cylinder in use include;



- vacuum regulator, that shuts off the flow of gas upon a loss of vacuum signal from the chlorinators
- emergency ratcheting closure system with battery backup, that shuts the tanks feed valve closed upon detection of a chlorine gas leak in the room. The chlorine gas detector, in the storage room, has a dedicated connection to the ratcheting closure system.

The chlorine feed room houses the pre and post chlorinators. The chlorinators operate under a vacuum generated from solution make up water supplied from the WTP and fed through two (2) 250 PPD chlorine injectors (venturi). The pre chlorinator feeds the chlorine solution to the top of the clarifier and the post chlorinator feeds the chlorine solution to the each old and new clearwell. The scheduled maintenance, of every two (2) years (by Siemens), on the chlorine feed and metering equipment is current and up to date.

The carbon feed room consists of an area to store 40 lbs bags of powder activated carbon on a pallet and two carbon feeders (augers) with slurry tanks. The carbon slurry is fed by gravity to the Raw Water Roundhouse. All the electrical equipment in the carbon feed room is rated as explosion proof and appears to be in good condition.

As mentioned before, the fluoride storage and feed is located in a small room within the carbon feed room. GRW Engineers does not feel that this set up meets codes or standards. Ten States Standards states that fluoride should be isolated from other chemicals and from the carbon dust present in the fluoride room, it is apparent that there is cross contamination of the two chemicals. Also, the fluoride room does not contain explosion proof rated electrical equipment. It is clear that carbon dust is pulled into the room creating a hazardous condition. The fluoride room contains an area for storage of 50 gallon drums, a day tank, and two (2) diaphragm metering pumps. The plant staff indicated an issue with the elevation of the fluoride metering pumps being above the elevation of the day tank and not in a desired flooded suction application. This installation sometimes causes problems with priming upon restart of the metering pumps. The fluoride metering pumps feed to the splitter box after the clarifier and before the filters.

All four rooms are equipped with separate intake/exhaust systems that are dedicated to each room. Each exhaust fan with interlocked louver system is designed to operate automatically by connection to a thermostat in each room. Each intake/exhaust system has a manual override switch located outside the entry door to each room. The chlorine rooms are not equipped with a chlorine scrubber or dissipator.

2.5.2 WTP Basement Chemical Storage

In the basement of City Springs WTP and sitting on top of the 1954 clearwell is where the bulk containers for the primary coagulant and the anionic polymer are stored. The primary coagulant is stored in five (5) 900 gallon interconnected HDPE bulk storage tanks. The coagulant chemical stored is a polyaluminum chloride (DelPAC 2020). A 275 gallon tote container with a mixer is used to store the anionic polymer (HexaFloc). There are four (4) diaphragm metering pumps, two for each chemical, mounted on the wall. There is no day tank for either chemical and the metering pumps feed directly from the bulk storage tanks. This is not in compliance with Ten States Standards. The interconnection piping running between tanks is only a few inches from the floor, creating a tripping hazard. In the case of a storage failure or piping break/leak, there is no spill containment protection in place to prevent the chemical from spreading throughout the basement and eventually into the clearwells. The coagulant is fed to the discharge pipe in the Raw Water Roundhouse. The polymer is fed into the feed pipe at the base of the head tank before the clarifier.



2.6 Head Tank and Clarifier

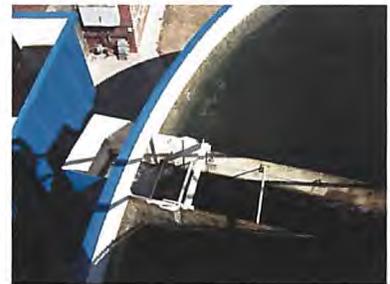
2.6.1 *Head Tank*

The head tank is a structure installed in front of the clarifier with the purpose of providing a steady source of supply of raw water to multiple clarifiers. The City Springs WTP was designed to be able to add an additional clarifier in the future, however at this time only one clarifier exists. The Elizabethtown staff indicated that the head tank was recently drained, cleaned, and repainted in 2010/2011.



2.6.2 *Clarifier*

The clarifier at the City Springs WTP is a ClariCone solids contact clarifier. It appears to be in good working order. The clarifier and all associated piping was last drained, cleaned, and repainted in 2010/2011. The settled sludge from the clarifier is directly wasted into the sanitary sewer. The top of the clarifier is accessible from the second floor of the 1990 filter building. A door exits out to a metal platform and a set of metal stairs takes you up to a catwalk bridge across the top of the clarifier.



These stairs do not meet current Building Code standards and are a potential hazard during certain weather conditions. The clarifier has a maximum treatment capacity rate of 3.3 MGD and appears to be the limiting treatment structure at the WTP.

2.6.3 *Splitter Box*

The supernatant from the clarifier is discharged to a splitter box in front of the filters and is located outside next to the 1990 filter building. The splitter box provides for an even split of flow to the filters. The splitter box is also designed to be a common connection point for the discharge from a future clarifier. As mentioned before in the Chemical Building section, fluoride is fed to the splitter box. The splitter box was last drained, cleaned, and repainted in 2010/2011.

2.7 Filters

2.7.1 *Filters 1, 2, 3, and 4*

Filters one and two are the original filters to the 1954 filter building and are constructed in concrete basins. Filters 3 and 4 (Decel Filters) were installed as part of the 1990 filter building expansion and are constructed of structural steel. Each filter discharges directly into the clearwells (1954 and 1990) beneath the filter builds. The Elizabethtown staff stated that the filter media was last replaced in all (4) four



filters in 2009/2010. Filters 3 and 4 were also repainted at this time and appear to be in good physical condition. Filters 1 and 2 are in fair physical condition and need to be repainted.

2.7.2 Interior Piping Gallery

The filter pipe gallery inside of the City Springs WTP was completely repainted in 2009 and touched up in 2012. All turbidimeters, valves, electric actuators, and control panels were also renewed at this time. Everything appears to be in good working and physical condition.



2.8 High Service Pumps

2.8.1 City Springs High Service Pumps

The City Springs Water Treatment Plant operates six (6) high service pumps with capacities that range from 400 gallons per minute (GPM) to 1,600 GPM. Four (4) of the high service pumps provide water to the Downtown pressure zone. The other two (2) high service pumps provide water to the South End pressure zone. The four pumps that supply the Downtown pressure zone are horizontal split case pumps and are in good working condition. City staff indicated that they are serviced regularly and all have been either refurbished or replaced within the last five (5) years. The two high service pumps that supply the South End pressure zone are vertical turbine pumps and are generally operated one at a time on an alternating cycle having a typical operating capacity of 1,650 GPM. These pump assemblies are serviced regularly and appear to be in good working condition. All of the pumps, motors, and associated piping have been recently painted and look to be in good physical condition.



2.9 Clearwells

2.9.1 1954 and 1990 Clearwells

There are two separate clearwells located beneath the City Springs WTP. One clearwell is part of the 1954 filter building and the other was added during the 1990 filter building expansion. The Elizabethtown staff indicated that both sets of clearwells were emptied, cleaned, and inspected in 2009/2010 and had a baffle system installed. The 2009/2010 project has left both clearwells in good operating condition, according to staff. At this time there is no instrumentation in place in the 1990 clearwell to indicate water level. If the 1954 clearwell was isolated and taken down for service the operator would not have any indication of what the water level would be in the 1990 clearwell.

2.10 City Springs WTP Building

2.10.1 *WTP Buildings (General)*

The City Springs WTP and the adjacent 3 million gallon raw water storage tank and Well 2 building share property with the Elizabethtown Public Works Department which produces a large volume of traffic around the WTP. There is a six foot chain link fence without barbed wire around only the rear portion of the plant property. The amount of site security at the City Springs well source and the WTP does not meet industry standard.



The flat roofs of the 1923 and 1954 buildings at the City Springs WTP are at the end of their design cycle life and are identified as a maintenance replacement project.

There are a number of wooden doors and frames to different buildings on the property with only standard lockset (no keycode entrance). These doors are of light construction and the locksets are worn. These doors also appear to be a security risk compared to hollow metal door construction. Also there is a metal door to the electrical feed room that was rusted and swollen shut.

Old chemical storage and feed rooms on the top floor of WTP building are abandoned and are used for general storage. Staff indicated that it gets extremely hot on this floor and is lacking both heating and ventilation. There is one room on the top floor that was converted to an office and has a window unit for heat and air.

2.10.2 *Bulk Water Loader (Waterman)*

The current on-site bulk water loading station at the City Springs WTP has reached the end of its useful life and, at its existing location, presents a security risk with the volume of traffic allowed to drive directly up the City Springs WTP Building.



2.10.3 *Plumbing and Boiler*

The WTP building plumbing visible during our visits appeared to be in satisfactory physical condition. The gas fed steam boiler in the building basement seemed to be fair condition and included the certificates of inspection, which are current and up to date.

2.10.4 *Electrical Panels and Transfer Switch*

The hollow metal door and handle to the main electrical distribution room was rusted and swollen shut. The roof to this building was recently replaced. Existing switchboards are in decent condition. The existing main service disconnect is comprised of a bolted pressure switch which requires a certain amount of regular



preventative maintenance to ensure reliable operation. The switch can be rendered inoperable if neglected over long periods of time. The age of the switchboards would suggest replacement in the near future. Components such as circuit breakers, switches, etc. become obsolete overtime and retrofit possibilities are not always available.

The manual transfer switch adjacent to the main electrical distribution building is just a few years old and is in very good condition. Replacement is not necessary unless desired to upgrade to an automatic transfer switch and fixed generator.

2.11 Master Meter Vaults

2.11.1 *South End Master Meter Vault*

The South End Master Meter Vault is located inside the fenced South End Tank property. This connection is intended to feed the South End Pressure Zone. The flow monitoring equipment is in good working condition. The valve operation would normally be set up to operate automated controls through the SCADA telemetry but, due to lightning strikes that have damaged the electric valve operator's positioner board, the valve is currently being manually operated. The Elizabethtown staff has indicated that they are unsure of the type of lightning protection currently in place at the South End vault/tank site, but stated the vault has been struck by lightning numerous times in the past.



2.11.2 *Ring Road Master Meter Vault*

The Ring Road Master Meter Vault is located near Hardin County Water District No. 2's office on Ring Road and also close to the Industrial Park Storage Tank. This connection is intended to feed the Downtown Pressure Zone. The flow monitoring equipment is in good working condition and the valve operation is capable of being automatically controlled through the SCADA telemetry, however at this time Elizabethtown manually controls this connection remotely through telemetry. A constant air change system is installed on this vault.



2.11.3 *Pear Orchard/Buffalo Creek Master Meter Vault*

The Pear Orchard/Buffalo Creek Master Meter Vault is located at the end of Buffalo Creek Drive near the Schmidt Museum of Coca-Cola. This connection is intended to feed the Pear Orchard Pressure Zone. The flow monitoring equipment is in good working condition and the valve operation is capable of being automatically controlled through the SCADA telemetry, however at this time Elizabethtown manually controls this connection remotely through telemetry.



2.11.4 Oaklawn Master Meter Vault

The Oaklawn Master Meter Vault is located between Hardin County water District No. 2's Pear Orchard Tank and the Elizabethtown Oaklawn Tank. This connection is intended to feed the Oaklawn Pressure Zone. The flow monitoring equipment is in good working condition and the valve operation is automatically controlled through the SCADA telemetry. The Elizabethtown staff stated that the valve opens and closes up to twelve (12) times per day.

2.12 Elevated Water Storage Tanks

2.12.1 General

Each elevated water storage tank and associated property has numerous lease contracts with various cellular telephone carriers.

2.12.2 Helmwood Tank

The Helmwood Tank is located on Helmwood Drive with the entrance approximately two hundred (200) feet west of the intersection of Helmwood Drive and Cherrywood Drive. The elevated tank has a storage capacity of 200,000 gallons and appears to be in satisfactory condition with little to no visible pitting or rust. The Elizabethtown staff indicated that this tank has only been novice inspected since its erection and that no official inspection reports exist. Only the interior surface of the Helmwood Storage Tank was repainted recently in 2012 when the mixing system was being installed. The valve vault appears to be in good condition and contains a working flow meter and chlorine residual analyzer. The valve vault sump drain line runs outside of the tank property, down a narrow right-of-way, and discharges to daylight on Cherrywood Drive. The altitude valve has been disabled and/or had the outlet check valve tied open to allow water from the distribution to flow unrestricted in and out of the elevated tank. This has been done intentionally to allow the operators the ability to manually control flow from the high service pumps and the master meter vault connections through the SCADA system.



The staff also pointed out that, because of its location tucked up in a residential neighborhood, they have encountered property access issues with residents blocking or partially blocking the point of ingress and egress. There is six foot chain link fencing with barbed wire around only the front entrance portion of the property with the remainder of the perimeter secured by eight foot fiberglass privacy fencing where the property borders the surrounding residential properties.

2.12.3 Pear Orchard Tank

The Pear Orchard Tank is located on North Miles Street with the entrance approximately 0.1 miles south of the intersection of North Miles Street and Madison Drive. The elevated tank has a storage capacity of 300,000 gallons and appears to be in good condition with no visible pitting or rust. The Elizabethtown staff indicated that this tank has only been novice inspected since its erection and that no official inspection reports exist. A Tide-Flex mixing system was installed to promote water turnover in the tank. The valve vault appears to be in satisfactory condition and contains a working flow meter and chlorine residual analyzer. The altitude valve has been disabled and/or had the outlet check valve tied open to allow water from the distribution to flow unrestricted in and out of the elevated tank. This has been done intentionally to allow the operators the ability to manually control flow from the high service pumps and the master meter vault connections through the SCADA system. There is six foot chain link fencing with barbed wire around the entire perimeter of the tank property.



2.12.4 Mulberry Tank

The Mulberry Tank is located on North Mulberry Street behind the Elizabethtown High School baseball field. The entrance is located approximately two hundred (200) feet from the intersection of North Mulberry Street and Brook Street. The elevated tank has a storage capacity of 500,000 gallons and appears to be in satisfactory condition with little to no visible pitting or rust. The Elizabethtown staff indicated that this tank has only been novice inspected since its erection and that no official inspection reports exist. The valve vault appears to be in satisfactory condition and contains a working flow meter and chlorine residual analyzer. The altitude valve has been disabled and/or had the outlet check valve tied open to allow water from the distribution to flow unrestricted in and out of the elevated tank. This has been done intentionally to allow the operators the ability to manually control flow from the high service pumps and the master meter vault connections through the SCADA system. There is six foot chain link fencing with barbed wire around the entire perimeter of the tank property.



2.12.5 Industrial Park Tank

The Industrial Park Tank is located on Peterson Drive approximately 0.3 miles east of the intersection of Peterson Drive and Ring Road. This elevated tank has a storage capacity of 500,000 gallons and appears to be in good condition with no visible pitting or rust. The Elizabethtown staff indicated that this tank has only been novice inspected since its erection and that no official inspection reports exist. The valve vault appears to be in



satisfactory condition and contains a working flow meter and chlorine residual analyzer. The altitude valve has been disabled and/or had the outlet check valve tied open to allow water from the distribution to flow unrestricted in and out of the elevated tank. This has been done intentionally to allow the operators the ability to manually control flow from the high service pumps and the master meter vault connections through the SCADA system. There is six foot chain link fencing with barbed wire around the entire perimeter of the tank property.

2.12.6 South End Tank

The South End Tank is located on Locust Grove Road behind DOW Corning facility. The entrance is approximately 0.3 miles south of the intersection of Locust Grove Road and Valley Creek Road. The elevated tank has a storage capacity of 500,000 gallons and appears to be in poor condition with visible pitting and rust. The Elizabethtown staff indicated that this tank has only been novice inspected since its erection and that no official inspection reports exist. The staff stated that the tank has not been serviced since its erection in 1996. The valve vault appears to be in satisfactory condition and contains a working flow meter and chlorine residual analyzer. The altitude valve has been disabled and/or had the outlet check valve tied open to allow water from the distribution to flow unrestricted in and out of the elevated tank. This has been done intentionally to allow the operators the ability to manually control flow from the high service pumps and the master meter vault connections through the SCADA telemetry. There is six foot chain link fencing with barbed wire around the entire perimeter of the tank property.



-Chapter 3- Projects Identified for Merging of Systems

3.1 General

GRW Engineers developed a computerized hydraulic model of the merged systems in order to help aid in evaluating what deficiencies may exist and identify any improvements that may be necessary to combine the two systems. Three (3) projects were identified as essential to complete the successful merger of the two distribution systems. Each recommended project has been broken out and described hereinafter. An opinion of probable cost to complete each project has also been prepared. A summary of project costs are shown below in Table 3-1, while a more detailed opinion of probable costs associated with each recommended project is available in Appendix A. It is recommended that each of these projects be implemented as part of the distribution system merger process and are considered separate from the Renewal & Replacement Projects and Capital Improvement Projects.

Table 3-1 Summary of Costs to Merge Systems	
Project Description	Opinion of Project Cost
Phase 1	
Water Main Interconnections Between Systems	\$432,600
Repair South End Master Meter Control Valve Operator	\$4,350
Renewal of Downtown Pressure Zone Tanks Altitude Valve Vaults	\$121,100
Total Approximate Cost	\$560,000

3.2 Recommended Projects Identified to Facilitate Merger - Phase 1 (0-1 Year)

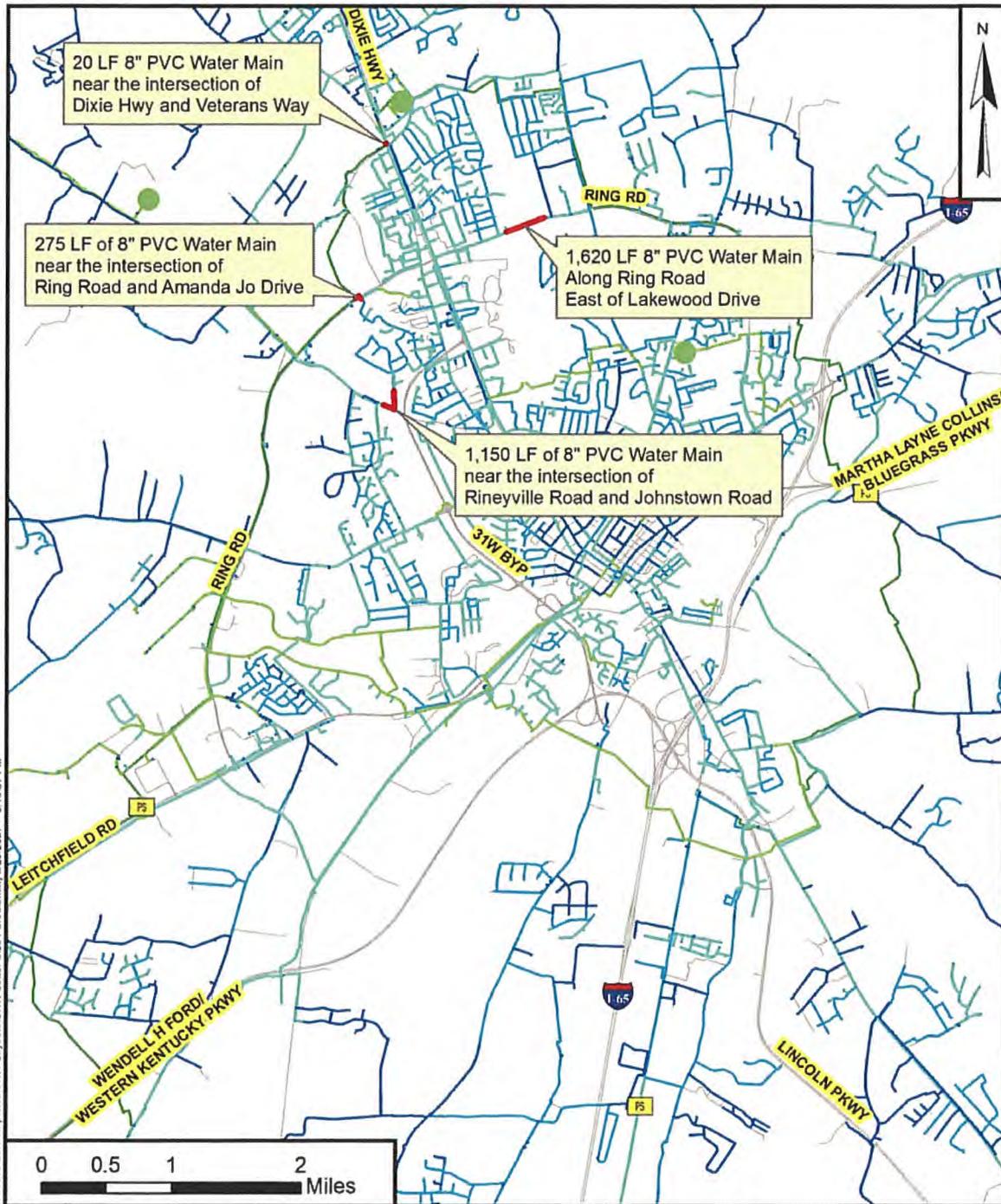
3.2.1 *Water Main Interconnections Between Systems*

This recommended project(s) consists of the construction of new water main connections between the Elizabethtown Oaklawn pressure zone and the surrounding Hardin County Water District No. 2 pressure zone. Creating these new connections between the two systems will fortify the supply of water to the Elizabethtown customers by avoiding a dead end zone with a single source of supply and create multiple looping connections for the water to mix and flow from numerous directions. A total of four (4) interconnection locations were identified:

- An 8-inch water main connection North of Ring Road and West of Amanda Jo Drive
- An 8-inch water main connection North of Rineyville Road and East of Johnstown Road

- An 8-inch water main connection West of Dixie Highway and North of Veterans Way
- An 8-inch water main connection along Ring Road that is East of Lakewood Drive

These proposed connections for the Elizabethtown water distribution system are shown on the following page in Figure 3-1. Estimated total costs, including planning, design, construction, and administration, of all four (4) recommended interconnections are approximately \$432,598.



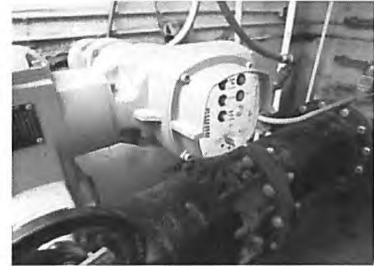
Map Document: (C:\Program Files\ArcGIS\Bin\Templates\GRW Layouts\GRW Layouts\mxd) 6/20/2007 - 3:16:57 PM



Figure 3-1
Proposed System Connections
Elizabethtown Water Works & HCWD2
Hardin County, KY

3.2.2 *Repair South End Master Meter Control Valve Operator*

This recommended project involves the replacement of the electric valve operator positioner board of the flow control valve in the master meter vault located next to Elizabethtown’s South End tank. The valve operator has been damaged by lightning strikes. In its current state, Elizabethtown’s Operators will drive to the site and manually open and close the valve on an as need basis to supply water to the South End pressure zone. When repaired, the electric valve operator will allow the master meter connection at the South End tank to be controlled remotely through the SCADA system. The Elizabethtown staff has indicated that they are unsure of the type of lightning protection currently in place at the South End vault, but stated the vault has been struck by lightning numerous times in the past. It is recommended that, in addition to repairing the electric valve operator, Hardin County Water District No. 2 upgrade the current lightning protection to safeguard the components inside the vault from future lightning strikes. The opinion of the total budget cost for repairing the electric valve operator in the South End Master Meter is \$4,350.



3.2.3 *Renewal of Downtown Pressure Zone Tanks Altitude Valve Vaults*

This recommended project involves the installation of new altitude and check valves, or the refurbishment and renewal of the existing altitude and check valves, in the existing altitude valve vaults for Elizabethtown’s Industrial, Helmwood, and Mulberry elevated storage tanks. At this time, each of these altitude valves have been disabled and/or have the outlet check valve tied open to allow water from the distribution system to flow unrestricted in and out of the elevated tank. This has been done intentionally so that the plant operators have the ability to manually turn on and off the high service pumps based on the monitored tank levels through the SCADA system. Proper operation of the altitude valves in the Downtown pressure zone will allow the Ring Road master meter connection to be utilized as a secondary source of supply to the pressure zone. Due to the proximity of the Industrial storage tank to the Ring Road master meter, water will fill this tank faster than the other two tanks in the pressure zone. The costs associated with this project can fluctuate depending on design selection decisions and whether or not Hardin County Water District No. 2 chooses to try and repair and reuse any of the existing vault components. For the purposes of this recommendation, costs were compiled with the intention of not reusing any of the existing valve vault components. The costs to design and renew all three (3) altitude valve vaults resulted in an opinion of total project cost of \$121,100.



3.3 Capital Costs Associated to Merge Systems

As discussed in the sections hereinbefore, a combined total estimated cost of approximately \$560,000 would be needed to plan, design and construct the three (3) projects that were identified as essential to complete the successful merger of the two distribution systems. As part of the merger of the two systems, GRW Engineers recommends that Hardin County Water District No. 2 complete these identified projects before considering any of the maintenance/repairs listed in the Asset Management Program or Capital Improvement Projects. For the purpose of this chapter, it has been determined that these projects are given a highest priority and budgeted for the Phase 1 in the 0-1 year timeframe. As previously stated, a detailed opinion of probable costs associated with each recommended project is available in Appendix A.

-Chapter 4-

Asset Management Program Renewal and Replacement Plan

4.1 General

After review of the Elizabethtown Water Work’s assets that were detailed in Chapter 2, GRW Engineers has identified a total of nine assets that are recommended to be part of a renewal and replacement plan. GRW Engineers made an evaluation on the condition of the assets with respect to age, remaining useful life, maintenance, and other relevant parameters. Next, GRW Engineers developed an Asset Management Program that included evaluation of the assets and the renewal and replacement planning with priority given to effective useful life. GRW Engineers then identified distinct projects along with their individual maintenance/repair cost and then calculated the summation of these costs into total and then spread the costs into an annual yearly budget. The identified asset projects have been broken out into four phases with each asset project ranked according to priority, based on condition and purpose. Each recommended project has been broken out and described below. An opinion of probable cost to complete each project has also been prepared. A summary of project costs are shown below in Table 4-1, while a more detailed opinion of probable costs associated with each recommended project is available in Appendix B.

Table 4-1 Summary of Costs in Renewal and Replacement Plan	
Project Description	Opinion of Project Cost
Phase 2 (1-2 year)	
Renewal of Wells 1, 2, and Gaither Spring Raw Water Source	\$134,325
Miscellaneous Building and Electrical Code Repairs*	\$170,150
Renewal of South End Storage Tank	\$452,400
Phase 3 (2-4 year)	
Stair and Handrail Safety Modifications	\$45,025
Replacement of City Springs WTP Electrical Panels and Instrumentation	\$173,225
Renewal of City Springs WTP Building Roofs	\$85,675
Phase 4 (4-6 year)	
Renewal of Helmwood Storage Tank	\$199,525
Renewal of 3 Million Gallon Raw Water Storage Tank	\$284,925
Replacement of Filter Media at City Springs WTP	\$133,980
Total Approximate Cost	\$1,680,000
* Cost may be significantly reduced by instituting certain Capital Improvement Projects	

4.2 **Recommended Renewal & Replacement Projects - Phase 2 (1-2 year)**

4.2.1 *Renewal of Wells 1, 2 and Gaither Spring Raw Water Source*

This renewal and replacement project consists of a few items associated with three of the raw water supply pumps to the City Springs WTP. The following are the specific items associated with this renewal and replacement project:

- Existing raw water Well 1 to be renovated with the replacement of the submersible well pump and a new electrical control panel.
- Existing raw water Well 2 to be renovated with the replacement of the submersible well pump and a new electrical control panel.
- Existing Gaither Spring raw water source pump station to have a new electrical control panel and control floats installed. Elizabethtown just recently replaced the two vertical turbine pumps at this station.
- Well 2 is housed in a small stand-alone building. The building is currently without ventilation and has a detachable roof structure that is removed when the well pump needs to be pulled out of its casing for service. It is recommended that a roof hatch be installed on the building to more easily facilitate the pulling of the well pump, as opposed to removing the building roof structure each time to service the pump.
- Also an exhaust fan and louver system should be installed in the building at Well 2 to provide some air changes inside the building.
- Removal of silt buildup in the Gaither Spring pump intake well, installation of a silt back flush system in the intake.
- Add Gaither Spring to the City Springs WTP's radio-based telemetry system to allow the pumps to be remotely operated from the plant.

Estimated opinion of total costs to renew Wells 1, 2, and Gaither Spring would be approximately \$134,325.

4.2.2 *Miscellaneous Building and Electrical Code Repairs*

This renewal and replacement project consists of a few items associated with miscellaneous general building and electrical code repairs to the Raw Water Reservoir Pump House, Raw Water Roundhouse, Chemical Building, and the City Springs WTP Buildings. The following are the specific items associated with this renewal and replacement project:

- General building renewal items at the City Springs WTP include painting of certain common areas, general brick tuck pointing/masonry repair, removal and replacement of all wood entry doors and hardware, addition of some chemical feed piping insulation, and repainting of filters 1 and 2.

- General building renewal items at the Raw Water Reservoir Pump House include painting of both the interior and exterior of building and removal and replacement of the wood entry door and hardware.
- General building renewal items at the Raw Water Roundhouse include replacing existing grating and handrails, general brick tuck pointing/masonry repair, removal and replacement of the wood entry door and hardware. It should be noted that modifications to this building may not be allowed due to its historical significance.
- Add chlorine gas sensor to chlorine gas feed room in Chemical Building.
- Replace the pH sensor in the Raw Water Roundhouse.
- Add hazardous area wiring changes to fluoride room in Chemical Building.



Existing electric distribution and control panels located in the Raw Water Roundhouse do not meet required electrical code equipment and working clearances. The items in question have been located as described since the original building was constructed and do not pose any imminent danger to staff personnel as long as caution is used when performing any required panel maintenance. It is recommended that these items be rectified as part of the renewal and replacement plan.

Planning, design and construction of all of the recommended miscellaneous building and electrical code repairs would result in an opinion of total project cost of approximately \$170,150. However if certain Capital Improvement Projects were implemented, some of the items listed in this recommendation would not be necessary. This would result in a reduction in this renewal and replacement project and would result in an opinion of total project cost of approximately \$76,300.

4.2.3 Renewal of South End Storage Tank

The South End elevated storage tank has not been maintained since its erection in 1996. It is recommended that this elevated storage tank be painted as part of the renewal and replacement plan. The renewal of this asset would include preparing both the interior and exterior surfaces of the tank and then repainting the tank in its entirety. It is also recommended that while the tank is out of service to be repainted, that a Tide-Flex mixing system should be installed to promote water turnover in the tank and to match the other elevated storage tanks in the Elizabethtown system.

Planning, design and construction to renew the South End Storage Tank would result in an opinion of total project cost of approximately \$452,400.

4.3 **Recommended Renewal & Replacement Projects - Phase 3 (2-4 year)**

4.3.1 Stair and Handrail Safety Modifications

As you go from inside the City Springs WTP filter building to outside on an elevated platform, there are some metal stairs going up to the clarifier platform. These stairs do not meet current Building Code standards and are a potential hazard during certain weather conditions. Hand railings around the perimeter of the Raw Water Reservoir that may not meet current OSHA safety requirements can also be found at the City Springs WTP. It does not appear that these items pose any imminent danger to staff personnel, but it is recommended that these items be rectified as part of the renewal and replacement plan.

Planning, design and construction to modify and replace the identified stairs and handrails would result in an opinion of total project cost of approximately \$45,025.

4.3.2 Replacement of City Springs WTP Electrical Panels and Instrumentation

Existing equipment control panels located on the ground floor of the 1923 and 1954 buildings of the City Springs WTP are currently in service and operating. They appear to be on average 30-40 years old and also appear to have rehabbed multiple times. As time goes on these panels will require additional repairs and it will become more difficult to find suitable parts and pieces for these repairs. It is recommended that these panels be replaced in the near future.

The original electric service entrance equipment for the 1923 building of the City Springs WTP was installed in the ground floor stairwell. Equipment disconnect operating devices are located too high to meet current electrical code and the enclosures protrude into the stairwell walking path violating current building code egress requirements. The items in question have been located as described since the original building was constructed and do not pose any imminent danger to staff personnel, but it is recommended that these items be rectified as part of the renewal and replacement plan. Building code enforcement may require that these issues be rectified if discovered.



Planning, design and construction to replace City Springs WTP electrical panels and instrumentation would result in an opinion of total project cost of approximately \$173,225.

4.3.3 Renewal of City Springs WTP Building Roofs

The flat roofs of the 1923 and 1954 buildings at the City Springs WTP are not currently leaking; however they have near the end of their design cycle life and should be replaced in the near future.

The opinion of total maintenance cost for renewing the roofs of both the 1923 and 1954 buildings of the City Springs WTP is \$85,675.

4.4 Recommended Renewal & Replacement Projects - Phase 4 (4-6 year)

4.4.1 Renewal of Helmwood Storage Tank

Only the interior surface of the Helmwood Storage Tank was repainted recently in 2012 when a new mixing system was installed. It is recommended that the exterior surface of this elevated storage tank be prepared and painted as part of the renewal and replacement plan.

Planning, design and construction to renew the exterior of the Helmwood Storage Tank would result in an opinion of total project cost of approximately \$199,525.

4.4.2 Renewal of 3 Million Gallon Raw Water Storage Tank

The 3 million gallon raw water storage tank at the City Springs WTP was last painted in 2001 and is nearing the end of design cycle life. It is recommended that this asset be repainted as part of the renewal and replacement plan. The renewal of this asset would include preparing both the interior and exterior surfaces of the tank and then repainting the tank in its entirety.

Planning, design and construction to renew the 3 million gallon raw water storage tank would result in an opinion of total project cost of approximately \$284,925.

4.4.3 Replacement of Filter Media at City Springs WTP

As described in Chapter 2, the filter media was last replaced in all four (4) filters in 2009/2010. Assuming an industry standard design cycle life of the filter media to be around 10 years, it is recommended that the filter media be replaced sometime around the year 2020.



The opinion of total maintenance cost for replacing the media filter in all four (4) filters at the City Springs WTP is \$133,980.

4.5 Recommended Renewal & Replacement Projects - Phase 5 (beyond 2020)

Listed below are a number of asset renewal projects that GRW Engineers believes fall beyond the year 2020 and were not included as one of the identified nine renewal and replacement plan projects. These assets appear to be in fairly good condition at this time but will need attention as time passes.

- Renewal of the Industrial Tank – this asset was last painted in 2003 and looked to be in fairly good condition.
- Renewal of the Pear Orchard Tank – this asset was last painted in 2004 and looked to be in fairly good condition
- Renewal of all the Maser Meter Vaults- inspect vaults, valves and valve operators, and interior piping surfaces
- Renewal of the raw water reservoir at City Springs WTP – this asset was drained, dredged and spot repaired in 2010/2011 and is recommended to go 15 years between cleanings.

4.6 Asset Management Program Budget Recommendation

Shown in Table 4-1, a total estimated present worth cost of approximately \$1,680,000 would be needed to plan, design and construct all nine (9) renewal and replacement plan projects that were identified. If Hardin County Water District No.2 chooses to implement certain Capital Improvement Projects described in more detail in Chapter 5 hereinafter, this maintenance/repair cost would be reduced to approximately \$1,585,000.

For the purpose of the Asset Management Program, it was assumed that these maintenance/repair projects would be budgeted to occur **after** the 0-1 year timeframe. This would be after the projects identified as critical to merging the two systems in Chapter 3 were completed to facilitate the merging of the two systems. It is suggested that a yearly capital recovery (A/P, 4.0%, 6) budget of approximately \$320,500 be assigned to the Asset Management Program through the year 2020 to complete the nine identified projects in Chapter 4.

-Chapter 5- Capital Improvement Projects

5.1 General

GRW Engineers has identified a total of nine (9) Capital Improvement Projects and provided opinions of probable costs to account for assets that were beyond repair, and/or did not meet industry standards, or were not compliant with current codes. These costs are presented in this report to allow Hardin County Water District No. 2 to make an informed decision of the potential costs associated in the purchase of the Elizabethtown Water Works.

The Capital Improvement Projects have been identified separately hereinafter, with each project listed in order according to priority based on need and purpose. Projects with a more important need are listed first and the least important need listed last. An opinion of probable cost to complete each project has also been included. A summary of project costs are shown below in Table 5-1, while a more detailed opinion of probable costs associated with each recommended project is available in Appendix C.

Table 5-1 Summary of Costs in Capital Improvements Plan	
Project Description	Opinion of Project Cost
CIP Projects Ranked by Priority	
Site Security Upgrades to City Springs WTP and Raw Water Sources	\$118,450
New Off-Site Bulk Water Loading Station	\$62,525
Chemical Feed Building Addition to Proposed Ammonia Building	\$518,750
Install pH Meters at Raw Water Spring Sources	\$8,950
Raw Water Well to Replace Wells 3, 4, 5 and Transfer Station	\$403,700
Installation of 1990 Clearwell Level Sensor	\$17,450
Raw Water Influent Pump Station to Replace Roundhouse	\$777,100
On-Site Generator for City Springs WTP	\$559,550
Cover for 3 Million Gallon Raw Water Storage Tank	\$400,350
Total Approximate Cost	\$2,870,000

5.2 Recommended Capital Improvements Projects

5.2.1 Site Security Upgrades to City Springs WTP and Raw Water Sources

As discussed in Chapter 2, the amount of site security at both the City Springs WTP and the raw water sources does not meet the industry standard and should be upgraded to the security standards of Hardin County Water Department No. 2. It is recommended that upgrades to the site security at these locations is a high priority upon the acquisition of the Elizabethtown Water Works.

upgrades to the site security at these locations is a high priority upon the acquisition of the Elizabethtown Water Works.

The total opinion of project costs for planning, design and construction necessary to upgrade site security at the City Springs WTP and raw water source sites is estimated to be approximately \$118,450.

5.2.2 New Off-Site Bulk Water Loading Station

The current on-site bulk water loading station at the City Springs WTP has reached the end of its useful life and, at its existing location, presents a security risk with the volume of traffic allowed to drive directly up the City Springs WTP Building. It is recommended to build a new off-site modern bulk water loading station that includes an underground vault containing metering and backflow prevention equipment along with an above ground loading station, including swivel arm and air gap. To save on land acquisition costs, Hardin County Water District No. 2 staff indicated that an ideal place install the loading station would be next to the existing Cecilia Tank off of Leitchfield Road (US Highway 62).

The total opinion of project costs for the planning, design and construction needed to build a new off-site bulk water loading station is estimated to be approximately \$62,525.

5.2.3 Chemical Feed Building Addition to Proposed Ammonia Building

As previously discussed in the project background of Chapter 1, after the purchase of the Elizabethtown Water Works, Hardin County Water District No. 2 intends to convert Elizabethtown over to chloramines. As part of a separate project, not covered under this report, Hardin County Water District No. 2 intends to add a new chemical storage building to the City Springs WTP site to house liquid ammonia. GRW Engineers has identified issues with the current chemical storage facilities for the primary coagulant and the fluoride. It is recommended that Hardin County Water District No. 2 include additional storage and feed rooms to the proposed ammonia building in order to accommodate moving both the primary coagulant and fluoride storage and feed systems from their current respective locations at the WTP.

The total opinion of project costs for the planning, design and construction necessary to include additional storage and feed rooms to the proposed ammonia building is estimated to be approximately \$518,750.

5.2.4 Install pH Meters at Raw Water Spring Sources

Currently there are no instruments or devices in place at either the City Spring or the Gaither Spring raw water sources to signal a potential contamination of the natural springs in the case of a chemical spill. The need for this project is heightened due to the raw water springs relative locations to the Interstates and the potential drainage runoff from the highways. A pH meter is recommended to be installed at these locations to signal a possible contamination to the spring. There is an existing pH meter located in the raw water Roundhouse, but this location does not offer enough warning, as the

contaminated raw water would already be entering the water treatment process. It is recommended that a pH meter probe be installed at both raw water sources and add remote telemetry units (RTUs) to each site so that the meter signal can be sent the City Springs WTP SCADA system.

The total opinion of project costs for the planning, design and construction necessary to add pH meters and telemetry to both the City Spring and Gaither Spring raw water sources is estimated to be approximately \$8,950.

5.2.5 Raw Water Well to Replace Wells 3, 4, 5 and Transfer Station

Based on the condition, location, and configuration of raw water Wells 3, 4, 5, and the associated Transfer Station, described in more detail in Chapter 2, GRW Engineers recommends that these assets be replaced by one (1) new industry standard well, with size and capacity as recommended by a groundwater supply study. It is GRW Engineers opinion that maintenance/repair funds should not be spent on these assets, and they were not included in the Asset Management Program in Chapter 4.

The total opinion of project costs for the planning, design and construction necessary to add a new industry standard raw water well to replace raw water Wells 3, 4, 5, and Transfer Station is estimated to be approximately \$403,700.

5.2.6 Installation of 1990 Clearwell Level Sensor

Since the two clearwells at the City Springs WTP are distinctly and physically separated, either could be taken out of service for cleaning, inspection, maintenance, or repair. However, at this time there is no instrumentation in place in the 1990 clearwell to indicate water level. If the older original clearwell was taken down for service the WTP would have no indication of level in the 1990 clearwell. GRW Engineers recommends that a continuous level measurement sensor be installed in the newer 1990 clearwell and tie the sensor into the plant SCADA system.

The total opinion of project costs for the planning, design and construction necessary to add a level sensor to the 1990 clearwell at City Springs WTP is estimated to be approximately \$17,450.

5.2.7 Raw Water Influent Pump Station to Replace Round House

Due to the age and restricting space of the existing raw water influent Round House, it is recommended to abandon this structure by building a bypass around the structure to send water from the 3 million gallon raw water storage tank to the raw water reservoir at the City Springs WTP. With a bypass in place a new Raw Water Influent pump station would be constructed next to the raw water reservoir.

The total opinion of project costs for the planning, design and construction necessary to build a new Raw Water Influent pump station to replace the existing raw water Round House is estimated to be approximately \$777,100.

5.2.8 On-Site Generator for City Springs WTP

Currently there is not a fixed emergency standby generator set located at the City Springs WTP. During a power outage a portable generator can be connected through a manual transfer switch to provide an emergency power source. A small portable residential generator is sometimes used to provide backup power to the SCADA system MTU and workstation. It is recommended that a new fixed generator, sized to handle the entire WTP, be installed and connected to a new automatic transfer switch. The existing manual transfer switch could be reused, reducing overall cost implications, but a load analysis on the existing facility would be required to verify adequate coordination and sizing of the existing system.

The total opinion of project costs for the planning, design and construction necessary to add a new on-site generator and automatic transfer switch for the City Springs WTP is estimated to be approximately \$559,550.

5.2.9 Cover for 3 Million Gallon Raw Water Storage Tank

The 3 million gallon raw water storage tank is an open top structure and is subject to debris, foreign objects, airborne particulates, and other various contaminants entering the structure. To protect this raw water storage facility from unwanted objects/substances being introduced from the top, it is recommended that the installation of a cover on this tank structure.

The total opinion of project costs for the planning, design and construction necessary to add a cover to the 3 Million Gallon Raw Water Storage Tank it is estimated to be approximately \$400,350.

Appendix A

Merger Project Costs



Project: HCWD2 Asset Evaluation Improvements
 Interconnection of Systems
Owner: Hardin County Water District No. 2

Construction Cost Estimate
Project No. 4242
Date: _____ **Dwg. No.** _____
Estimator: _____ **Type:** _____

Description	Number of Units	Units of Measure	Unit Cost	Total Cost
North of Ring Rd. & West of Amanda Jo Dr.				
8" PVC Water Main	175	LF	\$ 57.00	\$9,975
24"x8" Tapping Sleeve & Valve	1	EA	\$ 5,500.00	\$5,500
8"x8" Tapping Sleeve & Valve	1	EA	\$ 3,000.00	\$3,000
8" PVC Water Main in a 16" Steel Encasement Pipe Bored & Jacked under Ring Rd.	100	LF	\$ 310.00	\$31,000
North of Rineyville Rd. & East of Johnstown Rd.				
8" PVC Water Main	1,143	LF	\$ 57.00	\$65,151
8"x8" Tapping Sleeve & Valve	2	EA	\$ 3,000.00	\$6,000
Asphalt Pavement Replacement	50	LF	\$ 30.00	\$1,500
West of Dixie Hwy. & North of Veterans Way				
8" PVC Water Main	20	LF	\$ 57.00	\$1,140
24"x8" Tapping Sleeve & Valve	1	EA	\$ 5,500.00	\$5,500
8"x8" Tapping Sleeve & Valve	1	EA	\$ 3,000.00	\$3,000
Ring Rd, East of Lakewood Drive				
8" PVC Water Main	1,516	LF	\$ 57.00	\$86,412
8"x8" Tapping Sleeve & Valve	2	EA	\$ 3,000.00	\$6,000
Asphalt Pavement Replacement	25	LF	\$ 30.00	\$750
8" PVC Water Main in a 16" Steel Encasement Pipe Bored & Jacked under Park Entryway	100	LF	\$ 310.00	\$31,000
Concrete for Thrust Block, Anchors, or Encasement	10	CY	\$ 150.00	\$1,500
Subtotal				\$257,428
Bonding & Insurance			2%	\$5,149
General Conditions			2%	\$5,149
Contractor's Overhead and Profit			12%	\$30,891
Total Construction Costs				\$298,616



Project: HCWD2 Asset Evaluation Improvements
 Altitude Valve Vault R&R
Owner: Hardin County Water District No. 2

**Total Project
 Cost Estimate**

Project No. 4242
Date: _____ **Dwg. No.** _____
Estimator: _____ **Type:** _____

Description				Total Cost
Total Construction Costs				\$83,404
Administrative Expenses (5%)				\$4,170
Engineering Design Fees (14%)				\$11,677
Inspection Services (13%)				\$10,843
			Subtotal	\$110,093
Contingencies (10%)				\$11,009
			Total Project Cost	\$121,103



Project: HCWD2 Asset Evaluation Improvements

Altitude Valve Vault R&R

Owner: Hardin County Water District No. 2

**Construction
Cost Estimate**

Project No. 4242

Date:

Dwg. No.

Estimator:

Type:

Description	Number of Units	Units of Measure	Unit Cost	Total Cost
Mulberry Tank Valve Vault				
14" Flanged DI Piping Modifications	10	LF	120.00	1,200.00
14" Altitude Valve	1	EA	15,000.00	13,000.00
Ductile Iron Fittings	0.5	Ton	4,000.00	2,000.00
14" Swing Check Valve	1	EA	4,000.00	4,000.00
Re-paint Vault Piping	1	LS	4,000.00	4,000.00
Telemetry Controlled Solenoid Valve	1	EA	2,500.00	2,500.00
Helmwood Tank Valve Vault				
8" Flanged DI Piping Modifications	10	LF	100.00	1,000.00
8" Altitude Valve	1	EA	12,000.00	10,000.00
Ductile Iron Fittings	0.3	Ton	4,000.00	1,000.00
8" Swing Check Valve	1	EA	2,500.00	2,500.00
Re-paint Vault Piping	1	LS	3,500.00	3,500.00
Telemetry Controlled Solenoid Valve	1	EA	2,500.00	2,500.00
Industrial Tank Valve Vault				
12" Flanged DI Piping Modifications	10	LF	120.00	1,200.00
12" Altitude Valve	1	EA	14,000.00	11,500.00
Ductile Iron Fittings	0.5	Ton	4,000.00	2,000.00
12" Swing Check Valve	1	EA	3,500.00	3,500.00
Re-paint Vault Piping	1	LS	4,000.00	4,000.00
Telemetry Controlled Solenoid Valve	1	EA	2,500.00	2,500.00
Subtotal				\$ 71,900.00
Bonding & Insurance			2%	1,438.00
General Conditions			2%	1,438.00
Contractor's Overhead and Profit			12%	8,628.00
Total				\$83,404.00

Appendix B

Renewal and Replacement Project Costs



Project: HCWD2 Asset Evaluation Improvements
 Wells 1,2, and Gaither Spring R&R
Owner: Hardin County Water District No. 2

**Total Project
 Cost Estimate**

Project No. 4242
Date: _____ **Dwg. No.** _____
Estimator: _____ **Type:** _____

Description				Total Cost
Total Construction Costs				\$92,510
Administrative Expenses (5%)				\$4,626
Engineering Design Fees (14%)				\$12,951
Inspection Services (13%)				\$12,026
			Subtotal	\$122,113
Contingencies (10%)				\$12,211

Total Project Cost **\$134,325**



Project: HCWD2 Asset Evaluation Improvements
 Wells 1,2, and Gaither Spring R&R
Owner: Hardin County Water District No. 2

**Construction
 Cost Estimate**

Project No. 4242
Date: _____ **Dwg. No.** _____
Estimator: _____ **Type:** _____

Description	Number of Units	Units of Measure	Unit Cost	Total Cost
Well 1				
Replace Submersible Pump	1	EA	2,500.00	2,500.00
Rehab Control Panel	1	LS	8,000.00	8,000.00
Well 2				
Replace Submersible Pump	1	EA	2,500.00	2,500.00
Rehab Control Panel	1	LS	8,000.00	8,000.00
Install Roof Hatch (4'x4')	1	EA	5,000.00	5,000.00
Exhaust Fan (8")	1	EA	1,500.00	1,500.00
Louver (2'x1')	1	EA	1,250.00	1,250.00
Gaither Spring				
Clean Wetwell	1	LS	3,000.00	3,000.00
Silt Backflush System	1	LS	15,000.00	14,000.00
Rehad Control Panel and Floats Controls	1	LS	12,000.00	12,000.00
Add Telemetry (Radio-based)	1	LS	22,000.00	22,000.00
Subtotal				\$ 79,750.00
Bonding & Insurance			2%	1,595.00
General Conditions			2%	1,595.00
Contractor's Overhead and Profit			12%	9,570.00

Total **\$92,510.00**



Project: HCWD2 Asset Evaluation Improvements
 Building and Electrical Code Repairs

Owner: Hardin County Water District No. 2

Project No. 4242

**Total Project
 Cost Estimate**

Date: _____ **Dwg. No.** _____

Estimator: _____ **Type:** _____

Description				Total Cost
Total Construction Costs				\$130,532
Administrative Expenses (5%)				\$6,527
Engineering Design Fees (13.5%)				\$17,622
			Subtotal	\$154,680
Contingencies (10%)				\$15,468
			Total Project Cost	\$170,148



Project: HCWD2 Asset Evaluation Improvements

Building and Electrical Code Repairs

Owner: Hardin County Water District No. 2

**Construction
Cost Estimate**

Project No. 4242

Date:

Dwg. No.

Estimator:

Type:

Description	Number of Units	Units of Measure	Unit Cost	Total Cost
Treatment Plant Building				
Painting (General)	3,000	SF	0.75	2,250.00
Remove Existing Door & Frame	8	EA	200.00	1,600.00
Door, Door Frame, and Hardware	8	EA	3,500.00	28,000.00
Tuck Pointing/Masonry Restoration	420	SF	8.75	3,675.00
Chem Feed Piping Insulation	1	LS	1,000.00	1,000.00
Painting of Filters 1 and 2	1	LS	10,000.00	10,000.00
Pump House				
Painting (General)	720	SF	0.75	540.00
Remove Existing Door & Frame	1	EA	100.00	100.00
Door & Door Frame	1	EA	600.00	600.00
Door Hardware	1	EA	1,000.00	1,000.00
Roundhouse				
Grating	315	SF	50.00	15,750.00
Handrails (Painted Metal)	20	LF	35.00	700.00
Remove Existing Door & Frame	1	EA	100.00	100.00
Door, Door Frame, and Hardware	1	EA	3,500.00	3,500.00
Tuck Pointing/Masonry Restoration	30	SF	8.75	262.50
Electric Code Issues/Upgrades				
RW Roundhouse-Relocate/Rewire Electrical Equ	1	LS	17,500.00	\$17,500.00
RW Roundhouse-New Panelboard	1	LS	8,750.00	\$8,750.00
Flouride Room-Hazardous Area Wiring Changes	1	LS	15,000.00	\$15,000.00
Misc. Instrument Replacements/Upgrades				
RW Roundhouse-Replace Ph Sensor	1	LS	500.00	\$500.00
Chlorine Gas Feed Room-Add Chlorine Gas Sen	1	LS	1,700.00	\$1,700.00
Interlock With Exhaust				
			Subtotal	\$ 112,527.50
Bonding & Insurance			2%	2,250.55
General Conditions			2%	2,250.55
Contractor's Overhead and Profit			12%	13,503.30
			Total	\$130,531.90



Project: HCWD2 Asset Evaluation Improvements
Southend Tank Renewal

Owner: Hardin County Water District No. 2

**Construction
Cost Estimate**

Project No. 4242

Date: _____ **Dwg. No.** _____

Estimator: _____ **Type:** _____

Description	Number of Units	Units of Measure	Unit Cost	Total Cost
Southend Tank Renewal				
Surface Prep and Re-paint Tank (Int/Ext) 500 Million Gallon Elevated	1	LS	240,000.00	240,000.00
Install Tide-flex Mixing System	1	LS	45,000.00	45,000.00
Subtotal				\$ 285,000.00
Bonding & Insurance			2%	5,700.00
General Conditions			2%	5,700.00
Contractor's Overhead and Profit			12%	34,200.00
Total				\$330,600.00



Project: HCWD2 Asset Evaluation Improvements
Stair and Handrail Replacement

Owner: Hardin County Water District No. 2

**Total Project
Cost Estimate**

Project No. 4242

Date:

Dwg. No.

Estimator:

Type:

Description				Total Cost
Total Construction Costs				\$34,394
Administrative Expenses (5%)				\$1,720
Eng/Arch Design Fees (14%)				\$4,815
			Subtotal	\$40,929
Contingencies (10%)				\$4,093
Total Project Cost				\$45,022



engineering | architecture | geospatial

Project: HCWD2 Asset Evaluation Improvements

WTP Electrical Renewal and Replacement

Owner: Hardin County Water District No. 2

Project No. 4242

Date:

Dwg. No.

Estimator:

Type:

**Total Project
Cost Estimate**

Description				Total Cost
Total Construction Costs				\$120,118
Administrative Expenses (5%)				\$6,006
Engineering Design Fees (13.6%)				\$16,336
Inspection Services (12.5%)				\$15,015
			Subtotal	\$157,475
Contingencies (10%)				\$15,747
			Total Project Cost	\$173,222



Project: HCWD2 Asset Evaluation Improvements
 WTP Electrical Renewal and Replacement
Owner: Hardin County Water District No. 2

**Construction
 Cost Estimate**

Project No. 4242
Date: _____ **Dwg. No.** _____
Estimator: _____ **Type:** _____

Description	Number of Units	Units of Measure	Unit Cost	Total Cost
WTP Control Panel Replacement				
Replace antiquated Cutler-Hammer Control Panels on Ground Floor of City Springs WTP	1	LS	55,550.00	\$55,550.00
WTP Electric Code Issues/Upgrades				
Remove/Relocate Electrical Equip in Stairwell	1	LS	48,000.00	\$48,000.00
Subtotal				\$ 103,550.00
Bonding & Insurance			2%	2,071.00
General Conditions			2%	2,071.00
Contractor's Overhead and Profit			12%	12,426.00

Total **\$120,118.00**

Appendix C

Capital Improvement Project Costs



Project: HCWD2 Asset Evaluation Improvements
 Site Security Upgrades
Owner: Hardin County Water District No. 2

**Total Project
 Cost Estimate**

Project No. 4242
Date: _____ **Dwg. No.** _____
Estimator: _____ **Type:** _____

Description				Total Cost
Total Construction Costs				\$90,480
Administrative Expenses (5%)				\$4,524
Engineering Design Fees (14%)				\$12,667
			Subtotal	\$107,671
Contingencies (10%)				\$10,767

Total Project Cost **\$118,438**



Project: HCWD2 Asset Evaluation Improvements
Bulk Water Loading Station

Owner: Hardin County Water District No. 2

**Total Project
Cost Estimate**

Project No. 4242

Date: _____ **Dwg. No.** _____

Estimator: _____ **Type:** _____

Description				Total Cost
Total Construction Costs				\$43,065
Administrative Expenses (5%)				\$2,153
Engineering Design Fees (14%)				\$6,029
Inspection Services (13%)				\$5,598
			Subtotal	\$56,846
Contingencies (10%)				\$5,685
			Total Project Cost	\$62,530

Total Project Cost **\$62,530**



Project: HCWD2 Asset Evaluation Improvements

Chemical Storage Building Additions

Owner: Hardin County Water District No. 2

**Construction
Cost Estimate**

Project No. 4242

Date:

Dwg. No.

Estimator:

Type:

Description	Number of Units	Units of Measure	Unit Cost	Total Cost
Primary Coagulant Storage Bldg. Addition				
5,000 gal Bulk Chemical Storage Tank	1	EA	7,500.00	\$7,500.00
250 gal Day Tank	1	EA	1,000.00	1,000.00
Chemical Scale	1	EA	1,250.00	1,250.00
Chemical Metering Pumps	2	EA	1,500.00	3,000.00
Chemical Transfer Pump	1	EA	1,200.00	1,200.00
PVC piping & valves	1	LS	8,500.00	8,500.00
Level Transmitters	2	EA	1,000.00	2,000.00
Concrete Floor, Footers, and Containment	32	CY	500.00	16,000.00
Building Addition	352	SF	300.00	105,600.00
Painting	1	LS	12,000.00	12,000.00
HVAC	1	LS	4,500.00	4,500.00
Electrical & Lighting	1	LS	25,000.00	25,000.00
Subtotal				\$ 187,550.00
Fluoride Storage Bldg. Addition				
1,000 gal Bulk Chemical Storage Tank	1	EA	1,800.00	\$1,800.00
50 gal Day Tank	1	EA	450.00	450.00
Chemical Scale	1	EA	1,000.00	1,000.00
Chemical Metering Pumps	2	EA	1,500.00	3,000.00
Chemical Transfer Pump	1	EA	1,200.00	1,200.00
PVC piping & valves	1	LS	5,500.00	5,500.00
Level Transmitters	2	EA	1,000.00	2,000.00
Concrete Floor, Footers, and Containment	25	CY	450.00	11,250.00
Building Addition	252	SF	300.00	75,600.00
Painting	1	LS	12,000.00	12,000.00
HVAC	1	LS	6,500.00	6,500.00
Electrical & Lighting	1	LS	20,000.00	20,000.00
Subtotal				\$ 140,300.00
Bonding & Insurance			2%	6,557.00
General Conditions			2%	6,557.00
Contractor's Overhead and Profit			12%	39,342.00
			Total	\$380,306.00



Project: HCWD2 Asset Evaluation Improvements
pH Meters at Raw Water Sources

Owner: Hardin County Water District No. 2

**Total Project
Cost Estimate**

Project No. 4242

Date: **Dwg. No.**

Estimator: **Type:**

Description				Total Cost
Total Construction Costs				\$6,844
Administrative Expenses (5%)				\$342
Engineering Design Fees (14%)				\$958
			Subtotal	\$8,144
Contingencies (10%)				\$814
			Total Project Cost	\$8,959



Project: HCWD2 Asset Evaluation Improvements
Raw Water Wells and Aquifer Study

Owner: Hardin County Water District No. 2

Project No. 4242

Date: _____ **Dwg. No.** _____

Estimator: _____ **Type:** _____

**Total Project
Cost Estimate**

Description				Total Cost
Total Construction Costs				\$292,436
Administrative Expenses (5%)				\$14,622
Engineering Design Fees (11.5%)				\$33,630
Inspection Services (9%)				\$26,319
			Subtotal	\$367,007
Contingencies (10%)				\$36,701
Total Project Cost				\$403,708



Project: HCWD2 Asset Evaluation Improvements
 Raw Water Influent Pump Station
Owner: Hardin County Water District No. 2

**Construction
 Cost Estimate**

Project No. 4242
Date: _____ **Dwg. No.** _____
Estimator: _____ **Type:** _____

Description	Number of Units	Units of Measure	Unit Cost	Total Cost
Raw Water Influent Pump Station				
Horizontal Splitcase Pumps 30 hp (2,100 gpm)	2	EA	10,000.00	\$ 20,000.00
10" Pump Check Valve	2	EA	2,500.00	5,000.00
10" Gate Flanged Valves	4	EA	3,500.00	14,000.00
12" Ductile Iron Flanged Piping	30	LF	75.00	2,250.00
16" Ductile Iron Flanged Piping	30	LF	115.00	3,450.00
Ductile Iron Fittings	1	TN	4,000.00	4,000.00
8" Ductile Iron Buried Piping	30	LF	70.00	2,100.00
12" Ductile Iron Buried Piping	80	LF	85.00	6,800.00
16" Ductile Iron Buried Piping	15	LF	125.00	1,875.00
Excavation	280	CY	25.00	7,000.00
Backfill - Earth	25	CY	15.00	375.00
Backfill -Gravel	22	CY	30.00	660.00
Concrete Floors and Footers	67	CY	500.00	33,500.00
Building - Architectural	960	SF	300.00	288,000.00
Painting	1	LS	15,000.00	15,000.00
HVAC	1	LS	15,000.00	15,000.00
Electrical & Lighting	1	LS	40,000.00	40,000.00
Motor Control Centers	2	EA	15,000.00	30,000.00
Motor VFDs	2	EA	5,500.00	11,000.00
Subtotal				\$ 500,010.00
Bonding & Insurance			2%	10,000.20
General Conditions			2%	10,000.20
Contractor's Overhead and Profit			12%	60,001.20

Total **\$580,011.60**



Exhibit 9



**HARDIN COUNTY
WATER DISTRICT
NO. 2**

Hydraulic Modeling Report

Acquisition of Elizabethtown
Water Works Project

Hardin County Water District No. 2
May 20, 2014



engineering | architecture | geospatial

GRW | 801 Corporate Drive | Lexington, KY 40503 | 859.223.3999

HCWD 2

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-Chapter 1- Introduction

1.1 Purpose of Study

The purpose of this study was to perform a hydraulic analysis of the proposed merging of the Elizabethtown Water Works (water production facilities and distribution system) with Hardin County Water District No. 2's water distribution system. To accomplish this task, GRW Engineers was selected to build and calibrate a computerized hydraulic model of the Elizabethtown Water Works and then perform a hydraulic analysis of their water distribution system. GRW was then asked to merge the new calibrated hydraulic model with an existing hydraulic model of the Hardin County Water District No. 2 distribution system. The two integrated models were analyzed in order to simulate the combined system conditions and to make recommendations regarding operations and functionality of the unified systems. This study will be used for various reasons including:

- Optimize system operations.
- Optimize pressure zone implementation.
- Determine assets that may be redundant in a merged system.

1.2 Scope of Hydraulic Study

The City of Elizabethtown and Hardin County Water District No. 2 are in the process of transferring ownership of the Elizabethtown Water Works to Hardin County Water District No. 2. All water works assets will transfer to the District along with the customer base of approximately 10,400 customers.

The primary scope of this Hydraulic Study was to determine the optimal system operation and to recommend improvements to the water distribution systems. The following items were utilized in preparing the computerized hydraulic model and writing the report:

- Existing water distribution system assessment.
- Development of modeling criteria standards.
- As-built drawings.
- GIS data base files of the distribution system features and meter locations.
- Data collection in the field, including hydrant flow tests for model calibration.
- A computerized hydraulic model to simulate the water system's response to average and peak flow demands.
- Recommendations for system improvements.
- Recommendations to optimize system performance.

1.3 Background

Hardin County Water District No. 2 is currently in the process of acquiring the City of Elizabethtown's Water Works. With the increasingly stricter requirements of the EPA's Stage 2 Disinfection Byproduct Rule, Elizabethtown made a decision that it was in their best interest to sell their water treatment and water distribution system assets to Hardin County Water District No. 2. Elizabethtown was under pressure to meet the ever growing peak dry weather demands and also balance the system to handle times when there are low demands and high water age in the distribution system. At this time, both Elizabethtown Water Works and Hardin County Water District No.2 utilize a free chlorine residual for disinfection in their distribution systems.

Hardin County Water District No. 2 is a growing utility district that encompasses the boundaries of Elizabethtown. Hardin County Water District No. 2 currently supplies water to parts of Hardin Co., Larue Co., Hart Co., and to the Elizabethtown Water Works through four (4) master meter connections to supplement Elizabethtown's water treatment production during high demand periods.

Water supply and production has been an important concern for Hardin County Water District No. 2. In order for Hardin County Water District No. 2 to provide a dependable potable water supply to its customers, they have entered into a purchase agreement with the Louisville Water Company. This connection will comprise of a 24-inch ductile iron water main and a 10 MGD pumping station at Colesburg. The Louisville Water Company utilizes chloramines as their distribution system disinfectant. Chloramines allow a utility to reduce disinfection by-products and maintain a longer lasting disinfection residual out in the distribution system. As part of the decision to purchase water from the Louisville Water Company, Hardin County Water District No. 2 has also chosen to change over to chloramines as their distribution disinfectant. This will allow the two different water treatment sources (LWC & Hardin County Water District No. 2) to be compatible within the distribution system.

This changeover to chloramines also weighed in on Elizabethtown's decision to sell their water treatment and water distribution system assets to Hardin County Water District No. 2. With the purchase of the Elizabethtown Water Works, Hardin County Water District No. 2 can convert Elizabethtown over to chloramines, thus making all their water customers compatible with a reliable, long term potable water solution for years to come.

-Chapter 2- Existing Water Distribution Systems

2.1 General

In order to determine the best way to incorporate the Elizabethtown Water Works system into the Hardin County Water District No. 2 system, the operations of each system had to be evaluated independently.

2.2 Elizabethtown Water Works

2.2.1 *Water Supply*

The Elizabethtown Water Works is supplied by multiple raw water sources; two ground water springs, several ground water wells, and a surface water impoundment.

At the City Springs Water Treatment Plant, raw water is supplied to the water treatment plant from ground water springs and various ground water wells. There are two ground water springs, City Springs and Gaither Springs, and the ground water wells are comprised of 5 operating wells, and 1 abandoned well. The springs and ground water wells are located in the southern portion of the City within a two mile radius of the water treatment plant.

Freeman Lake is the surface water impoundment that provides raw water to the Freeman Lake Water Treatment Plant.

To supplement Elizabethtown's water treatment production during high demand periods, four (4) master meter connections also supply potable water to the Elizabethtown Water Works distribution system from the Hardin County Water District No. 2 system.

2.2.2 *Water Treatment Plant*

The Elizabethtown Water Works has two water treatment production plants within the City limits. The City Springs Water Treatment Plant is located on the south side of the City and the Freeman Lake Water Treatment Plant is located on the north side of the City.

The City Springs Water Treatment Plant treats and supplies the majority of the system's water and has a treatment capacity of 3.3 million gallons per day (MGD). According to the Monthly Operation Reports (MOR's) for the months of January 2012 to December 2012, the one-year water produced for the City Springs WTP was 918 million gallons or approximately 2.52 MGD.

The Freeman Lake Water Treatment Plant has a production capacity of approximately 3.0 MGD, and over the same time period produced approximately 89.6 million gallons. Freeman Lake Water Treatment Plant is not operated on a daily basis. It is generally operated to help keep it maintained in a good mechanical condition and have it ready for peak demand periods. Based on Elizabethtown's records and the days the plant was operated, it had an average production rate of 0.481 MGD.

Operation of the water treatment production and delivery of water to the distribution system by the high service pumps and master meters are conducted manually based upon readings from the Elizabethtown Water Work's SCADA system. Tank levels are monitored and read at both City Springs and Freeman Lake water treatment plants. According to water treatment plant production and master meter supply records, the Elizabethtown system has an average daily demand of approximately 3.85 MGD.

2.2.3 High Service Pumps and Booster Pump Stations

The City Springs Water Treatment Plant operates six (6) high service pumps with capacities that range from 400 gallons per minute (GPM) to 1,600 GPM. Four (4) of the high service pumps provide water to the Downtown pressure zone. The other two (2) high service pumps provide water to the South End pressure zone. The four pumps that supply the Downtown pressure zone are horizontal split case pumps and have capacities of 500 GPM, 600 GPM, 600 GPM, and 1,400 GPM. Depending on the conditions, the operator will operate these pumps in various combinations to meet the required demand. Typically one or two pumps are operated at a given time. The two high service pumps that supply the South End pressure zone are vertical turbine pumps and are generally operated one at a time on an alternating cycle. These pumps are referred to as the South End high service pumps and have a typical operating capacity of 1,650 GPM each.

The Freeman Lake Water Treatment Plant has three (3) high services pumps. Typically the discharge header is isolated so that one of the high service pumps supplies the Pear Orchard pressure zone to the east and the other two high service pumps supply flow to the Downtown pressure zone leaving from the west side of the plant. The high service pumps at the Freeman Lake Water Treatment Plant have an approximate capacity of 1,000 GPM each. As discussed hereinbefore the Freeman Lake Water Treatment Plant is operated on an occasional basis to keep it good working order.

There is only one booster pump station in the distribution system, the Oaklawn Booster Pump Station. It is located off North Dixie Hwy (US 31W) near the Freeman Lake Treatment Plant. This booster pump station provides water from the Downtown pressure zone to the Oaklawn pressure zone. There are two (2) booster pumps in this station they have a rated capacity of 500 GPM each.

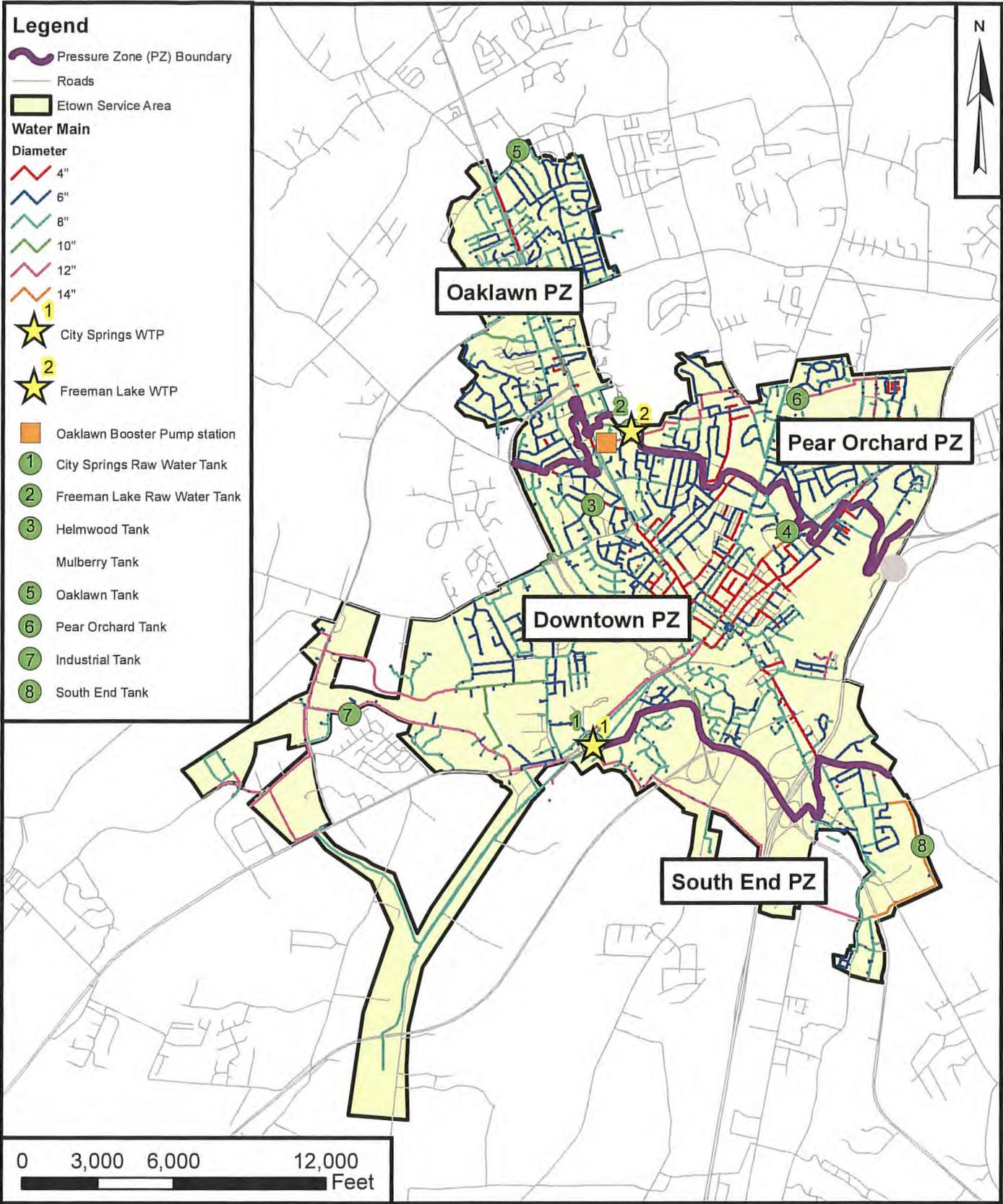


Figure 2-1
 Existing Water Distribution System
 Elizabethtown Water Works
 Elizabethtown, KY



engineering | architecture | geospatial

Map Document: (C:\Program Files\ArcGIS\Bin\Templates\GRW Layouts\GRW Letter Size Portrait.mxd) 6/20/2007 -- 3:16:57 PM

On a typical day, all components of the Elizabethtown water distribution system are controlled manually by the operators, based upon tank level readings shown through the SCADA system. The only exception to this is the control of the elevated Oaklawn tank, which is automatically controlled based upon tank level. The Oaklawn master meter connection is automatically opened and closed multiple times per day to fill the Oaklawn Tank, as discussed in more detail in section 2.2.4.

2.2.4 Pressure Zones

The Elizabethtown Water Works distributes water to their customers through four (4) different pressure zones. Elizabethtown identifies these pressure zones as Oaklawn, Pear Orchard, South End, and Downtown. Each pressure zone is separated from one another by isolation valves within the distribution system. The locations of the four pressure zones are identified in Figure 2-1.

The Oaklawn pressure zone is located on the north side of the City and is supplied by two connections. Its primary supply is through a master meter connection from Hardin County Water District No. 2 near the Oaklawn Tank on Pear Orchard Rd. A supplemental supply connection to the pressure zone is provided by Elizabethtown’s Oaklawn Booster Pump Station. The Oaklawn Booster Pump Station is generally run to draw water from the Downtown pressure zone to promote water turnover in the Downtown pressure zone. The current Oaklawn pressure zone has an elevated storage tank with a capacity of 100,000 gallons and an overflow elevation of 1027.0. A tank level trending graph from Elizabethtown’s SCADA data, depicted in Figure 2-2 below, shows the Oaklawn tank levels over a typical 24-hour period. By analyzing the graph of the Oaklawn tank, the calculated tank drain rate of the Oaklawn pressure zone has a daily demand of approximately 760,000 gallons (roughly 20% of the system demand). The data also shows that the 100,000 gallon capacity Oaklawn tank cycles approximate 11.5 times in a 24 hour period.

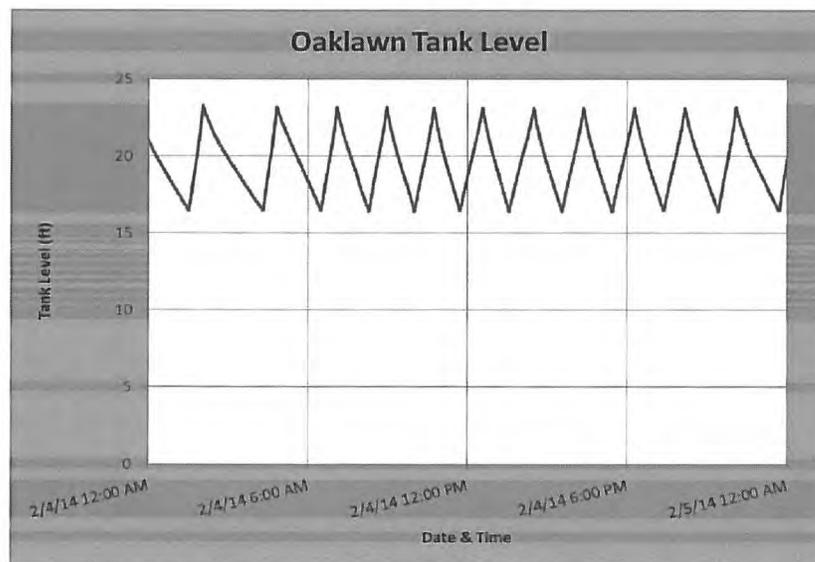


Figure 2-2

The Pear Orchard pressure zone is located on the northeast side of the City and is supplied by two connections. Its primary supply is through a master meter connection from Hardin County Water District No. 2 at the end of Buffalo Creek Dr. (near the interchange of I-65 and US 62). A supplemental supply connection to the pressure zone is provided by high service pumps at the Freeman Lake Water Treatment Plant. As discussed hereinbefore, the Freeman Lake Water Treatment Plant is operated on an occasional basis. The Pear Orchard pressure zone has an elevated storage tank with a capacity of 300,000 gallons and an overflow elevation of 960.0. Elizabethtown normally operates this tank 10 to 12 feet below the overflow elevation to promote tank turnover and reduce water age in this pressure zone. Figure 2-3 depicts the Pear Orchard Tank levels during a typical 24 hour period based upon data recorded by Elizabethtown’s SCADA system. As seen below, the 300,000 gallon Pear Orchard Tank cycles approximately 5 times during a 24 hour period. By analyzing the graph of the Pear Orchard tank, the calculated tank drain rate of the Pear Orchard pressure zone has a daily water demand of approximately 456,000 gallons per day (roughly 12% of the system demand).

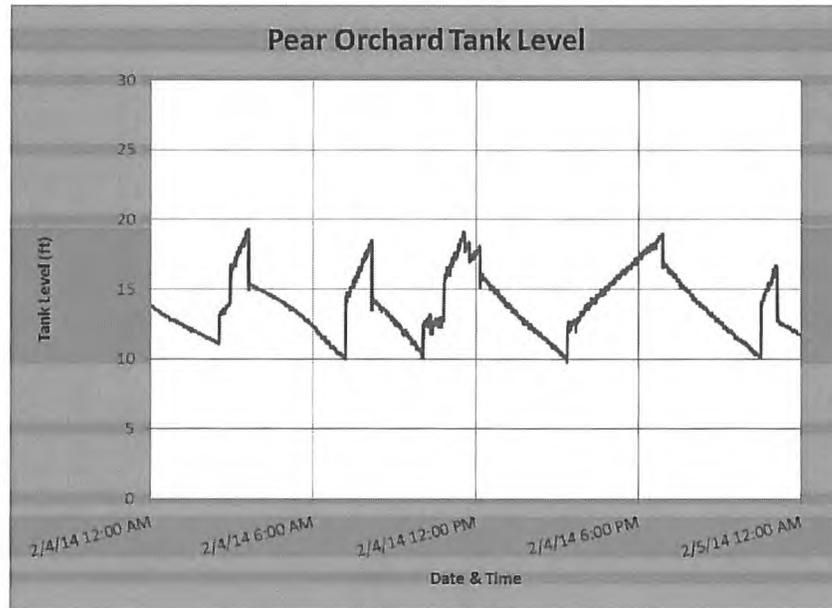


Figure 2-3

The South End pressure zone is located on the southeast side of the City and is supplied by two connections. Its primary supply is from dedicated high service pumps at the City Springs Water Treatment Plant. The second connection is to a master meter from Hardin County Water District No. 2 and is located near the base of the South End elevated tank. The South End pressure zone has an elevated storage tank with a capacity of 500,000 gallons and an overflow elevation of 960.0. Figure 2-4 depicts the South End Tank levels during a typical 24 hour period based upon data recorded by Elizabethtown’s SCADA system. As seen below, the 300,000 gallon South End Tank cycles approximately 5 times during a 24 hour period. By analyzing the graph of the South End tank, the calculated tank drain rate

of the South End pressure zone has a daily water demand of approximately 456,000 gallons per day (roughly 13% of the system demand).

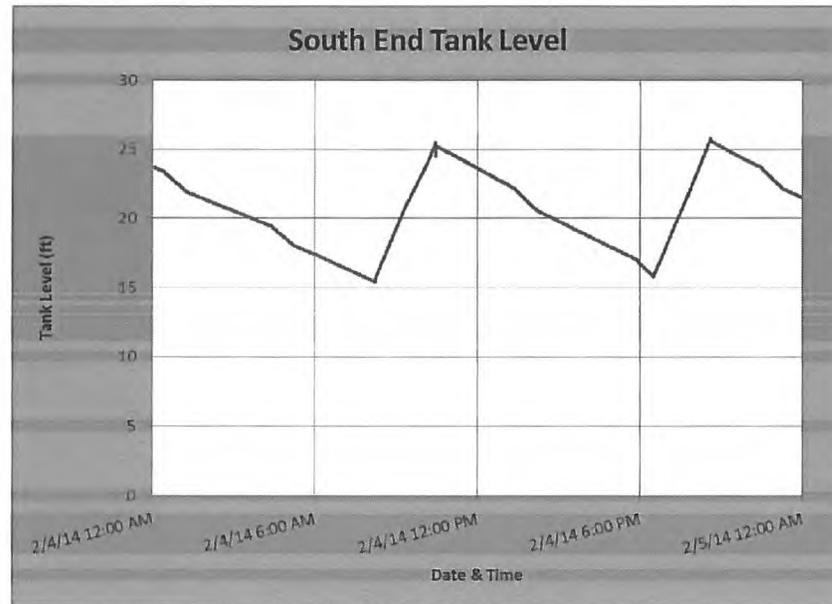


Figure 2-4

The Downtown pressure zone is comprised of the system's remaining customers in the downtown and industrial areas. This pressure zone has three (3) supply connections. The primary supply to this pressure zone is from a combination of high service pumps at the City Springs Water Treatment Plant. A secondary supply connection to the pressure zone is provided by high service pumps at the Freeman Lake Water Treatment Plant. As discussed hereinbefore the Freeman Lake Water Treatment Plant is operated on an occasional basis. A third but rarely used connection to this pressure zone is through a master meter connection from Hardin County Water District No. 2 at Ring Road, adjacent to the Hardin County Water District No. 2 office and maintenance building. The Downtown pressure zone utilizes three (3) elevated storage tanks with a combined storage capacity of 1,200,000 gallons and an overflow elevation of 892.0. The three elevated storage tanks are the 200,000 gal Helmwood tank, the 500,000 gal Mulberry tank, and the 500,000 gal Industrial tank.

Tank levels for the Helmwood, Mulberry, and Industrial tanks as recorded by Elizabethtown's SCADA system can be seen in Figure 2-5, Figure 2-6, and Figure 2-7, respectively. As seen below, the daily drain and fill cycles for tanks in the Downtown pressure zone vary more than the daily drain and fill cycles of the tanks in the other three pressure zones. To illustrate this variation, each of the tank level graphs below depicts the results for one week of SCADA data. The average drain times from the SCADA data were used to calculate the daily demand supplied by each tank. The Helmwood tank supplies approximately 570,000 gallons per day (roughly 15% of the system demand), the Mulberry tank supplies approximately

456,000 gallons per day (roughly 12% of the system demand), and the Industrial tank supplies approximately 1,064,000 gallons per day (roughly 28% of the system demand).

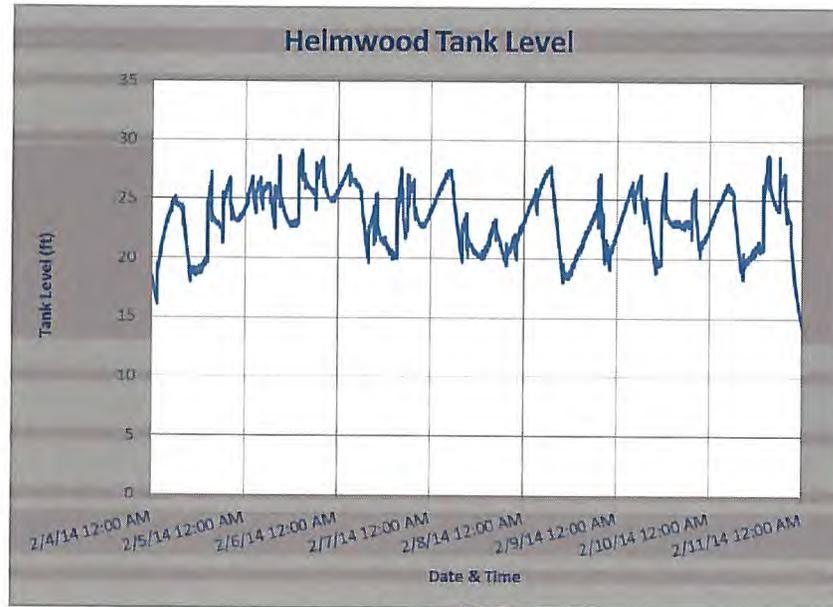


Figure 2-5

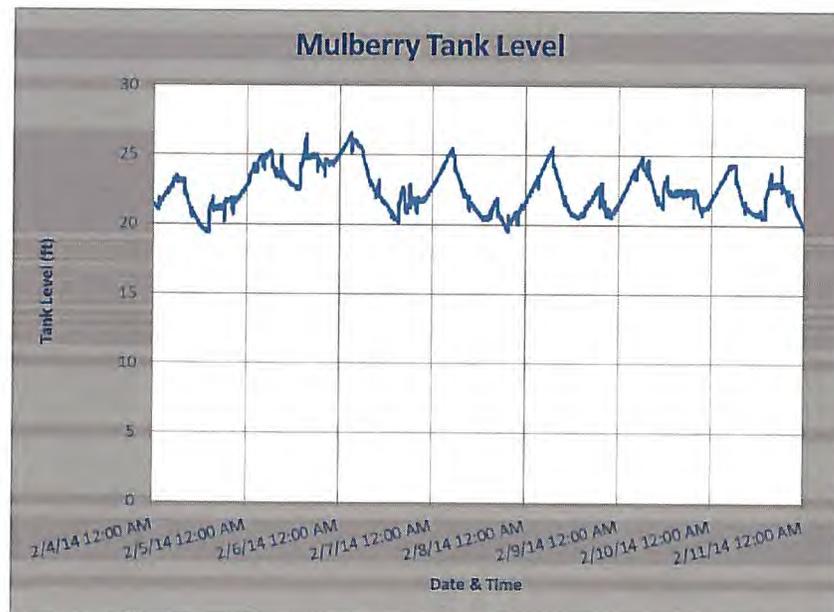


Figure 2-6

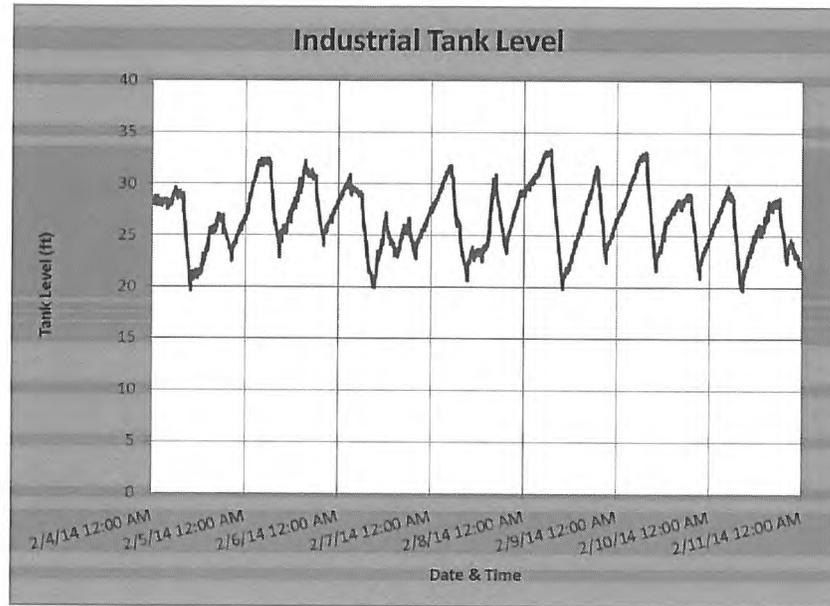


Figure 2-7

2.2.5 Pipes

A total of approximately 730,253 linear feet (about 138 miles) of water mains were modeled as a part of the Elizabethtown Water Works water distribution system. The existing system consists of a well-looped grid of distribution mains throughout most of the Elizabethtown system. Main sizes up to 14-inches in diameter are present in the system. This analysis considers pipes with a diameter as small as 4 inches. Approximately 80% of the distribution system consists of 6-inch and 8-inch diameter pipe. Information on the existing locations and sizes of pipes was obtained from the GIS data. Prefix labels for the names of the pipes in the Elizabethtown hydraulic model have the prefix EP (ex. EP-XX). Prefix labels for the pipe end nodes in the hydraulic model have the abbreviated pressure zone title attached to aid in differentiating the pressure zones (PO – Pear Orchard, OK – Oaklawn, SE – South End, DT – Downtown).

2.2.6 Altitude Control Valves

Each elevated storage tank in the Elizabethtown Water Works distribution system has an altitude control valve installed on their inlet. At this time each of these altitude valves have been disabled and/or have the outlet check valve tied open to allow water from the distribution to flow unrestricted in and out of the elevated tank. This has been done intentionally to allow the operators the ability to manually control flow from the high service pumps and the master meter vault connections through the SCADA system.

2.2.7 Storage

Tanks within a water distribution system are used to store water during low demand conditions and provide water during high demand or emergency conditions. The lower portion of the tank is normally reserved for fire flow and emergency supply.

Adequate storage equalizes demands on supply sources, pumps, and distribution mains. As a result, required capacities of pipe system components are minimized. Ideally, tanks should be filled during periods of low demands through the operation of the high service pump and altitude control valves at the tanks.

The Elizabethtown Water Works currently has eight (8) storage facilities in their system. Six (6) are elevated facilities and two (2) are ground storage facilities. Table 2-1 below summarizes the pertinent data associated with each of the storage facilities.

Tank	Type	Base Elevation (ft)	Overflow Elevation (ft)	Diameter (ft)	Available Storage (gal)	Available Storage (days)
City Springs	Clearwell	-	-	-	550,000	0.14
Freeman Lake	Clearwell	-	-	-	600,000	0.16
Oaklawn Tank	Elevated	918	1027.00	30'	100,000	0.03
Pear Orchard Tank	Elevated	860.00	960.00	43'	300,000	0.08
South End Tank	Elevated	818.00	960.00	56'	500,000	0.13
Industrial Tank	Elevated	752.00	892.00	50'	500,000	0.13
Helmwood Tank	Elevated	785.00	892.00	38'	200,000	0.05
Mulberry Tank	Elevated	803.00	892.00	56'	500,000	0.13
Total					3,250,000	0.84

As indicated in Table 2-1, the total available storage in the system is 3,250,000 gallons. This corresponds to 0.84 days of storage (calculated as the total storage divided by the average daily demand in the system, 3.85 MGD).

2.2.8 Operation Schedule

The Elizabethtown water distribution system is currently operated manually from the City Springs Water Treatment Plant. Operators work 24 hours a day in three shifts, reading data acquired through the SCADA system, to make adjustments to the system. The Freeman Lake Water Treatment Plant has a backup SCADA system that is supposed to be able to operate the system in case there is a failure of the SCADA system at City Springs.

2.3 Hardin County Water District No. 2

2.3.1 Water Supply

For nearly 25 years, raw (untreated) water has been supplied by the Nolin River to Hardin County Water District No. 2 at the White Mills Water Treatment Plant. Due to increasing demand, the White Mills Water Treatment Plant operated at 92% capacity for approximately two weeks in the summer of 2012. The increasing demand led Hardin County Water District No. 2 to search for a new source to meet its growing demand. This resulted in a decision to enter into a purchase agreement with the Louisville Water Company and the construction of a 24-inch ductile iron water main that will extend to Colesburg to connect with the Louisville Water Company supply. The construction of this new 24-inch main and a new 10 MGD pump station will help Hardin County Water District No. 2 meet the rapidly growing water usage demands of the District.

2.3.2 Water Treatment Plant

The White Mills WTP was originally constructed in 1990 to have a capacity of 2.7 MGD. The plant was expanded in 1999 to increase the water treatment capacity from 2.7 MGD to 8.1 MGD. The location of the White Mills WTP can be seen in Figure 2-8.

2.3.3 High Service Pumps and Booster Pump Stations

The White Mills water treatment plant consists of eight (8) high service pumps. Five (5) of these high service pumps supply water to the Cecilia and Pear Orchard Tanks in the northern portion of the system and the other three (3) high service pumps supply water to the Eastview Tank in the western portion of the system. Typically one to two pumps are operated manually to supply the northern portion of the system and one pump is controlled to supply the western portion of the system.

On a typical day, all pump stations in the Hardin County Water District No. 2 water distribution system are controlled automatically based upon tank level readings shown by the SCADA system. The only exception to this is the Springfield pump station, which was recently constructed. It is initially being operated manually based upon the Springfield tank's level.

Hardin County Water District No. 2 currently operates five (5) booster pump stations. Booster pump stations in the Hardin County Water District No. 2 water distribution system serve the purpose of transferring water between the system's six pressure zones.

Hardin County Water District No. 2 also has two (2) booster pump stations located at system interconnects, one with Hardin County Water District No. 1 and one with

Legend

-  Hardin County Roads
-  Hardin County Boundary
-  County Boundary

Water Mains

Diameter

-  0.75 - 4.00
-  6.00
-  8.00
-  10.00 - 12.00
-  16.00 - 24.00
-  30.00

Pressure Zone

-  BLUE
-  BROWN
-  GREEN
-  PURPLE
-  RED
-  YELLOW

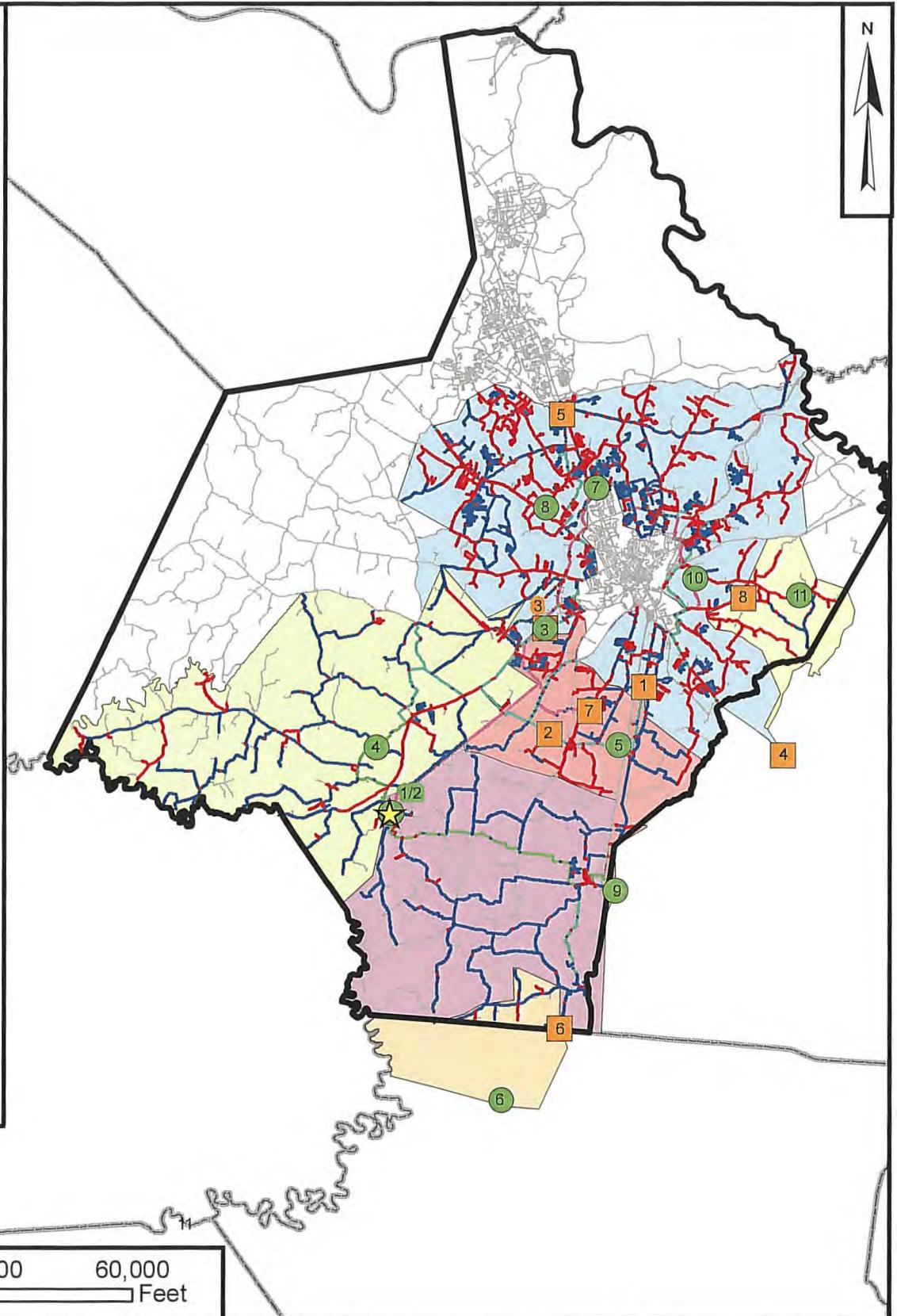
-  White Mills WTP

Pump Station

-  1 31-W Pump Station
-  2 Glendale Pump Station
-  3 Cecilia Pump Station
-  4 Larue Pump Station
-  5 Longview Pump Station
-  6 Shelton Road Pump Station
-  7 Springfield Pump Station
-  8 Valley Creek Pump Station

Storage Tank

-  1 White Mills Clearwell 1
-  2 White Mills Clearwell 2
-  3 Cecilia Tank
-  4 Eastview Tank
-  5 Glendale Tank
-  6 Lonestar Tank
-  7 Pear Orchard Tank
-  8 Rineyville Tank
-  9 Sonora Tank
-  10 Springfield Tank
-  11 Valley Creek Tank



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0 30,000 60,000
Feet



engineering | architecture | geospatial

Figure 2-8
Existing Water Distribution System
Hardin County Water District No. 2
Hardin County, KY

Hodgenville. The booster pump station at the Hardin County Water District No. 1 interconnection is operable and can be used in case of emergency. The booster pump station supplying water to the City of Hodgenville is currently out of service.

Hardin County Water District No. 2 also operates one regulating valve station. Valves at this location are opened and closed to regulate the supply of water to the Sonora Tank.

2.3.4 Pressure Zones

The Hardin County Water District No. 2 water distribution system currently consists of six pressure zones. Pressure zones located in the northern portion of the system operate at a higher elevation than that of the pressure zones in the southern portion of the system.

2.3.5 Pipes

A total of approximately 2,776,780 linear feet (about 526 miles) of water main was modeled as a part of the existing Hardin County Water District No. 2 water distribution system. The existing system consists of a mixture of dead-end water mains, located mostly at the edge of the system, and a well-looped grid of distribution mains in the central portion of the system. The most notable portion of the system surrounds the Elizabethtown water distribution system service area. Water mains of up to 24-inches in diameter are present in the system. The existing Hardin County Water District No. 2 water distribution model considers pipes with a diameter as small as 2 inches. Approximately 93% of the modeled pipes in the distribution system are 4-inch, 6-inch and 8-inch pipe. Information on the existing locations and sizes of pipes was obtained from the GIS data.

2.3.6 Storage

Tanks within a water distribution system are used to store water during low demand conditions and provide water during high demand or emergency conditions. The lower portion of the tank is normally reserved for fire flow and emergency supply.

Adequate storage equalizes demands on supply sources, pumps, and distribution mains. As a result, required capacities of pipe system components are minimized. Ideally, tanks should be filled during periods of low demands through the aid of the high service pump and pressure switches at the tanks.

The Hardin County Water District No. 2 water distribution system currently has eleven (11) storage facilities within the system. Nine (9) are elevated facilities and two (2) are clearwells located at the White Mills water treatment plant.

2.3.7 Operation Schedule

Most of the Hardin County Water District No. 2 water distribution system has controls which allow the system components (pumps, valves, etc.) to operate automatically base upon tank levels. Currently, there are two processes which are operated manually. The high service pumps at the White Mills Water Treatment Plant are operated manually based upon the Cecilia tank levels, and the Springfield pump station is currently operated manually based on the tank elevations of the newly constructed Springfield tank. HCWD2 plans to automatically control the operation of the Springfield pump station in the future.

-Chapter 3- Methodology and Model Development

3.1 Model Selection

Hardin County Water District No. 2 currently utilizes KYPIPE to model its existing water distribution system. For this reason, Hardin County Water District No. 2 selected GRW Engineers to construct a hydraulic model of the Elizabethtown Water Works using the KYPIPE software, so it could then be imported into the existing Hardin County Water District No. 2 hydraulic model. KYPIPE can accommodate any piping configuration as well as hydraulic components, such as pumps, regulating valves, metered connections, etc. Calculations within the software can be performed for either steady-state or extended period simulations (EPS).

3.2 Design Criteria

3.2.1 Steady-State Simulation

Steady-state analyses can determine the operating behavior of the system at an isolated specific point in time. For a steady-state simulation, flow rates and hydraulic grades remain constant over time (i.e., tank levels, pumping operations, and demands). This type of simulation can be useful for determining pressure and flow rates under various minimum, average, and peak conditions. For this type of analysis, the network equations within the model are determined and solved with tanks being treated as fixed grade elevations. The results that are obtained from a steady-state analysis are instantaneous values and may or may not be representative of the values of the system a few hours, or even a few minutes, later in time.

3.2.2 Extended Period Simulation

When the performance of a system needs to be assessed for multiple consecutive time steps (i.e., a 24 one-hour period or 72 one-hour periods), an extended period simulation (EPS) is used. This type of analysis allows you to model tanks filling and draining, regulating valves opening and closing, and pressure and flow rates changing throughout the system in response to varying demand conditions and automatic control strategies. An extended period simulation indicates whether the system has the ability to provide acceptable levels of service over a period of minutes, hours, or days. Demands fluctuate throughout the simulation to reflect diurnal patterns of water usage.

3.2.3 Pressure Constraints

Ten States Standards requires that the minimum working pressure in the distribution system be greater than 20 psi. Boil water advisories are required if pressures drop below the minimum requirements. When static pressures exceed 100 psi, pressure-reducing devices should be provided.

3.2.4 Flow Constraints

Engineering practices recommend that velocities should be limited to less than five (5) feet per second (fps) to minimize head loss through pipe sections and reduce hydraulic transient (water hammer) formation potential. While velocities should be low under normal operating conditions, the guidelines may be exceeded under fire flow conditions.

3.3 Model Development

3.3.1 Data Collection

Physical Data -

GRW Engineers was given GIS data for the Elizabethtown Water Works water distribution system. This data was used to construct a hydraulic model of the Elizabethtown water distribution system in KYPIPE. All water mains with diameters of 4-inches and greater were modeled.

GRW Engineers placed junction nodes at the pipe intersections and pipe ends as well as nodes portraying locations of large user meter connections. Required information for each junction node and metered connection includes elevation and demand while each pipe requires information pertaining to diameter, length, and roughness. Elevations were assigned using Digital Elevation Model (DEM) data available from the State of Kentucky FTP site. The DEM data for Hardin County was produced in 2012 as part of the Kentucky Aerial Photography and Elevation Data Program (KYAPED). Elevations were assigned to the water model nodes using ESRI ArcGIS 3D Analyst software. Elevations were assigned to all GIS water system features including caps, crosses, tees, hydrants, and junctions in the Elizabethtown water system GIS database. The results were exported to a 3D point shape file for inclusion into the final KYPIPE hydraulic model.

Other required information included pump performance curves, supply nodes (fixed grade nodes), and storage tank data (maximum elevation, minimum elevations, and diameter). The pump curves and storage tank data was provided by Elizabethtown Water Works and Hardin County Water District No. 2.

Hydraulic Parameters -

Analysis of distribution system performance depends on proper calculation of the hydraulic grade line (HGL). The HGL is the sum of the elevation and pressure heads at a particular junction expressed in feet. For a steady-state simulation, HGLs are constant within reservoirs and tanks.

If the HGL is known at the upstream end of a pipe section, the difference in HGL at the downstream end is a combination of the elevation difference and the head loss in the pipe. Head loss represents the amount of energy used when water moves through a pipe. It has two components – minor loss and friction loss. Reducers, bends, and tees all cause minor losses in water distribution systems. Minor losses in systems the size of the Elizabethtown Water Works and the Hardin County Water District No. 2 water distribution system are normally insignificant, particularly under normal day-to-day operation. According to the reference *Water Distribution Modeling* by Haestad, Walski, Chase and Savic, “For water distribution systems, minor losses are generally much smaller than the head losses due to friction. For this reason, many modelers frequently choose to neglect minor losses”.

Friction losses in pipe sections were computed by the KYPIPE model using the Hazen-Williams formula. The Hazen-Williams equation calculates friction loss based on the velocity in the pipe section, pipe length, diameter, and roughness. Hazen-Williams roughness values, also known as “C” values, are high for new, smooth pipes and low for old, rougher pipes. Table 3-1 lists Hazen-Williams roughness coefficients for common pipe types in a new condition.

Table 3-1 Typical C - Values	
Pipe Material	C - Value
Ductile Iron	120
Cast Iron	115
Plastic (PVC)	130-140

Typically older systems with cast iron pipe experience tuberculation in their pipes, which can result in a narrowing of the pipe size. Tuberculation is the growth of rust and scale on the pipe interior. It is caused by the deposition of corrosion products on the interior pipe walls, which results in a greater roughness reducing a pipeline’s carrying capacity. As tuberculation increases in the pipes, their roughness increases and the C-factor will decrease.

3.3.2 *Network Development*

Global Positioning System (GPS) data base files were provided by Hardin County Water District No. 2 and the Elizabethtown Water Works and were utilized as a basis for the GIS development of the network model. With this information as a starting point, the system networking was completed with the help of as-built information provided by the Elizabethtown Water Works.

3.4 Load Allocation

3.4.1 *Demand Distribution*

To determine water usage, Elizabethtown Water Works provided detailed information on the monthly metered billing usage of each individual customer in the Elizabethtown system. This information also included the GPS location of each meter and allowed GRW Engineers to accurately input the metered demands into the hydraulic model. Metered demands for the Elizabethtown water distribution system were broken into two subcategories; high-demand users and low-demand users. Customers whose average usage was greater than 8,000 gallons per month were considered high demand users, and customers with a usage under 8,000 gallons per month were considered to be low demand users.

High demand users included industrial, commercial, and residential customers. There were 851 metered customers identified with an average usage above the 8,000 gallons per month threshold. These 851 metered customers accounted for approximately two-thirds ($\frac{2}{3}$) of the metered billing usage. Each high demand user was individually input into the hydraulic model as a “*metered connection node*” at their correct GPS location along with their actual billed usage.

Low demand users included the remaining 9,036 metered customers. The low demand users accounted for approximately one-third ($\frac{1}{3}$) of the metered billing usage. The average customer usage for the low demand users was approximately 3,500 gallons per month (0.0812 gpm). The low demand users were entered into the hydraulic model as a “*residential meter*”. The exact number of residential meters counted along a specific pipe segment was input into the model for that pipe segment, based on the correct GPS location of the actual metered customer. Residential meters were given a global demand of 0.0812 gpm each in the model.

With the metered connections and the residential meters separated in the model, a diurnal demand curve was attributed to each type of modeled meter. The six largest metered connections (identified as industrial customers) were modeled with a constant demand to simulate a 24 hour a day operation.

The difference between the recorded average water supplied (treated and/or purchased) to Elizabethtown and the average billed water usage was treated as

water loss. The average water supplied to Elizabethtown distribution system for the years 2011-2012 was 3.8 MGD and the average water billed was 2.8 MGD. This shows approximately 1.0 MGD of unaccounted for water. This unaccounted for water was spread across each node in the model as a global demand to simulate it as water loss in the hydraulic model. Based on the total number of junction nodes in the model the 1.0 MGD water loss was modeled as a global demand of 0.365 gpm and placed on each node.

3.4.2 Temporal Distribution

The diurnal demand is the variation in water demand over a 24-hour period. Figure 3-1 exhibits the diurnal demand distribution for a typical day. The diurnal pattern utilized was a typical diurnal curve from American Water Works Association already included with the KYPIPE software. This diurnal pattern takes into account a morning and afternoon peak, trying to simulate the times when most people are at home preparing for the day or are at home in the evening.

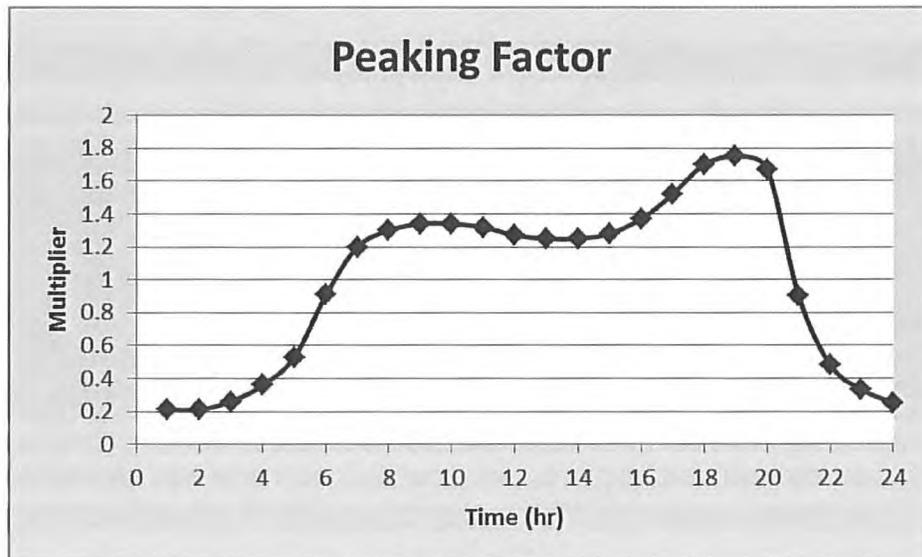


Figure 3-1

3.5 Model Calibration

3.5.1 Calibration Philosophy

Before a model can be used as a decision-making tool, it must be calibrated until it simulates field-observed flow and pressure readings. The process of calibration involves adjusting model friction coefficients to make the model's output best conform to actual observations. This model was calibrated using hydrant flow testing. For hydrant testing, the model was iteratively calibrated with data obtained

from 26 hydrant flow tests conducted by the Hardin County Water District No. 2. Figure 3-2 shows the 26 hydrants test locations.

3.5.2 Hydrant Flow Testing

For each hydrant flow test, the following data was recorded.

- Flushing hydrant identification number.
- Upstream residual pressure hydrant identification number.
- Water surface elevation for elevated storage tank(s).
- Pumps on/off operation status.
- Flow recorded at the flushed hydrant.
- Static and residual pressures at the upstream residual hydrant.
- Duration of flow.
- Flow leaving water treatment plant.
- Nozzle size.

Ideally, static pressure is the pressure when water is not flowing within the distribution system. Actual field static pressure readings are taken when the distribution system is at a low flow condition. A residual pressure, meanwhile, corresponds to the resultant pressure drop during a high flow event (i.e., open hydrant). Static pressure is always higher than residual pressure. This is due to the fact that a high flow in a pipeline produces increased friction losses and minor losses and the effect results in a pressure drop.

The difference between static and residual pressure is an indication of the strength of the system. A large pressure difference normally indicates a system with undersized mains, scaled and tuberculated mains, closed valves, ineffective pumps, etc. A small difference normally indicates a system with good, adequately sized pipes and well looped mains. Within a system, there can be many differences in static and residual pressures based on the strength of the system at a given location.

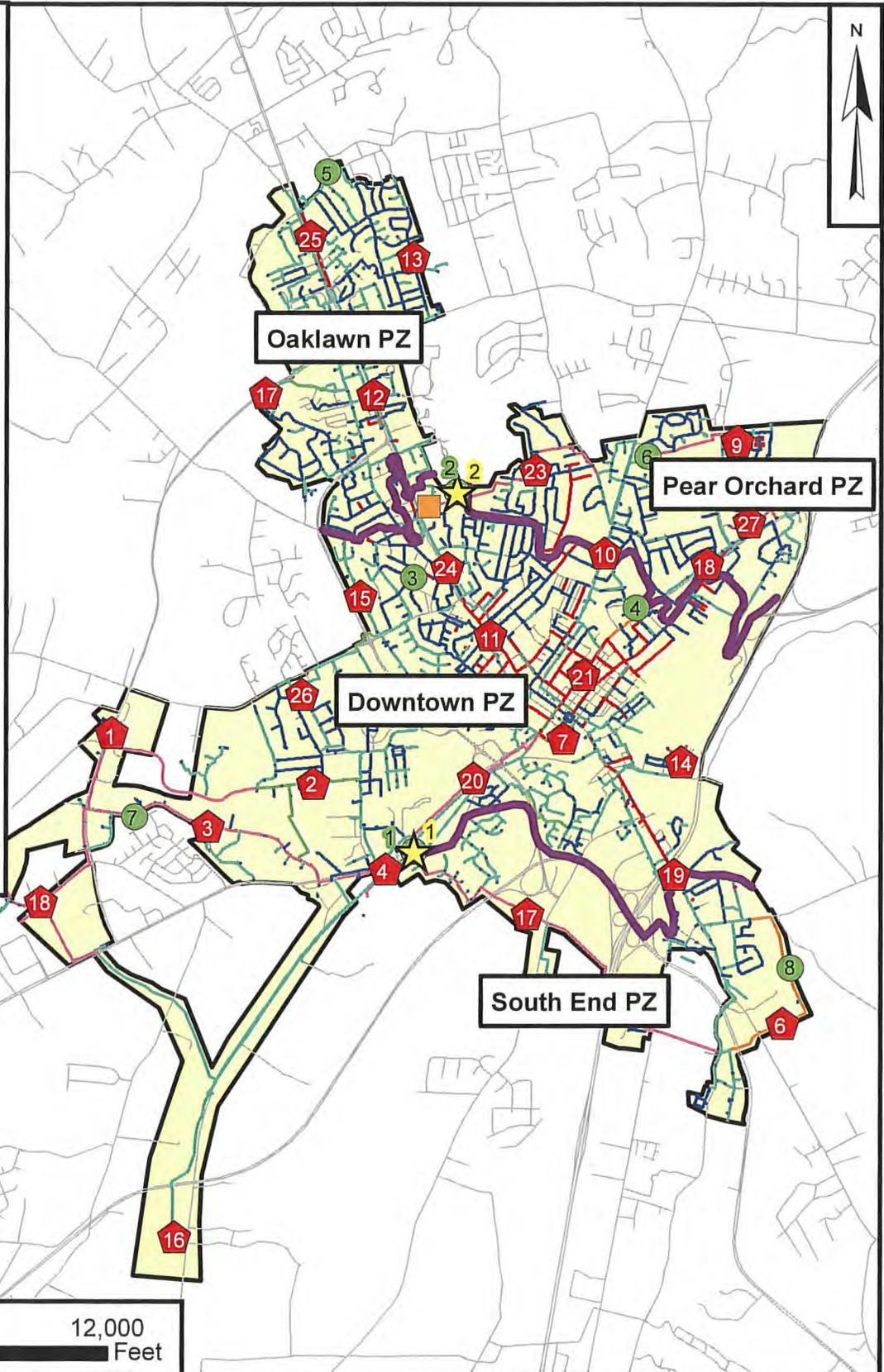
As mentioned previously, old unlined cast iron pipes can become scaled and tuberculated. This effectively reduce the cross sectional area of the pipe resulting in a reduced carrying capacity of the water main. This reduction of the internal diameter is the primary cause for the diminished flows and residual pressures at the fire hydrants and the taps of the customers. Also the corrosion and growth of tubercles contribute to red water and high chlorine demand. This high chlorine demand is also a contributor to the formation of disinfection by-products.

Hydrant flow tests were conducted throughout the entire system on large mains, when possible. See Appendix C for a copy of each flow test. Following in Table 3-2 is a brief description of each test location.

Legend

-  Test Hydrants*
-  Pressure Zone (PZ) Boundary
-  Roads
-  Etown Service Area
- Water Main**
- Diameter**
-  4"
-  6"
-  8"
-  10"
-  12"
-  14"
-  1 City Springs WTP
-  2 Freeman Lake WTP
-  Oaklawn Booster Pump station
-  1 City Springs Raw Water Tank
-  2 Freeman Lake Raw Water Tank
-  3 Helmwood Tank
-  4 Mulberry Tank
-  5 Oaklawn Tank
-  6 Pear Orchard Tank
-  7 Industrial Tank
-  8 South End Tank

*Hydrants Labeled in Table 3-2



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0 3,000 6,000 12,000 Feet



engineering | architecture | geospatial

Figure 3-2
Hydrant Test Locations
Elizabethtown Water Works
Elizabethtown, KY

**Table 3-2
Hydrant Flushing Locations**

Hydrant Test No.	Flow Hydrant Number	Residual Hydrant Number
1	HYD-11225	HYD-11875
2	HYD-10962	HYD-10019
3	HYD-11313	HYD-10045
4	HYD-10187	HYD-10188
5	HYD-10258	HYD-11400
6	HYD-10267	HYD-10266
7	HYD-10878	HYD-11144
8	HYD-11070	HYD-11071
9	HYD-10309	HYD-10310
10	HYD-10754	HYD-10755
11	HYD-11044	HYD-11825
12	HYD-10698	HYD-10911
13	HYD-10662	HYD-10661
14	HYD-10799	HYD-10211
15	HYD-10480	HYD-10481
16	HYD-10064	HYD-10065
17	HYD-10092	HYD-12067
18	HYD-11186	HYD-11334
19	HYD-11244	HYD-11266
20	HYD-10190	HYD-11111
21	HYD-11102	HYD-10432
22	HYD-10319	HYD-10276
23	HYD-10636	HYD-10637
24	HYD-10564	HYD-10559
25	HYD-10013	HYD-11312
26	HYD-10077	HYD-10066

Table 3-3 below presents the data collected during the hydrant tests. This data was collected in February 2014.

Table 3-3 Field Hydrant Flusing Results			
Hydrant Test No.	Residual Hydrant Static Pressure (psi)	Residual Hydrant Residual Pressure (psi)	Test Flow (gpm)
1	57	62	1,190
2	67	72	1,300
3	58	62	1,300
4	83	90	1,300
5	64	70	1,130
6	57	60	920
7	70	80	1,060
8	61	70	1,190
9	49	60	1,060
10	35	50	920
11	58	65	1,190
12	59	80	1,060
13	75	100	1,130
14	41	60	750
15	50	60	1,060
16	40	83	930
17	70	90	1,060
18	52	70	1,190
19	80	90	1,060
20	78	85	1,190
21	41	50	840
22	74	80	1,300
23	50	69	750
24			1,060
25	50	60	1,130
26	57	62	1,190

3.5.3 Hydrant Calibration Results

The first step in the calibration process involved obtaining the Monthly Operating Reports (MOR's) for a one year period. This information assisted the calibration effort by matching field data with model data. The model was run for an extended period simulation and reports for pumps and tanks were generated. These reports were compared to the actual field collected data.

Subsequent to the aforementioned calibration efforts, separate analyses were developed to model the 26 hydrant tests. First, for the given tank level and pump operation, the model was ran to predict the static pressure at the given hydrant. This was accomplished by selecting a specific junction node in the model to represent the hydrant. The model was then run for a steady state analysis. The static pressures obtained by the model were then compared to the static pressures measured in the field. Overall, the static pressure readings from the model matched closely with field observed data. The difference between field and model values is likely due to incorrect elevations at the hydrants.

Residual pressures were simulated in the model by “opening” the downstream hydrant. In the model, this was accomplished by opening the pipe connected to the downstream hydrant at the correct time interval. The flow and pressure results from the model were recorded and compared to actual field measurements. The results are shown below in Table 3-4.

Table 3-4 Modeled Hydrant Flusing Results			
Hydrant No.	Residual Hydrant Static Pressure (psi)	Flowed Hydrant Flowed Pressure (psi)	Flow (gpm)
1	60	56	1161
2	70	66	1305
3	62	60	1278
4	91	86	1278
5	73	58	1182
6	62	62	911
7	82	76	1112
8	73	56	11148
9	56	52	1035
10	54	34	947
11	66	60	1155
12	85	76	1157
13	96	79	1139
14	75	53	741
15	57	36	1045
16	94	36	989
17	92	72	1078
18	62	55	1196
19	91	76	1050
20	87	81	1161
21	50	47	885
22	85	76	1287
23	70	54	787
24			
25	62	53	1162
26	56	49	1108

To calibrate the model, a few of the physical features were altered. First, the Hazen-Williams C-Factor was changed for pipes in certain areas throughout the system where the flows did not match. In some cases, the C-Factor was increased and in others it was decreased. The maximum C-Factor value in the model is 140 and the minimum value is 60. In a couple of cases, pipes were determined to be connected in areas that they originally did not connect from the original GIS data.

After checking the input data, the model was determined to be calibrated to an acceptable level. The modeled static and residual pressures matched closely with field-observed values. The modeled flows also matched closely with the field-observed values. Any discrepancies in the data are likely due to uncalibrated pressure gages, inaccurate field readings, or human error.

-Chapter 4- Model Results

4.1 General

One of the requirements for this study was to combine the new Elizabethtown Water Works distribution hydraulic model with the existing Hardin County Water District No. 2 distribution hydraulic model. The merged models were analyzed to identify system operations and recommend improvements. The primary points of focus for the study were to:

- Evaluate connections between the existing Hardin County Water District No. 2 water distribution system and the Elizabethtown water distribution system
- Identify redundant assets
- Determine whether Elizabethtown pressure zones could be maintained by utilizing several connections between the two systems.
- Determine the feasibility of providing the average daily and peak summer demands of the combined systems while operating the three existing water treatment plants in varying capacities, until the connection to the Louisville Water Company supply is made in 2016.

4.2 Recommended Operations

4.2.1 System Evaluation

The following is an assessment of the Elizabethtown water distribution system. Each of these items needs to be addressed to optimize system performance after the Elizabethtown water distribution system has been integrated into the Hardin County Water District No. 2 water distribution system.

- The Elizabethtown water distribution system currently operates as four individual pressure zones. Pressure zones are supplied water by a combination of flow from the Elizabethtown City Springs and Freeman Lake water treatment plants and four (4) master meter connections with the Hardin County Water District No. 2.
- The Oaklawn pressure zone currently operates with an overflow elevation that is a few feet below the adjacent Hardin County Water District No. 2 pressure zone. The 1.0 million gallon Hardin County Water District No. 2 Pear Orchard elevated storage tank sits adjacent to the connection point between the Elizabethtown and Hardin County Water District No. 2 systems. Flow is quickly sent into Elizabethtown's 100,000 gallon Oaklawn elevated storage tank which cycles over 11 times a day.

- The Downtown, Oaklawn, Pear Orchard, and South End pressure zones are all connected to the Hardin County Water District No. 2 water distribution system by master meter connections. However, only the Oaklawn and the Pear Orchard pressure zone master meter connections are utilized on a regular basis.
- The electric valve operator in the master meter next to the South End tank is currently not functional with a remote signal. The device was struck by lightning and the system operators have been the push buttons on the valve operator to open and close the valve manually.
- The City Springs Water Treatment Plant currently operates 24 hours a day to supply water to meet the average and peak water demands to the Elizabethtown system.
- Under average daily demands, the Freeman Lake Water Treatment Facility has been taken out of service in the past and the Pear Orchard pressure zone has operated by receiving water through its master meter connection with the Hardin County Water District No. 2 water distribution system
- Peak demands in the “*combined*” systems during the hot summer months can reach in excess of 9.0 MGD. The 9.0 MGD threshold was chosen in relationship to the White Mills WTP and City Springs WTP reliable (defined below) combined treatment capacity.
 - A five day period in August 2011 (8/1–8/5) had combined daily peak production rates (in MGD) of 11.3, 12.2, 13.1, 10.4, 12.1. The combined production rate stayed above 10.0 MGD for the entire month of August 2011. All three existing water treatment plants were operating near their peak treatment capacities to handle the demands.
 - In order to cover these daily production needs, all three water treatment plants had to operate near their maximum design capacities.
 - White Mills WTP has a max design capacity 8.1 MGD with a max reliable capacity of 7.0 MGD.
 - City Springs WTP has a max design capacity 3.3 MGD with a max reliable capacity of 2.0 MGD.
 - Freeman Lake WTP has a max design capacity 3.0 MGD with a max reliable capacity of 2.5 MGD.
 - Reliable capacity is defined as the sustainable production output of the water treatment plant with one of its largest process systems out of service (e.g. a pump, a filter, ...).

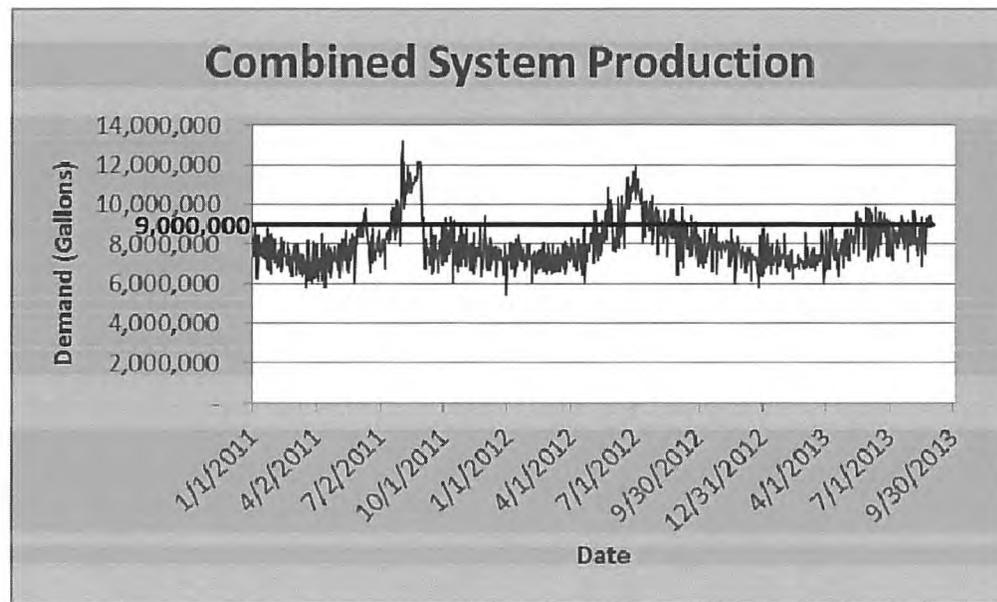


Figure 4-1

4.2.2 System Improvements

One of the objectives to allow the merging of the two systems is to identify the necessary improvements and upgrades. Another objective would be to identify and understand system characteristics in order to improve operational efficiency.

- Repair electric valve operator at Elizabethtown's South End tank. When replaced, the electric valve operator will allow the master meter connection at the South End tank to be controlled remotely through the SCADA system.
- Install new or repair and upgrade the altitude valves at Elizabethtown's Industrial, Helmwood, and Mulberry elevated storage tanks. Also, utilize the Ring Road master meter connection to supply the Elizabethtown's Downtown pressure zone during the night.
 - Under average daily demands the utilization of this connection to refill Downtown pressure zone tanks during the night will allow the Elizabethtown City Springs Water Treatment Plant to operate in a limited capacity during the day.
- Utilize the existing Pear Orchard/Buffalo Creek master meter connection to supply water to the Elizabethtown Pear Orchard Tank.

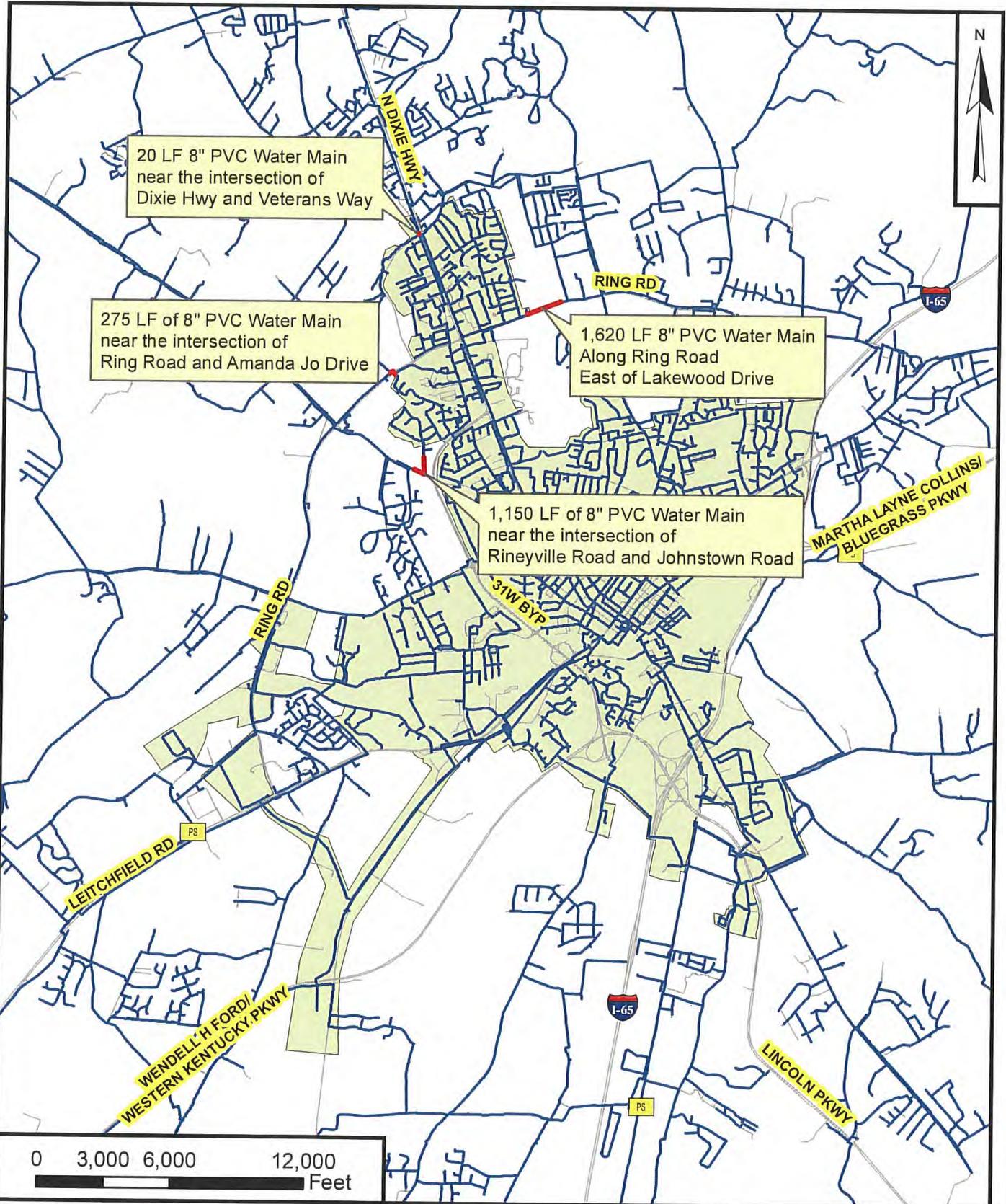
- Under average daily demands the utilization of this connection will allow the Elizabethtown Pear Orchard pressure zone to operate without the use of the Freeman Lake Water Treatment Plant.
- Utilize the Elizabethtown South End master meter connection to supply water to the Elizabethtown South End pressure zone.
 - Under average daily demands the utilization of this master meter connection will allow a reduction in the production output of the City Springs Water Treatment Plant.
- Construct new water main connections between the Elizabethtown Oaklawn pressure zone and the surrounding Hardin County Water District No. 2 pressure zone.
 - Creating new connections between the existing systems will strengthen pressures in the Elizabethtown water distribution system and create new routes for supplied water to reach points of demand. These proposed connections for the Elizabethtown water distribution system are shown on the following page in Figure 4-2. Each proposed improvement is noted and labeled.
- Peak Demands: Temporarily operate the Freeman Lake Water Treatment Plant to provide production capacities necessary to cover the summer peak loading until the connection to the Louisville Water Company supply is made in 2016. After the 10 MGD connection to Louisville Water Company is made, the Freeman Lake Water Treatment Plant will become a redundant asset.
 - As mentioned in the previous section, the hot summer peak demands can exceed 9.0 MGD for periods of up to a week or more. This is more than the White Mills WTP and the City Springs WTP can handle “reliably” (defined previously). The existing three water treatment plants have a combined reliable capacity of 11.5 MGD. This combined reliable capacity will need to be maintained and functional until the 24” supply main connection to the Louisville Water Company.

4.2.3 Summary

It is recommended that after acquiring the Elizabethtown water treatment and water distribution system, Hardin County Water District No. 2 should utilize the existing master meter connections to supply water and regulate pressures in Elizabethtown’s pressure zones. The Freeman Lake Water Treatment Plant will have to temporarily be operated to cover peak demands, until the connection to the Louisville Water Company has been made. Once that connection has been made, Hardin County Water District No. 2 can then elect not to operate the Freeman Lake Water Treatment Plant as part of their production needs.

It is also recommended that Hardin County Water District No. 2 not utilize Elizabethtown's Oaklawn Tank, and create four (4) new connections between Elizabethtown's Oaklawn pressure zone and the surrounding Hardin County Water District No. 2 1040 pressure zone. The new connections will reinforce pressures in the Elizabethtown Oaklawn pressure zone.

In addition to these improvements, it is recommended that Hardin County Water District No. 2 repair and upgrade the existing altitude valves at Elizabethtown's Industrial, Helmwood, and Mulberry tanks and utilize the master connection on Ring Road to provide water to the Downtown pressure zone during the night. By filling the tanks through the Ring Road master meter at night, the operation time at the City Springs Water Treatment Plant could possibly be reduced from 24 hours per day to one 6 to 10 hour shift during the day.



engineering | architecture | geospatial

Figure 4-2
Proposed System Connections
Elizabethtown Water Works & HCWD2
Hardin County, KY

Appendix A

Combined Distribution System Map



Legend

Water Mains (Dia.)

- 0" - 4"
- 6"
- 8"
- 10" - 18"
- 20" - 30"

Roads

Hardin County

County Boundary

Pressure Zone

- Blue
- Brown
- Green
- Purple
- Red
- Yellow
- Downtown
- Pear Orchard
- South End

Water Treatment Facilities

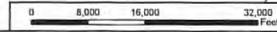
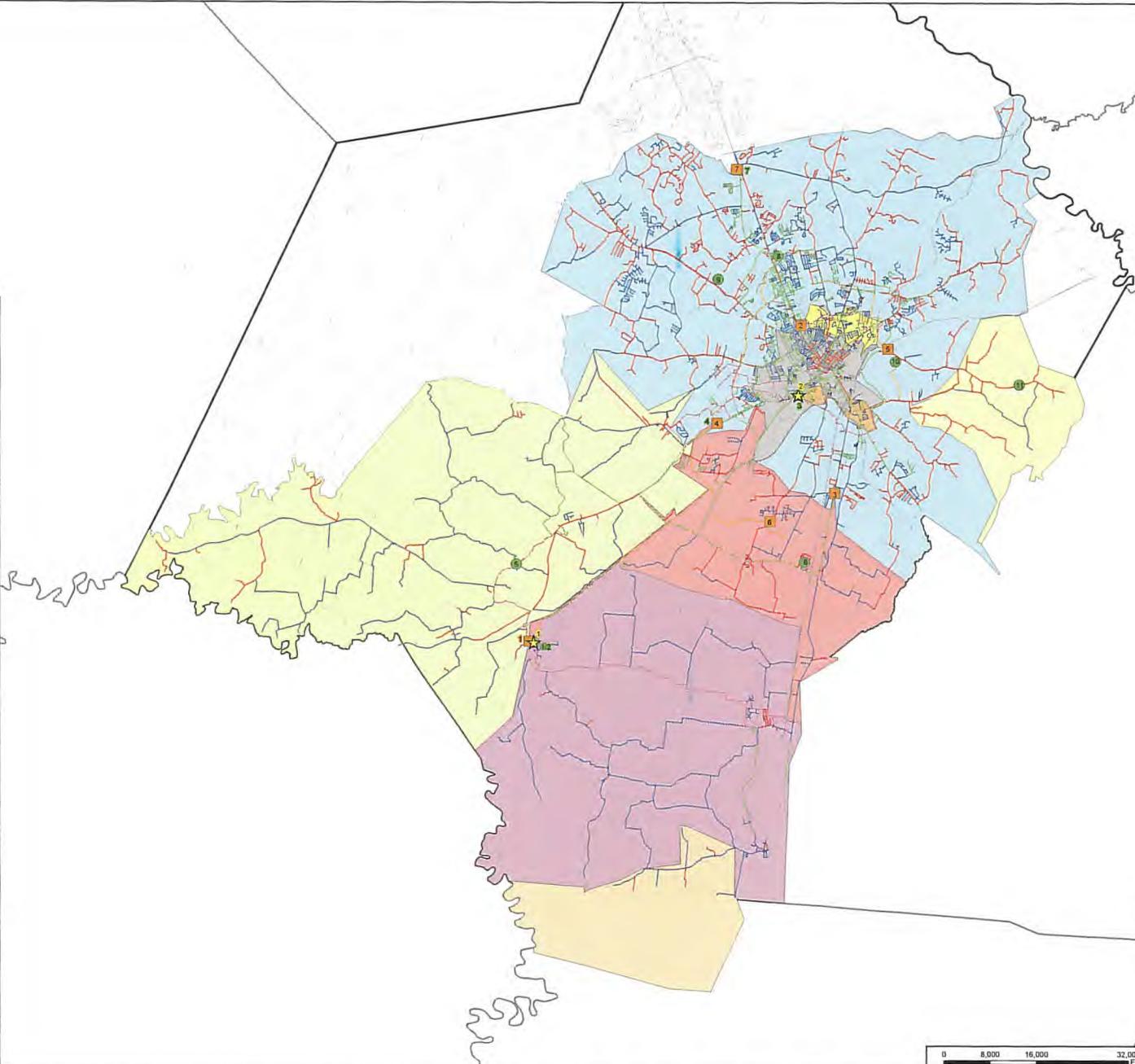
- White Mills WTP
- City Springs WTP

Pump Stations

- 1 White Mills WTP
- 2 Oaklawn Pump Station
- 3 31-W Pump Station
- 4 Cecilia Pump Station
- 5 Longview Pump Station
- 6 Springfield Pump Station
- 7 Wilson Road Pump Station

Water Storage Tanks

- 1 White Mills WTP Clearwell 1
- 2 White Mills WTP Clearwell 2
- 3 City Springs WTP Raw Water Tank
- 4 Cecilia Tank
- 5 Eastview Tank
- 6 Glendale Tank
- 7 Longview Tank
- 8 Pear Orchard Tank
- 9 Rineyville Tank
- 10 Springfield Tank
- 11 Valley Creek Tank



Combined System Map
HCWD2 & Elizabethtown Water Works
Hardin County Water District No. 2



engineering | architecture | geospatial

Application
CONTAINS
LARGE OR OVERSIZED
MAP(S)

RECEIVED ON:
August 15, 2014

HARDIN COUNTY WATER DISTRICT NO. 2

FORECASTED STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN FUND NET
POSITION – ELIZABETHTOWN DIVISION

YEARS ENDING
DECEMBER 31, 2015, 2016,
2017 AND 2018

HARDIN COUNTY WATER DISTRICT NO. 2

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Commissioners
Hardin County Water District No. 2
Elizabethtown, Kentucky

We have compiled the accompanying forecasted statements of revenues, expenses and changes in fund net position of Hardin County Water District No. 2 – Elizabethtown Division for the years ending December 31, 2015, 2016, 2017, and 2018, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

A compilation of forecasted statements is limited to presenting in the form of a forecast information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

A handwritten signature in black ink that reads "Stiles, Carter & Associates". The signature is written in a cursive, flowing style.

Stiles, Carter & Associates, PSC

June 10, 2014

HARDIN COUNTY WATER DISTRICT NO. 2

FORECASTED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
ELIZABETHTOWN DIVISION

YEARS ENDING DECEMBER 31, 2015, 2016, 2017 AND 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
OPERATING REVENUES:				
Water sales	\$ 4,912,280	\$ 5,278,292	\$ 5,640,179	\$ 5,819,060
Other operating income	138,728	141,503	144,333	147,220
TOTAL OPERATING REVENUES	5,051,008	5,419,795	5,784,512	5,966,280
OPERATING EXPENSES:				
Chemicals and purchased power	320,431	326,839	333,376	340,044
Bad debt	16,816	17,152	17,495	17,845
Advertising	1,474	737	369	184
Contractual services	41,736	42,520	43,321	44,137
Transportation	49,617	50,609	51,621	52,654
Equipment rental	42,300	43,146	44,009	44,889
Payroll and benefits	894,258	912,143	930,386	948,993
General and administrative expenses	182,639	186,292	190,018	193,818
Contingency	500,000	400,000	300,000	200,000
Depreciation	436,034	612,092	722,092	772,092
TOTAL OPERATING EXPENSES	2,485,305	2,591,530	2,632,687	2,614,656
CHANGE IN NET POSITION	<u>\$ 2,565,703</u>	<u>\$ 2,828,265</u>	<u>\$ 3,151,825</u>	<u>\$ 3,351,624</u>

See summary of significant assumptions and accounting policies and independent accountant's compilation report.

HARDIN COUNTY WATER DISTRICT NO. 2
 NOTES TO FORECASTED FINANCIAL STATEMENTS
 YEARS ENDING DECEMBER 31, 2015, 2016, 2017 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

This financial forecast presents, to the best of management's knowledge and belief, Hardin County Water District No. 2's (the "District") expected revenues, expenses and changes in fund net position for the Elizabethtown Division for the forecast period. Accordingly, the forecast reflects management's judgment as of June 10, 2014, the date of this forecast, of the expected conditions and course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Water Sales

Management developed the water sales forecast by using the number of customers and average gallons per customer contained in a May 2012 rate study performed by HDR Engineering, Inc., for the City of Elizabethtown. Management anticipates the following rate schedule as adopted by the City of Elizabethtown through an ordinance enacted February 18, 2014.

Gallons	Effective 11-1-14	Effective 7-1-15	Effective 7-1-16	Effective 7-1-17
0-2000	\$ 12.80	\$ 14.70	\$ 16.60	\$ 18.50
Next 3000	\$ 4.85	\$ 4.95	\$ 5.05	\$ 5.15
Next 5000	\$ 4.65	\$ 4.85	\$ 5.05	\$ 5.15
Next 490000	\$ 4.40	\$ 4.65	\$ 4.90	\$ 5.15
Over 500000	\$ 2.60	\$ 2.70	\$ 2.80	\$ 2.90

Other Operating Income

Management developed the other operating income forecast by calculating a three year average of the District's actual annual other operating income from calendar years 2011, 2012 and 2013. This amount was allocated to the Elizabethtown Division based on total expected customers. Total expected customers for the Elizabethtown Division were contained in a May 2012 rate study performed by HDR Engineering, Inc., for the City of Elizabethtown and total expected customers for the District were obtained from the District's end of year customer service report for 2013.

HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FORECASTED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2015, 2016, 2017 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONTINUED)

Operating Expenses

Management developed the operating expenses forecast by calculating a three year average of the District's actual annual operating expenses from calendar years 2011, 2012 and 2013. Unless otherwise noted, the average was used to allocate expenses to the Elizabethtown Division as follows:

Chemicals and purchased power were calculated based on the total estimated gallons of water purchased and produced. Gallons for the Elizabethtown Division were obtained from the City of Elizabethtown's 2013 Comprehensive Annual Financial Report, Operating Indicators by Function. Gallons for the District were obtained from the District's 2013 Water Statistics Report. The amount used for 2015, 2016, 2017 and 2018 was calculated using the 2014 estimated amount with a two percent increase each year.

Bad debt and advertising expense were calculated at eighty percent of the District's average. The amount used for bad debt expense for 2015, 2016, 2017 and 2018 was calculated using the 2014 estimated amount with a two percent increase each year. The amount used for advertising expense for 2015, 2016, 2017 and 2018 was calculated using the 2014 estimated amount with a fifty percent decrease each year.

Contractual services were calculated at twenty percent of the District's average. The amount used for 2015, 2016, 2017 and 2018 was calculated using the 2014 estimated amount with a two percent increase each year, except for accounting services which were expected to remain constant.

Transportation expense was calculated based on the actual number of vehicles owned and expected to be purchased for the Elizabethtown Division. The amount used for 2015, 2016, 2017 and 2018 was calculated using the 2014 estimated amount with a two percent increase each year.

Equipment rental was calculated using the District's actual expense for 2013. The amount used for 2015, 2016, 2017 and 2018 was calculated using the 2014 estimated amount with a two percent increase each year.

Payroll and benefit costs were calculated based on estimated positions needed for the Elizabethtown Division based on current market salary expectations. The amount used for 2015, 2016, 2017 and 2018 was calculated using the 2014 estimated amount with a two percent increase each year.

General and administrative expenses were calculated based on expected customers. Total expected customers for the Elizabethtown Division were contained in a May 2012 rate study performed by HDR Engineering, Inc., for the City of Elizabethtown and total expected customers for the District were obtained from the District's end of year customer service report for 2013. The amount used for 2015, 2016, 2017 and 2018 was calculated using the 2014 estimated amount with a two percent increase each year.

Contingency was developed as an estimate for potential repairs at \$500,000 for the year ending December 31, 2015 with an annual decline of \$100,000 thereafter.

HARDIN COUNTY WATER DISTRICT NO. 2
 NOTES TO FORECASTED FINANCIAL STATEMENTS
 YEARS ENDING DECEMBER 31, 2015, 2016, 2017 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONTINUED)

Depreciation was calculated based on the estimated purchase price of the assets acquired and the expected capital improvements as identified by engineering reports prepared by GRW Engineers, Inc., and Kenviron, Inc. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Water treatment plant	30
Transmission and distribution system	20-40
Structures and improvements, including buildings	10-40
Vehicles	5-10
Meters	10

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Hardin County Water District No. 2 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Hardin County, Kentucky.

The financial forecast has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) expected to be used in the financial statements covering the forecast period, which are the same as those used to prepare historical financial statements. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FORECASTED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2015, 2016, 2017 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The forecasted financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

EXHIBIT 11

WATER REVENUE BONDS

ISSUED BY HARDIN COUNTY WATER DISTRICT NO. 2

	BOND ISSUE	DATE ISSUED	ORIGINAL PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	INTEREST PAID IN 2013	OUTSTANDING PRINCIPAL BALANCE
1	2002C	11-15-2002	\$3,020,000	01-01-2014	3.75%	\$ 22,396	\$0
2	2004A	03-15-2004	\$2,940,000	01-01-2025	2.0% to 4.0%	\$ 78,826	\$ 1,890,000
3	2005B	04-01-2005	\$1,775,000	01-01-2025	4.10%	\$ 54,428	\$ 1,210,000
4	2007A	12-18-2007	\$2,480,000	01-01-2048	4.00%	\$ 96,320	\$ 2,361,000
5	2010A	07-28-2010	\$5,625,000	01-01-2031	2.0% to 4.125%	\$ 175,594	\$ 4,855,000
6	2012A	10-02-2012	\$6,070,000	01-01-2040	1.0% to 3.75%	\$ 123,394	\$ 5,675,000
	TOTALS					\$ 550,958	\$ 15,991,000

NOTES: (1) Outstanding Principal Balances as of June 30, 2014

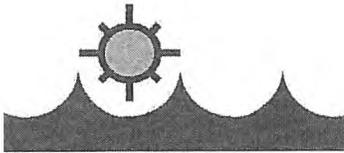
(2) The 2002C Bonds matured on January 1, 2014. The final principal payment of \$405,000 was paid on that date.

Exhibit 12

Hardin County Water District No. 2 Income Statement July 1, 2013 to June 30, 2014



Revenues:	
Residential Water Sales	\$6,198,861.82
Commercial Water Sales	\$991,730.91
Industrial Water Sales	\$327,746.76
Water Sales - City of E-town	\$892,388.33
Bulk Water	\$1,107.56
Water Taps	\$110,405.44
Miscellaneous Services	\$165,494.65
Laboratory Income	\$18,193.70
10% Penalty	\$124,116.40
Return Check Charge	\$1,665.00
Gains from Disposal	(\$9,862.29)
Other Income	\$8,964.04
Total Revenues	8,830,812.32
Expenses:	
Salaries - Plant	\$438,625.87
Benefits - Plant	\$199,656.18
Ins. Workers Comp. - Plant	\$2,603.07
Contractual Services - Plant	\$17,880.65
Chemicals - Water Plant	\$242,124.43
Materials & Supplies - Lab	\$18,757.17
Materials & Supplies - Plant	\$36,340.89
Purchased Power - Plant	\$271,653.80
Miscellaneous Expense - Plant	\$19,058.46
WTP Total	1,248,700.52
Salaries - T & D	\$812,798.50
Benefits - T & D	\$389,121.74
Ins. Workers Comp. - T & D	\$6,617.64
Contractual Services - T & D	\$112,157.84
Materials & Supplies - T & D	\$61,894.73
Purchased Power - T & D	\$147,058.22
Transportation Expense - Fuel	\$114,995.95
Transportation Expense - Maintenance	\$20,235.74
Transportation Expense - Repairs	\$24,749.33
Insurance - Vehicle	\$15,214.06
Insurance - Other (encroachment)	\$1,527.00
Miscellaneous Expense -T & D	\$61,030.57
T & D Total	1,767,401.32
Salaries - Customer Accts	\$466,983.53
Benefits - Customer Accts	\$203,700.30
Ins. Workers Comp. - Cust Accts	\$4,014.57
Miscellaneous Expense - Cust Accts	\$38,167.29
Misc Expense - Cust Accts Billing Services	\$130,769.92
Contract Services - Cust Accts	\$29,663.47
Bad Debt Expense - Cust. Accts.	\$38,193.09
Materials & Supplies - Cust. Accts.	\$23,098.77
Customer Service Total	934,590.94
Salaries - Administration	\$330,866.02
Salaries - Commissioners	\$30,282.30
Benefits - Administration	\$115,093.98
Benefits - Commissioners	\$53,237.34
Ins. Workers Comp. - Admin.	\$1,985.29
Ins. Workers Comp. - Comm.	\$1,654.43
Advertising Expense	\$3,313.71
Contractual Services - Legal	\$6,000.00
Contractual Services - Admin.	\$32,939.16
Insurance - General Liability	\$48,790.69
Depreciation	\$1,786,287.50
Miscellaneous Expense - Admin	\$76,614.23
Administration Total	2,487,064.65
Total Expenses	6,437,757.43
Net Operating Income	2,393,054.89
Interest Income	\$54,226.94
Dividend Income	\$479,276.55
Unrealized Gain/Loss	\$254,136.82
Realized Gains	\$31,462.73
Leased Land/Tank Space Income	\$81,786.50
Interest Expenses	\$545,075.71
Amortized Debt Discount Expense	\$66,388.45
Net Income	2,682,480.27



Hardin County Water District 2

Balance Sheet - Financial Summary

June 30, 2014

<i>*Unaudited</i>	06/30/2014
Assets	
<u>Current Assets</u>	
Cash & Cash Equivalents	3,111,457
Investments	14,470,121
Accounts Receivable, net	736,430
Prepaid Insurance	32,193
State Grants Receivable	44,327
Federal Grants Receivable	0
Tap Fees Receivable	0
Inventory	300,362
Total Current Assets	\$18,694,891
<u>NonCurrent Assets</u>	
Restricted Cash & Cash Equivalents	1,957,649
Restricted Investments	978,338
Capital Assets, net Accumulated Depreciation	55,518,331
Total NonCurrent Assets	\$58,454,318
Total Assets	\$77,149,208
Liabilities	
<u>Current Liabilities</u>	
Accounts Payable	264,303
Retainage Payable	73,706
Accrued Taxes	22,190
Accrued Liabilities	30,751
Accrued Vacation	92,633
Customer Advances for Construction	23,250
Total Current Liabilities	\$506,833
<u>NonCurrent Liabilities</u>	
Customer Deposits	354,634
Bonds Payable	15,459,689
Total NonCurrent Liabilities	\$15,814,323
Total Liabilities	\$16,321,155
Total Net Assets	\$60,828,053

HARDIN COUNTY WATER DISTRICT NO. 2

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2013 AND 2012

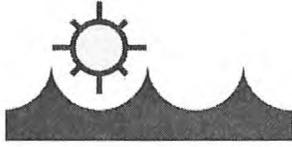
HARDIN COUNTY WATER DISTRICT NO. 2

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LETTER OF TRANSMITTAL



Hardin County Water District No. 2

360 Ring Road • P.O. Box 970 • Elizabethtown, KY 42702

Telephone (270) 737-1056 • Fax (270) 737-2301 • www.hardincountywater2.org

Board of Commissioners: Mike Bell, Cordell Tabb, John Effinger, Morris Miller, Tim Davis

General Manager: James Jeffries

February 21, 2014

Dear Hardin County Water District No. 2 Board of Commissioners,

We are pleased to submit the Financial Report for Hardin County Water District No. 2 for the year ended December 31, 2013. This report has been prepared in accordance with generally accepted accounting principles (GAAP), as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board.

Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the District. We believe the data as presented is accurate, that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the District as measured by its continued compliance with all state, federal and local reporting and accounting regulations, and that all disclosures necessary to enable the reader to gain maximum understanding of the District's financial affairs have been included.

District management's narrative on the financial activities of the District is in the Management's Discussion and Analysis (MD&A) section of this report immediately following the Independent Auditor's Report. The letter of transmittal is written to complement the MD&A and the financial statements, and should be read from that perspective, and in conjunction with all other sections of the report.

This report is a joint effort between our staff and Stiles, Carter, and Associates, Certified Public Accountants. I would like to recognize Ms. Amber Pike for her role in leading the District in this effort. I also recognize Ms. Lea Ona Sims for her continued role in keeping the finances of the District. Mr. Brian Woosley was the lead auditor for Stiles, Carter, and Associates and our staff spent several hours working closely with Mr. Woosley to complete this report.

Financial Performance and Highlights

Operating revenue for 2013 was \$8,531,494, down 0.1% from 2012's performance of \$8,541,028. This result follows the other metrics of active customer count and volume delivered by the water treatment plant, both of which were down slightly for the year.

The District Staff held a tight grip on expenses in 2013. Total operating expenses for 2013 finished at \$6,251,297, a decrease from the 2012 result of \$6,261,013. The decrease without depreciation is \$58,962, or 1.3%. Operating expenses without depreciation hit \$4.5 million in 2010 and has been capped at that level for 3 years now.

Your Water Professionals
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Capital Improvement and Projects

The District construction crew completed the final phase of the E-town Loop project, laying over 4300 feet of 24" ductile iron pipe along Overall-Phillips Road and Highway 31W. Approximately \$400,000 of District operation reserve funds were required to complete the funding of the project. The E-town Loop has been a 20 year effort of the District and is now complete.

Construction crews also completed the first section of the North South Connector. This is a 16" ductile iron connection on the right-of-way of the new Patriot Parkway that will provide a high volume interconnection with District No. 1. A BRAC grant in the amount of \$495,000 was used to purchase the materials for this first section that measured 9,965 feet of pipeline. The first section was tied into the distribution system at Highway 220 and put into service. The second section of the project will involve another 3.5 miles of pipeline and the connection with District 1. It is estimated that \$700,000 of materials will be required to complete the project.

The Springfield Tank project was approved by DOW and a contract with Phoenix Fabricators was signed for the construction of the tank in 2012. Phoenix completed the pillar by the close of that year and was ready for the District to put water in the tank by November of 2013 as per the schedule. The District completed the funding of the project by using \$270,000 of operational reserves.

The Springfield Tank will be filled from the Case Loop Pump Station which was awarded to Scott and Ritter Construction. The project was kicked off in the spring of 2013 and was to be completed by the end of the year. The project ran 2 months behind schedule and was in operation in February of 2014. The construction cost of \$622,500 was wholly funded from District operational reserves.

Also, during the 2013 construction season, the District expanded the Customer Service Center located at 360 Ring Road, Elizabethtown. ICON Engineering was selected to be the architects and the construction contract was awarded to EH Construction at a cost of \$744,800. The District took occupancy of the 3265 square foot expansion in September, and the first meeting in the new board room was held on September 17, 2013. The project was also funded from District reserves.

On whole, the District is managing a record amount of capital projects. By the close of 2013, there were over \$50M in capital projects under way. This amount is peaking and we expect that, over the next three years, capital spending will return to normal levels under \$10M.

Water Operations

The District water treatment plant treated and delivered 1.83 billion gallons during the year. This was flat against the 1.84 billion gallons delivered in 2012. Capacity utilization was an average of 65.3% as total gallons sold to customers finished at 1.56 billion gallons versus 1.55 billion gallons in 2012. The distribution leak percentage did see significant favorable movement in 2013. The T&D department responded to 245 leaks in 2013 compared to 308 in 2012. The leak percentage landed at 11.5%, down from 14.9% in 2012.

The District had no violations for water quality or reporting requirements. We experienced favorable audits in all areas including: workers compensation audit, DOW audit, PSC inspection, fire safety inspection, bacteriological laboratory inspection, and the fluoride inspection. The District did not issue any boil water advisories during the year.

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Hardin County Water District No. 2 Annual Report | 2013

Distribution personnel installed 172 new meters during the year compared to 320 for 2012. The outlook for new meter sales continues to be pessimistic. New meters kept pace with a slight erosion of occupancy in the service area resulting in a customer count of 17,200 at the end of the year compared to 17,263 at the end of 2012.

Safety remains a priority in the day-to-day culture of the District. While employees of the District face very specific hazards including working in trenches, around highways, and in heavy construction environments; we continue to make safety our first concern. District employees experienced no lost-time accidents and no OSHA recordable accidents for 2013. Our sights are still on becoming the only water district in the State of Kentucky to win the Governor's Safety Award twice, a goal that requires 250,000 hours worked without a lost-time accident.

Elizabethtown Water Works Acquisition

On September 17, the Board executed a Letter of Intent with the City Council of Elizabethtown to purchase the City's water works and acquire their customer base of approximately 10,000 customers. By the close of 2013, GRW Engineering was under contract to perform a 6 month study for the merger of the two distribution systems and evaluate the condition of the City's water assets. Stiles, Carter, and Associates were tapped to perform the independent financial analysis.

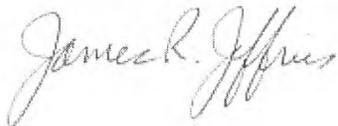
The acquisition also places the conversion of the City Springs water treatment plant conversion to chloramines squarely on the District. Kenvirons Engineering was hired to perform the preliminary engineering report for this conversion and advise the District on the design, construction schedule and probable cost for the modifications.

Current wisdom suggests that the closure of the acquisition will take place in October of 2014. The approval process includes the Division of Water, Public Service Commission, County Fiscal Court, and finally the two parties to the transaction.

Closing Remarks

Your District continues to excel. Major projects are being completed while even bigger projects are being launched. Water efficiency continues to improve while overall water costs are the same as they were three years ago in 2010. We continue to be challenged with a capital project load of \$50 million going into 2014 with the added task of absorbing 10,000 new customers through the Elizabethtown acquisition. We believe that 2013 was worthy of celebration, and still, the best is yet to come.

It has been a pleasure for the staff to bring these results to the Board of Commissioners for their consideration and review. On behalf of all the employees of the District, it has been a pleasure to provide the highest quality service to our customers for another year.



James R. Jeffries
General Manager

Your Water Professionals
An Equal Opportunity Provider and Employer

INDEPENDENT AUDITOR'S REPORT

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hardin County Water District No. 2
Elizabethtown, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Hardin County Water District No. 2 as of and for the years ended December 31, 2013 and 2012, and the related notes to the 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hardin County Water District No. 2, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the District adopted GASB No. 65, *Items Previously Reported as Assets* and GASB 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62* during the year.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-11 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

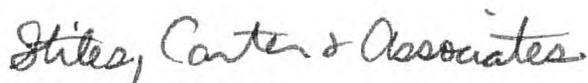
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hardin County Water District No. 2's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules I and II 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, Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The letter of transmittal and Schedule III have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2014, on our consideration of Hardin County Water District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hardin County Water District No. 2's internal control over financial reporting and compliance.



Certified Public Accountants
Elizabethtown, Kentucky
February 21, 2014

REQUIRED SUPPLEMENTARY INFORMATION

**HARDIN COUNTY WATER DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2013**

The discussion and analysis of Hardin County Water District No. 2's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2013. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was \$20.8 million. The balance at December 31, 2012, was \$20.7 million. This reflects an increase in cash and investments during the year of \$.1 million.
- The District completed the Case Loop, North/South Connector, Springfield Tank and Office Expansion projects. The District continued the Louisville Water Interconnection, and Nolin River Projects and began the West Bryan Road Project
- The District signed a letter of intent to purchase the City of Elizabethtown, Kentucky, water system.
- The District invested approximately \$4.4 million in capital assets during the year.

USING THIS ANNUAL REPORT

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements.

The ***statement of net position*** presents the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the ***statement of revenues, expenses, and changes in fund net position*** presents the results of the District's activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the basic financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$56.6 million and \$53.1 million as of December 31, 2013 and 2012.

The largest portion of the District's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, equipment, transmission and distribution systems and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current and		
Other Assets	\$ 21,901,545	\$ 21,810,822
Capital Assets	<u>52,318,346</u>	<u>49,623,359</u>
Total Assets	<u>74,219,891</u>	<u>71,434,181</u>
Liabilities		
Long-term liabilities	15,766,538	16,708,762
Other Liabilities	<u>1,851,611</u>	<u>1,653,229</u>
Total Liabilities	<u>17,618,149</u>	<u>18,361,991</u>
Net Position		
Net investment in capital assets	35,376,479	31,882,499
Restricted for debt service	2,342,331	2,325,504
Unrestricted	<u>18,882,932</u>	<u>18,864,187</u>
Total Net Position	<u>\$ 56,601,742</u>	<u>\$ 53,072,190</u>

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), was stable at \$18.9 million at December 31, 2013. Restricted net position increased \$17 thousand (.7%). Net investment in capital assets increased by \$3.5 million (10.9%).

(Table 2)
Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Water sales	\$ 8,232,221	\$ 8,239,333
Other operating income	299,273	301,695
Total operating revenues	8,531,494	8,541,028
OPERATING EXPENSES:		
Power purchased	400,095	422,513
Purchased water	529	2,497
Pumping and treatment labor	420,741	449,330
Purification supplies and expense	464,194	499,310
Transmission and distribution labor	1,163,600	1,126,329
Transmission and distribution supplies and expense	179,915	213,231
Transmission and distribution maintenance and repairs	50,968	43,592
Equipment rental	991	636
Transportation expense	178,327	197,721
Water treatment maintenance and expense	59,317	90,496
General and administrative expenses	1,649,671	1,581,655
Depreciation	1,682,949	1,633,703
Total operating expenses	6,251,297	6,261,013
OPERATING INCOME	2,280,197	2,280,015
NON-OPERATING REVENUES (EXPENSES):		
Investment income	(305,337)	685,322
Other income	107,191	96,207
Gain (loss) on disposal of assets	(9,862)	14,101
Interest expense on long-term debt	(550,960)	(816,561)
Interest expense on customer deposits	(512)	(1,509)
Amortization of bond discount and expense	(70,469)	(77,982)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(829,949)	(100,422)
Capital contributions	2,079,301	3,172,304
Increase in net position	\$ 3,529,549	\$ 5,351,897

Operating revenue was down.09% as compared to the prior year. Total operating expenses decreased .16%. Interest expense on long-term debt decreased 32.5% as the District refunded its 2003 Series and 2005A Series revenue bonds in 2012. The District continues to receive capital contributions through the State of Kentucky, the Federal government, other governments and individual developers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2013 and 2012, the District had \$52.3 million and \$49.6 million invested in a variety of capital assets, as reflected in the following table:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31, 2013 and 2012

	2013	2012
Non-Depreciable Assets:		
Land and land rights	\$ 687,483	\$ 600,983
Depreciable Assets:		
Structures and improvements	2,983,240	2,328,949
Supply mains	838,465	882,564
Water treatment plant	7,286,657	7,383,993
Standpipes, tanks and foundations	6,400,390	4,274,469
Transmission and distribution mains	27,966,150	25,100,005
Services and meters	3,653,632	3,618,849
Hydrants	29,053	61,743
Office furniture and fixtures	175,639	32,853
Transportation equipment	353,278	409,124
Communication equipment	-	-
Other property and equipment	159,109	82,699
Capital assets in service	50,533,096	44,776,231
Construction in progress	1,785,250	4,847,128
Total capital assets, net of depreciation	<u>\$ 52,318,346</u>	<u>\$ 49,623,359</u>

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2013 and 2012

	2013	2012
Beginning balance	\$ 49,623,359	\$ 46,506,267
Additions	4,396,198	5,406,674
Retirements	(18,262)	(655,879)
Depreciation	(1,682,949)	(1,633,703)
Ending balance	<u>\$ 52,318,346</u>	<u>\$ 49,623,359</u>

Debt

At December 31, 2013 and 2012, the District had \$17 million and \$18.1 million, in revenue bonds outstanding. A total of \$1 million is due within the 2014 calendar year. During 2012, the District refunded in 2003 Series and 2005 Series A revenue bonds. The District completed the refunding to reduce its total debt service payments over the next 27 years by \$1,908,329 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,028,496.

(Table 5)
Outstanding Debt
as of December 31, 2013 and 2012

	2013	2012
Revenue bonds	\$ 17,028,000	\$ 18,068,000
Unamortized discount/premium	(206,072)	(233,337)
Deferred amount on refundings	(325,239)	(368,444)
	\$ 16,496,689	\$ 17,466,219

District Challenges for the Future

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact James Jeffries, General Manager, 360 Ring Road, Elizabethtown, Kentucky 42701, (270) 737-1056.

BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2STATEMENTS OF NET POSITIONDECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,483,713	\$ 3,312,902
Investments	13,733,218	13,092,944
Accounts receivable, net	728,121	688,652
Prepaid insurance	64,386	28,298
Prepaid postage	-	24,252
State grants receivable	-	52,248
Materials and supplies	300,362	332,090
TOTAL CURRENT ASSETS	<u>18,309,800</u>	<u>17,531,386</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	2,613,407	3,301,098
Restricted investments	978,338	978,338
Capital assets, net of accumulated depreciation	52,318,346	49,623,359
TOTAL NONCURRENT ASSETS	<u>55,910,091</u>	<u>53,902,795</u>
TOTAL ASSETS	<u>74,219,891</u>	<u>71,434,181</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	129,810	109,246
Construction projects payable	445,178	274,641
Accrued taxes	26,079	23,923
Accrued liabilities	43,570	43,669
Accrued vacation	92,633	82,106
Customer deposits	34,094	31,394
Customer advances for construction	43,250	48,250
Bonds payable	1,037,000	1,040,000
TOTAL CURRENT LIABILITIES	<u>1,851,614</u>	<u>1,653,229</u>
NONCURRENT LIABILITIES:		
Customer deposits	306,849	282,543
Bonds payable	15,459,689	16,426,219
TOTAL NONCURRENT LIABILITIES	<u>15,766,538</u>	<u>16,708,762</u>
TOTAL LIABILITIES	<u>17,618,152</u>	<u>18,361,991</u>
<u>NET POSITION</u>		
Net investment in capital assets	35,376,479	31,882,499
Restricted for debt service	2,342,331	2,325,504
Unrestricted	18,882,929	18,864,187
TOTAL NET POSITION	<u>\$ 56,601,739</u>	<u>\$ 53,072,190</u>

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

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Water sales	\$ 8,232,221	\$ 8,239,333
Other operating income	299,273	301,695
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	8,531,494	8,541,028
OPERATING EXPENSES:		
Power purchased	400,095	422,513
Purchased water	529	2,497
Pumping and treatment labor	420,741	449,330
Purification supplies and expense	464,194	499,310
Transmission and distribution labor	1,163,600	1,126,329
Transmission and distribution supplies and expense	179,915	213,231
Transmission and distribution maintenance and repairs	50,968	43,592
Equipment rental	991	636
Transportation expense	178,327	197,721
Water treatment maintenance and expense	59,317	90,496
General and administrative expenses	1,649,671	1,581,655
Depreciation	1,682,949	1,633,703
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	6,251,297	6,261,013
OPERATING INCOME	2,280,197	2,280,015
NON-OPERATING REVENUES (EXPENSES):		
Investment income	(305,337)	685,322
Other income	107,191	96,207
Gain on disposal of assets	(9,862)	14,101
Interest expense on long-term debt	(550,960)	(816,561)
Interest expense on customer deposits	(512)	(1,509)
Amortization of bond discount and expense	(70,469)	(77,982)
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(829,949)	(100,422)
CAPITAL CONTRIBUTIONS	<hr/> 2,079,301	<hr/> 3,172,304
CHANGE IN NET POSITION	3,529,549	5,351,897
NET POSITION, beginning of year	<hr/> 53,072,190	<hr/> 47,720,293
NET POSITION, end of year	<hr/> <u>\$ 56,601,739</u>	<hr/> <u>\$ 53,072,190</u>

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

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 8,512,025	\$ 8,537,333
Payments to suppliers	(2,464,661)	(2,688,833)
Payments to employees	(2,010,745)	(1,956,055)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,036,619</u>	<u>3,892,445</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(1,040,000)	(6,979,000)
Proceeds from bonds	-	6,074,608
Acquisition of capital assets	(4,163,259)	(4,376,010)
Contributions in aid of construction	2,032,053	3,148,663
Interest on long-term debt	(550,960)	(816,561)
Sale of capital assets	7,600	14,101
Customer deposit interest	(512)	(1,509)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,715,078)</u>	<u>(2,935,708)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,479,951)	(1,640,111)
Other income	107,191	96,207
Investment income	534,339	475,707
NET CASH USED BY INVESTING ACTIVITIES	<u>(838,421)</u>	<u>(1,068,197)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(516,880)	(111,460)
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,614,000</u>	<u>6,725,460</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,097,120</u>	<u>\$ 6,614,000</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid during the year	<u>\$ 551,472</u>	<u>\$ 818,070</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,280,197	\$ 2,280,015
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,682,949	1,633,703
Provision for bad debts	44,627	2,131
(Increase) in accounts receivable	(19,469)	(3,695)
(Increase) in prepaids	(11,836)	(14,615)
Increase (Decrease) in accounts payable	20,561	(23,391)
Increase in customer deposits	27,006	26,024
Increase in accrued taxes payable	2,156	757
(Decrease) in accrued liabilities	(99)	(7,990)
Increase (decrease) in accrued vacation	10,527	(494)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,036,619</u>	<u>\$ 3,892,445</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Hardin County Water District No. 2 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Hardin County, Kentucky.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

During the year ended December 31, 2013, the District adopted the provisions of GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012

D. FINANCIAL STATEMENT AMOUNTS

1. Cash and investments – The District's cash balances are held at multiple financial institutions. Investments are stated at fair value based on quoted market prices.
2. Cash and cash equivalents – The District has defined cash and cash equivalents to include cash on hand and demand deposits. The District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit. The cost basis approximates market value.
4. Materials and supplies – Materials and supplies is composed of items used in the capital construction process.
5. Accounts Receivable - The allowance method is used to record uncollectible accounts.- At December 31, 2013 and 2012, accounts receivable was stated net of an allowance for uncollectible accounts of \$60,000 and \$80,000. Bad debt expense for 2013 was \$44,627 and 2012 was \$2,131. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
6. Capital Assets – Capital assets in service and construction in progress with an original cost of \$5,000 or more are recorded at historical cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters	10-20

7. Compensated absences – The District accrues unpaid vacation when earned by the employee.
8. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenue and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012

9. Net Position – Net position is divided into three components:
- a. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consist of net position that is restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
10. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.
11. Amortization – Bond discounts and deferred amounts on refundings are being amortized using the interest method over the life of each respective bond issue.
12. Capital Contributions – Contributions are recognized in the Statement of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
13. Long-term Obligations – Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts and gains or losses on advance refundings and defeasances are deferred and amortized over the life of the bonds.
14. Use of Estimates - 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 reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTSDEPOSITS

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 or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2013 and 2012, \$5,417,630 and \$6,120,992 of the District's bank balance of \$5,917,630 and \$6,620,992 was exposed to custodial credit risk. For 2013 and 2012, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012*INVESTMENTS*

At December 31, 2013 and 2012, the District had the following investments and maturities:

	<u>12/31/2013</u> <u>Fair Value</u>	<u>Average Credit</u> <u>Quality/Ratings</u>	<u>Maturities</u>
Bond Mutual Funds	\$ 4,372,395	Unrated	8.3 years average
Bond Mutual Funds	1,070,278	Unrated	8.2 years average
Bond Mutual Funds	5,417,128	Unrated	5.15 years average
Bond Mutual Funds	2,873,418	Unrated	10.82 years average
Treasury Money Market Fund	1,246,477	Unrated	Less than 1 year
Total Investments	<u>\$ 14,979,696</u>		
	<u>12/31/2012</u> <u>Fair Value</u>	<u>Average Credit</u> <u>Quality/Ratings</u>	<u>Maturities</u>
Bond Mutual Funds	\$ 4,467,423	Unrated	5.5 years average
Bond Mutual Funds	1,174,364	Unrated	9.3 years average
Bond Mutual Funds	5,527,815	Unrated	13.4 years average
Bond Mutual Funds	1,923,341	Unrated	25.0 years average
Treasury Money Market Fund	1,233,262	Unrated	Less than 1 year
Total Investments	<u>\$ 14,326,205</u>		

The funds listed above are not rated. The individual investments within the funds are rated no lower than BBB.

*Investment Policies**District Policy*

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the District's investing activities are under the custody of the District Commissioners. Investing policies comply with the State Statutes. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations of any corporation of the United States Government;
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency;
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

- Commercial paper rated in the highest category by a nationally recognized rating agency;
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics:
 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. **Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the District's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The District does not have more than 5% or more of investments subject to the concentration of credit risk disclosure in any one issuer.

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District did not have any investments in securities at December 31, 2013 and 2012.

NOTE 3 - RESTRICTED CASH

The District has restricted cash for various purposes including debt service, future construction and customer deposits. The following schedule represents restricted cash at December 31, 2013 and 2012:

<u>Restricted For</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Debt service	\$ 1,095,853	\$ 1,092,260
Depreciation fund	205,285	204,333
Escrow	30,635	35,423
Construction	707,421	1,407,561
Customer deposits	306,073	306,596
	<u>\$ 2,345,267</u>	<u>\$ 3,046,173</u>

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 follows.

	Balance at December 31, 2012	Additions	Retirements	Balance at December 31, 2013
Non-Depreciable Assets:				
Land and land rights	\$ 600,983	\$ 86,500	\$ -	\$ 687,483
Depreciable Assets:				
Structures and improvements	3,453,751	742,213	-	4,195,964
Supply mains	1,763,965	-	-	1,763,965
Water treatment plant	10,979,100	129,419	-	11,108,519
Standpipes, tanks and foundations	6,404,603	2,287,202	-	8,691,805
Transmission and distribution mains	33,915,215	3,552,710	-	37,467,925
Services and meters	5,807,135	336,426	(37,502)	6,106,059
Hydrants	307,738	-	(64,458)	243,280
Office furniture and fixtures	330,754	164,958	(99,250)	396,462
Transportation equipment	1,188,971	59,905	(38,266)	1,210,610
Communication equipment	55,270	-	(55,270)	-
Other property and equipment	365,868	98,743	(32,648)	431,963
Capital assets in service	65,173,353	7,458,076	(327,394)	72,304,035
Construction in progress	4,847,128	3,583,811	(6,645,689)	1,785,250
Total capital assets	70,020,481	11,041,887	(6,973,083)	74,089,285
Less accumulated depreciation for:				
Structures and improvements	1,124,802	87,922	-	1,212,724
Supply mains	881,401	44,099	-	925,500
Water treatment plant	3,595,107	226,755	-	3,821,862
Standpipes, tanks and foundations	2,130,134	161,281	-	2,291,415
Transmission and distribution mains	8,815,210	686,565	-	9,501,775
Services and meters	2,188,286	301,643	(37,502)	2,452,427
Hydrants	245,995	14,428	(46,196)	214,227
Office furniture and fixtures	297,901	22,172	(99,250)	220,823
Transportation equipment	779,847	115,751	(38,266)	857,332
Communication equipment	55,270	-	(55,270)	-
Other property and equipment	283,169	22,333	(32,648)	272,854
Total accumulated depreciation	20,397,122	1,682,949	(309,132)	21,770,939
Net capital assets	<u>\$ 49,623,359</u>	<u>\$ 9,358,938</u>	<u>\$ (6,663,951)</u>	<u>\$ 52,318,346</u>

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

Capital asset activity for the year ended December 31, 2012 follows.

	Balance at December 31, 2011	Additions	Retirements	Balance at December 31, 2012
Non-Depreciable Assets:				
Land and land rights	\$ 555,983	\$ 45,000	\$ -	\$ 600,983
Depreciable Assets:				
Structures and improvements	3,159,371	294,380	-	3,453,751
Supply mains	1,763,965	-	-	1,763,965
Water treatment plant	10,979,100	-	-	10,979,100
Standpipes, tanks and foundations	6,404,603	-	-	6,404,603
Transmission and distribution mains	33,501,226	413,989	-	33,915,215
Services and meters	5,507,352	344,476	(44,693)	5,807,135
Hydrants	307,738	-	-	307,738
Office furniture and fixtures	330,754	-	-	330,754
Transportation equipment	1,168,356	66,589	(45,974)	1,188,971
Communication equipment	55,270	-	-	55,270
Other property and equipment	349,287	16,581	-	365,868
Capital assets in service	64,083,005	1,181,015	(90,667)	65,173,353
Construction in progress	1,277,348	4,225,659	(655,879)	4,847,128
Total capital assets	65,360,353	5,406,674	(746,546)	70,020,481
Less accumulated depreciation for:				
Structures and improvements	1,041,368	83,434	-	1,124,802
Supply mains	837,302	44,099	-	881,401
Water treatment plant	3,373,389	221,718	-	3,595,107
Standpipes, tanks and foundations	1,968,853	161,281	-	2,130,134
Transmission and distribution mains	8,130,673	684,537	-	8,815,210
Services and meters	1,951,600	281,379	(44,693)	2,188,286
Hydrants	231,566	14,429	-	245,995
Office furniture and fixtures	281,750	16,151	-	297,901
Transportation equipment	709,677	116,144	(45,974)	779,847
Communication equipment	55,270	-	-	55,270
Other property and equipment	272,638	10,531	-	283,169
Total accumulated depreciation	18,854,086	1,633,703	(90,667)	20,397,122
Net capital assets	\$ 46,506,267	\$ 3,772,971	\$ (655,879)	\$ 49,623,359

During the years ended December 31, 2013 and 2012, the District capitalized no interest in either year and expensed \$551,472 and \$818,070 of interest.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 5 – LONG-TERM OBLIGATIONS

The construction costs of the District's water facilities have been financed by issuance of revenue bonds authorized under Kentucky Revised. All assets of the District are pledged as collateral for these bonds. Information relating to the outstanding bond issues is summarized below:

<u>Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Bonds Due 12/31/2013</u>	<u>Bonds Due 12/31/2012</u>
2002 Series C	2.0% - 3.75%	\$ 3,020,000	\$ 405,000	\$ 800,000
2004 Series A	2.0% - 4.0%	2,940,000	2,015,000	2,130,000
2005 Series B	4.1%	1,775,000	1,290,000	1,365,000
2007 Series A	4.00%	2,480,000	2,393,000	2,423,000
2010 Series A	2.0% - 4.125%	5,625,000	5,070,000	5,280,000
2012 Series	1.0% - 3.75%	6,070,000	5,855,000	6,070,000

The District requires new customers to provide a \$60 deposit for initial water service. Current customers in good standing who add additional service locations are not required to pay an additional deposit.

Long-term liability activity for the year ended December 31, 2013, was as follows:

	<u>Balance at December 31, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2013</u>	<u>Amount Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 18,068,000	\$ -	\$ (1,040,000)	\$ 17,028,000	\$ 1,037,000
Unamortized bond premium/discount	(233,337)	-	27,265	(206,072)	92,633
Deferred amounts on bond refundings	(368,444)	-	43,205	(325,239)	43,250
Total bonds payable	17,466,219	-	(969,530)	16,496,689	1,037,000
Other liabilities:					
Customer deposits	313,937	99,051	(72,045)	340,943	34,094
Accrued vacation	82,106	92,633	(82,106)	92,633	92,633
Customer advances for construction	48,250	10,000	(15,000)	43,250	43,250
Total other liabilities	444,293	201,684	(169,151)	476,826	169,977
Long-term liabilities	\$ 17,910,512	\$ 201,684	\$ (1,138,681)	\$ 16,973,515	\$ 1,206,977

Long-term liability activity for the year ended December 31, 2012, was as follows:

	<u>Balance at December 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2012</u>	<u>Amount Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 18,977,000	\$ 6,070,000	\$ (6,979,000)	\$ 18,068,000	\$ 1,040,000
Unamortized bond premium/discount	(394,714)	4,608	156,769	(233,337)	92,633
Deferred amounts on bond refundings	(281,013)	(126,726)	39,295	(368,444)	43,250
Total bonds payable	18,301,273	5,947,882	(6,782,936)	17,466,219	1,040,000
Other liabilities:					
Customer deposits	287,910	64,860	(38,833)	313,937	31,394
Accrued vacation	82,600	82,106	(82,600)	82,106	82,106
Customer advances for construction	33,250	35,000	(20,000)	48,250	48,250
Total other liabilities	403,760	181,966	(141,433)	444,293	161,750
Long-term liabilities	\$ 18,705,033	\$ 6,129,848	\$ (6,924,369)	\$ 17,910,512	\$ 1,201,750

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

Bond maturities and Sinking Fund requirements in each of the next five years and in five year increments thereafter are as follows at December 31, 2013:

Year	Principal	Revenue Bonds		Totals
		Interest		
2014	\$ 1,037,000	\$ 562,819	\$	1,599,819
2015	648,000	538,325		1,186,325
2016	669,000	520,328		1,189,328
2017	696,000	500,611		1,196,611
2018	717,000	479,515		1,196,515
2019-2023	4,026,000	2,026,479		6,052,479
2024-2028	3,747,000	1,316,893		5,063,893
2029-2033	2,810,000	734,306		3,544,306
2034-2038	1,531,000	377,912		1,908,912
2039-2043	567,000	166,837		733,837
2044-2048	580,000	60,120		640,120
Total	<u>\$ 17,028,000</u>	<u>\$ 7,284,145</u>	<u>\$</u>	<u>24,312,145</u>

Year	Sinking Fund Requirements
2014	\$ 1,599,819
2015	1,186,325
2016	1,189,328
2017	1,196,611
2018	1,196,515
2019-2023	6,052,479
2024-2028	5,063,893
2029-2033	3,544,306
2034-2038	1,908,912
2039-2043	733,837
2044-2048	640,120
Total	<u>\$ 24,312,145</u>

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012

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

Revenue Fund

All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

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 2002 Series C, 2004 Series A, 2005 B, 2007 Series A, and 2010 Series A and 2012 Series.

Depreciation Fund

This fund receives, on a monthly basis, \$18,700. This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

Operation and Maintenance Fund

This fund receives, on a monthly basis, sufficient amounts to pay current expenses from the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Bond and Interest Redemption Fund.

NOTE 6 - RETIREMENT PLAN

Plan Description - The District participates in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System's Board of Trustees. CERS provides benefits to its participants upon retirement. CERS issues a publicly available financial report that includes financial statements and required supplementary information for the retirement plan. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 502-564-4646.

Funding Policy - Plan members employed before September 1, 2008, are required to contribute 5% of their annual covered salary and those hired on or after September 1, 2008, are required to contribute 6% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The rates at December 31, 2013, 2012 and 2011 were 18.89%, 19.55% and 18.96% of covered payroll. The contribution requirements of the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended December 31, 2013, 2012 and 2011 were \$380,314, \$364,924, and \$327,116. Employee contributions were \$101,794, \$96,359 and \$92,045 and covered payroll was \$2,010,746, \$1,959,853 and \$1,815,074. All payments were made to the retirement system in the amount of the annually required contributions.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid By Insurance Fund	% Paid By Member Through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2013 and 2012:

Source	2013	2012
State of Kentucky	\$ 1,973,710	\$ 2,826,114
Tap Fees	95,591	193,200
Developers	10,000	152,990
	\$ 2,079,301	\$ 3,172,304

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012(CONCLUDED)NOTE 9 – RENTAL AGREEMENTS

The District has entered into agreements to lease space on its water towers to various customers. Rental income during the years ended December 31, 2013 and 2012 was \$98,545 and \$82,004. The following schedule represents future payments to be received. Each agreement provides for optional renewals. The schedule below reflects payments to be received under current agreements and does not include renewals after the current term.

2014	\$ 82,577
2015	82,577
2016	82,577
2017	82,577
2018	<u>28,566</u>
Total	<u>\$ 358,874</u>

NOTE 10 – COMMITMENTS

The District has entered into construction commitments toward its construction projects. Also, the District has received certain funding commitments from governmental agencies for current and planned construction projects.

On September 17, 2013, the District signed a letter of intent with the City of Elizabethtown, Kentucky, to purchase the City's water system.

NOTE 11 – 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; and natural disasters. The District was insured for workers' compensation, general liability and automobile liability coverage under a retrospectively rated commercial policy.

OTHER SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS
DECEMBER 31, 2013

	\$ 3,020,000 2002 SERIES C		\$ 2,940,000 2004 SERIES A	
	<u>BOND</u>	<u>INTEREST</u>	<u>BOND</u>	<u>INTEREST</u>
2014	\$ 405,000	\$ 7,594	\$ 125,000	\$ 74,926
2015			125,000	70,708
2016			135,000	66,158
2017			145,000	61,113
2018			155,000	55,563
2019			160,000	49,575
2020			170,000	43,140
2021			175,000	36,413
2022			190,000	29,200
2023			200,000	21,400
2024			215,000	13,100
2025			220,000	4,400
2026				
2027				
2028				
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2047				
2048				
	<u>\$ 405,000</u>	<u>\$ 7,594</u>	<u>\$ 2,015,000</u>	<u>\$ 525,696</u>

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS

DECEMBER 31, 2013

(CONTINUED)

	\$ 1,775,000 2005 SERIES B		\$ 2,480,000 2007 SERIES A		\$ 5,625,000 2010 SERIES A	
	BOND	INTEREST	BOND	INTEREST	BOND	INTEREST
2014	\$ 80,000	\$ 51,250	\$ 32,000	\$ 95,080	\$ 215,000	\$ 171,344
2015	85,000	47,868	33,000	93,780	220,000	166,994
2016	85,000	44,383	34,000	92,440	225,000	162,122
2017	90,000	40,795	36,000	91,040	230,000	156,288
2018	95,000	37,003	37,000	89,580	235,000	149,894
2019	105,000	32,903	39,000	88,060	245,000	142,987
2020	105,000	28,598	40,000	86,480	250,000	135,250
2021	115,000	24,088	42,000	84,840	260,000	126,800
2022	120,000	19,270	44,000	83,120	265,000	117,940
2023	130,000	14,145	46,000	81,320	275,000	108,656
2024	135,000	8,713	47,000	79,460	290,000	98,588
2025	145,000	2,973	49,000	77,540	300,000	87,707
2026			51,000	75,540	310,000	76,075
2027			54,000	73,440	325,000	63,772
2028			56,000	71,240	340,000	50,676
2029			58,000	68,960	345,000	36,976
2030			60,000	66,600	360,000	22,876
2031			63,000	64,140	380,000	7,838
2032			66,000	61,560		
2033			68,000	58,880		
2034			71,000	56,100		
2035			74,000	53,200		
2036			77,000	50,180		
2037			80,000	47,040		
2038			84,000	43,760		
2039			87,000	40,340		
2040			91,000	36,780		
2041			94,000	33,080		
2042			98,000	29,240		
2043			102,000	25,240		
2044			106,000	21,080		
2045			111,000	16,740		
2046			115,000	12,220		
2047			120,000	7,520		
2048			128,000	2,560		
	<u>\$ 1,290,000</u>	<u>\$ 351,989</u>	<u>\$ 2,393,000</u>	<u>\$ 2,058,180</u>	<u>\$ 5,070,000</u>	<u>\$ 1,882,783</u>

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS
DECEMBER 31, 2013
(CONTINUED)

	\$ 6,070,000 2012 SERIES		TOTAL ALL ISSUES	
	BOND	INTEREST	BOND	INTEREST
2014	\$ 180,000	\$ 162,625	\$ 1,037,000	\$ 562,819
2015	185,000	158,975	648,000	538,325
2016	190,000	155,225	669,000	520,328
2017	195,000	151,375	696,000	500,611
2018	195,000	147,475	717,000	479,515
2019	200,000	143,525	749,000	457,050
2020	205,000	139,347	770,000	432,815
2021	210,000	134,806	802,000	406,947
2022	215,000	129,891	834,000	379,421
2023	220,000	124,725	871,000	350,246
2024	230,000	119,238	917,000	319,099
2025	235,000	113,425	949,000	286,045
2026	245,000	107,119	606,000	258,734
2027	245,000	100,381	624,000	237,593
2028	255,000	93,506	651,000	215,422
2029	265,000	86,356	668,000	192,292
2030	270,000	78,663	690,000	168,139
2031	280,000	70,063	723,000	142,041
2032	295,000	60,719	361,000	122,279
2033	300,000	50,675	368,000	109,555
2034	210,000	41,750	281,000	97,850
2035	220,000	34,225	294,000	87,425
2036	230,000	26,063	307,000	76,243
2037	235,000	17,344	315,000	64,384
2038	250,000	8,250	334,000	52,010
2039	85,000	1,969	172,000	42,309
2040	10,000	188	101,000	36,968
2041			94,000	33,080
2042			98,000	29,240
2043			102,000	25,240
2044			106,000	21,080
2045			111,000	16,740
2046			115,000	12,220
2047			120,000	7,520
2048			128,000	2,560
	<u>\$ 5,855,000</u>	<u>\$ 2,457,903</u>	<u>\$ 17,028,000</u>	<u>\$ 7,284,145</u>

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSESYEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Salaries	\$ 779,806	\$ 738,545
Commissioner's salaries	30,289	30,250
Employee benefits	368,534	400,935
Materials and supplies	43,717	55,670
Professional fees and contractual services	48,801	40,022
Insurance	86,078	80,023
Advertising	1,945	1,590
Provision for bad debts	44,627	2,131
Other general and administrative	245,874	232,489
	<u>\$ 1,649,671</u>	<u>\$ 1,581,655</u>

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2013

WATER COMMISSIONERS

Michael Bell - Chairman
Morris Miller - Secretary/Treasurer
Cordell Tabb - Member
John Effinger - Member
Tim Davis - Member

ATTORNEY

Damon R. Talley - Hodgenville, Kentucky

GENERAL MANAGER

James Jeffries

CALENDAR YEAR

January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS
2901 RING ROAD EAST
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ELIZABETHTOWN, KY 42702-0622

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KENTUCKY SOCIETY
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INDEPENDENT AUDITOR'S 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

Board of Commissioners
Hardin County Water District No. 2
Elizabethtown, 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 Hardin County Water District No. 2, as of and for the year ended December 31, 2013, and the related notes to the financial statements and have issued our report thereon dated February 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hardin County Water District No. 2'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 Hardin County Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Hardin County Water District No. 2'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2013-01 that we consider to be a significant deficiency.

Compliance and Other Matters

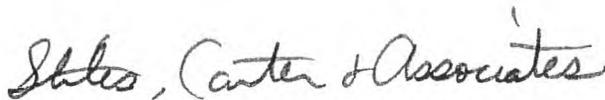
As part of obtaining reasonable assurance about whether Hardin County Water District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a 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*.

Hardin County Water District No. 2's Response to Findings

Hardin County Water District No. 2's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Hardin County Water District No. 2'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 District'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.



Certified Public Accountants
Elizabethtown, Kentucky
February 21, 2014

SCHEDULE OF FINDINGS AND RESPONSES

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013

SIGNIFICANT DEFICIENCIES

REFERENCE NUMBER 2013-01 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit, we noted that significant adjustments were required in order to prevent capital assets and revenue from being overstated.

Cause: The District did not make all necessary adjustments when closing the year.

Effect: The financial statements required adjustment of significant items.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Management Response: Management will improve operations to ensure that necessary adjustments are made in accordance with the normal closing process.

CITY OF ELIZABETHTOWN, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Prepared by:
DEPARTMENT OF FINANCE

Stephen D. Park
Director of Finance

INTRODUCTORY SECTION

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 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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STEPHEN D. PARK
FINANCE DIRECTOR



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CITY OF ELIZABETHTOWN
FINANCE DEPARTMENT
December 3, 2013

Honorable Mayor
Members of the City Council
City of Elizabethtown, Kentucky

We are pleased to submit the Comprehensive Annual Financial Report for the City of Elizabethtown for the fiscal year ended June 30, 2013. This report has been prepared by the Department of Finance in accordance with generally accepted accounting principles (GAAP), as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board.

Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the City. We believe the data as presented is accurate, that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the City as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been included.

City management's narrative on the financial activities of the City is in the Management's Discussion and Analysis (MD&A) section of the financial section of this report, immediately following the Independent Auditor's Report. The letter of transmittal is written to complement the MD&A and the financial statements, and should be read from that perspective and in conjunction with all other sections of the CAFR.

REPORTING ENTITY

The accompanying financial statements present the City's primary government and the component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationship with the City (as distinct from legal relationships).

The Elizabethtown Tourism and Convention Bureau and Elizabethtown Airport Board are considered discretely presented component units as they are part of the City's annual budget. The Elizabethtown Tourism and Convention Bureau and Elizabethtown Airport Board issue separately audited financial statements, copies of which are available from the City Finance Department.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The Finance Department is responsible for establishing and maintaining the system of internal accounting control. This system strives to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the



ACCOUNTING SYSTEM AND BUDGETARY CONTROL

preparation of financial statements in accordance with generally accepted accounting principles. In addition, the Government's system of internal accounting control includes procedures to assure that transactions are executed in accordance with applicable laws and regulations in order to act as efficiently as possible.

The accounting policies of the City of Elizabethtown conform to accounting principles generally accepted in the United States of America applicable to governmental units. The accounts of the government are organized on the basis of funds, each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, fund balances/net position, revenues and expenditures/expenses. The basis of accounting for each fund is that basis which is appropriate for the type of fund in accordance with generally accepted accounting practices. See the Notes to the Basic Financial Statements for a more detailed explanation.

The City Council annually approves the budget ordinance for the operating funds of the government. Budgetary control is maintained at the division level. Budgets are amended by ordinance approved during fiscal year. Annual budgets are adopted for: General Fund, Municipal Aid Program, Incentive Funds, Fire Protection Sinking Funds, Cemetery Funds, Special Project Grant, Narcotics Task Force Funds, Water and Sewer Funds, and Natural Gas Funds. Encumbrance accounting is utilized during the fiscal year to facilitate effective budgeting control. Appropriations which have not been committed by June 30 lapse, except that capital projects may be reappropriated at July 1, if the project is still authorized.

ECONOMIC DEVELOPMENT AND PROSPECTS FOR THE FUTURE

During fiscal year 2012-2013 the City and staff continued to promote the City of Elizabethtown's attractive qualities to both prospective industry and businesses. The opening of Flex Film's facility in the Industrial Park is evidence of that effort. That entity alone will create some 400 jobs for the local market. Additionally, several Council members just completed a visit to our Sister City in Japan with representatives from Akebono Corporation as a gesture of our commitment to seek businesses that can provide new job opportunities for our community from any location in the world. The City continues to promote the Downtown area through property acquisitions and infrastructure improvements and hopes to enhance both the appearance and employment opportunity in that area.

A local option election was held in October of 2011 and the citizens of Elizabethtown voted to allow the sale of malt beverages and distilled spirits in addition to the sales that were already being allowed of those beverages in restaurants. A 5% regulatory fee was assessed on the gross sales of these beverages and the monies were utilized for additional law enforcement officers, education and alcohol treatment programs. The fees were projected to provide approximately \$600,000 to the General Fund budget. Actual collections for the first full year were \$911,385. In the next budget cycle it will be decided on how the excess funds will be spent or if the rate should be adjusted.

Honorable Mayor
Members of the City Council
December 3, 2013
Page 3

The fund balance in the General Fund decreased by approximately \$2,894,444 during FY 2013 to \$18.7 million. The decrease was due primarily to the spending of Elizabethtown Sports Park bond funds as the project was completed.

The Sports Park completed its first full year of operation during FY 2013. Participation and utilization met all expectations, but net operating expenses were higher than anticipated. Some additional costs were associated with startup, so it is hoped that the gap between revenues and expenses will close in the coming years. The ancillary benefits of the out of town participating teams and their followers were as expected from the 17,000 visitors and 1,900 athletes that were estimated to utilize the park in its first year of operation. Restaurant tax collections of \$2,615,008 were more than adequate to fund the debt service of \$1,789,985 for the Park.

Occupational Tax collections grew more than expected in FY 2013, generating 11% more than projected or \$1,337,241. This seems to validate the end of the recent national recession and show that the Elizabethtown area is fully into recovery.

Several large drainage and road projects are underway and the City plans to continue to use its Fund Balance to finance these projects in the near future.

The Natural Gas Utility reported an operating loss of \$403,788. While a loss was realized, changes in the method of reporting the value of natural gas stored in the Cecilia Gas Storage Field to a lower cost or market method resulted in a write down that was \$928,611 in excess of the weighted market valuation that was used in the past. A modest 20 cent per Mcf adjustment for the fixed distribution portion of the Gas Utility rate was instituted in July of 2012 to help offset rising costs such as retirement and health insurance. The rate had not been adjusted in seven years. Thankfully, natural gas prices at the well head are still at multi-year lows and the total cost to our customers will still be very attractive when compared to surrounding gas utilities.

Several major sewer line projects are underway. The City is funding the sewer line projects through a low interest loan from the Kentucky Infrastructure Authority. The loan amount will be for approximately \$21 million. Debt service on the KIA loan necessitated a rate increase to our water and sewer customers. Debt service payments have not started at this time as draws are still being made on the loan as construction progresses. The Water and Sewer Utility showed operating income in the amount of \$1,545,691 for FY 2013. The first of a two tiered rate increase went into effect on July 1, 2012 with the second increase taking effect July 1, 2013. These increases are sufficient to cover the additional debt service for the system expansion and proper margins going forward several years.

City Council voted to sell the production facilities, distribution assets and customer base of its Water Utility to Hardin county Water District 2 in the fall of 2013. The City was purchasing 1,000,000 gallons per day from the District. Hardin County Water District officials informed the City of its intent to change

Honorable Mayor
Members of the City Council
December 3, 2013
Page 4

their purification to a chloramine system. The City uses a free chlorine method to purify its water. The two methods are not able to be mixed. The City was faced with the options of developing a new source of water, convert our plants to chloramines or sell the system and let the Water District convert and operate our facilities. Economics of scale dictated it was more prudent in the long run for the systems to be consolidated. The Water Districts change to chloramines was dictated by the fact that they were going to purchase water from the Louisville Water System who uses chloramines. In return for our customer base and facilities, the Water District has agreed to pay the City \$400,000 per year for the next twenty years. The City will retain its sanitary sewer collection and treatment system.

INDEPENDENT AUDIT

Kentucky revised Statute 91A.040 requires an annual audit of each fund of the City by an auditor of public accounts or a certified public accountant. This audit requirement has been conducted by the independent certified public accounting firm of Stiles, Carter & Associates, CPAs, P.S.C., and their opinions have been included in this report.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Elizabethtown for its comprehensive annual financial report for the fiscal year ended June 30, 2012. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

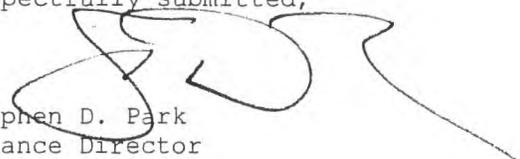
A Certificate of Achievement is valid for a period of one year only. The City of Elizabethtown has received a Certificate of Achievement for the last twenty-four consecutive fiscal years ended June 30. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

ACKNOWLEDGMENT

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We wish to express our appreciation to all members of the department who assisted and contributed to its preparation, and special thanks to Stiles, Carter & Associates, CPAs, P.S.C.

We also thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Stephen D. Park
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Elizabethtown
Kentucky**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

A handwritten signature in black ink, appearing to read "Jeffrey R. Egan". The signature is fluid and cursive.

Executive Director/CEO

**CITY OF ELIZABETHTOWN
CITY OFFICIALS**

MAYOR: EDNA BERGER

CITY COUNCIL: RON THOMAS
MARTY FULKERSON
TONY BISHOP
KENNY LEWIS
TERRY SHIPP
WILLIAM BENNETT

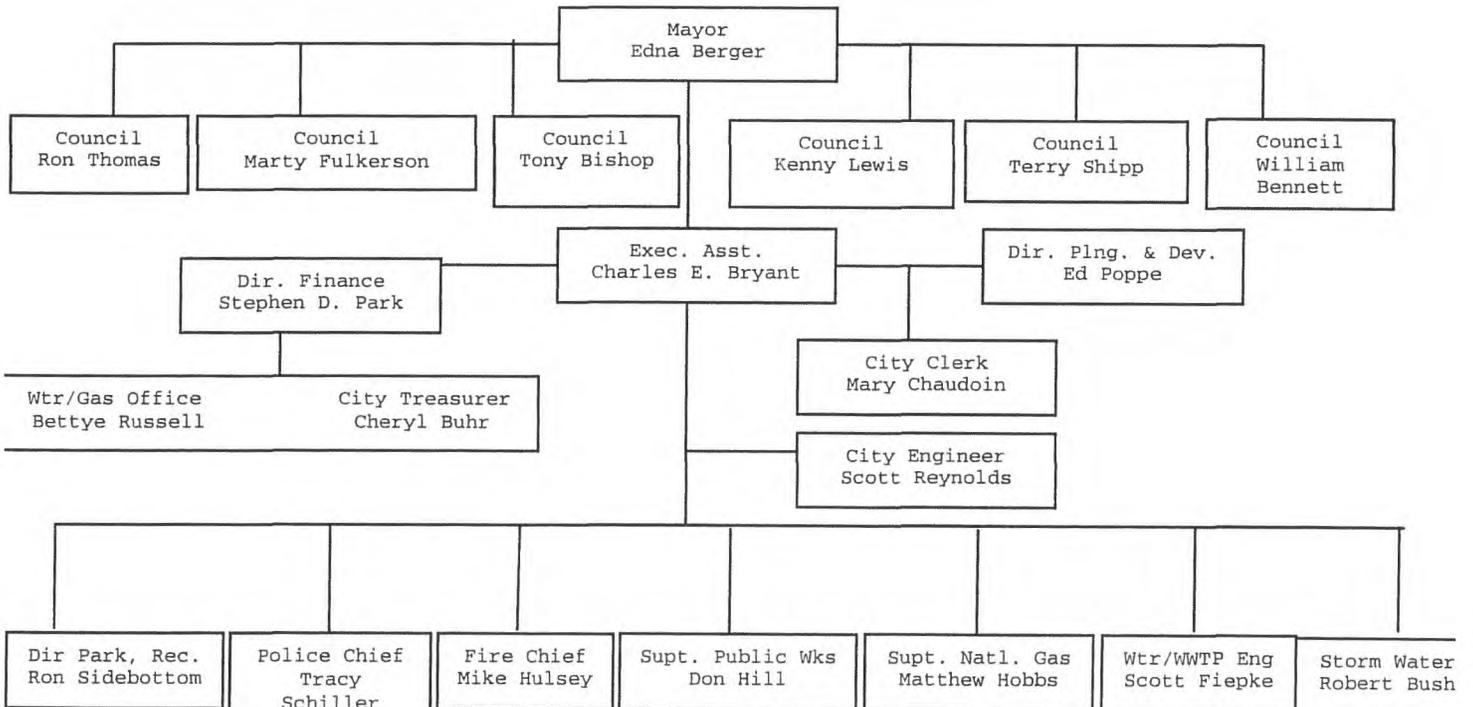
EXECUTIVE ASSISTANT: CHARLES BRYANT

FINANCE DIRECTOR: STEPHEN D. PARK

TREASURER: CHERYL BUHR

CITY CLERK: MARY CHAUDOIN

ORGANIZATIONAL CHART



FINANCIAL SECTION

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

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INDEPENDENT AUDITOR'S REPORT

MEMBER
AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs

Honorable Mayor,
Members of the City Council
and Director of Finance
City of Elizabethtown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Elizabethtown, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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 did not audit the financial statements of the Elizabethtown Tourism and Convention Bureau, which is a discretely presented component unit and 21 percent, 22 percent, and 82 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Elizabethtown Tourism and Convention Bureau, is based solely on the report of the other auditors. 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 City'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 financial statement 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Elizabethtown, Kentucky, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the City adopted GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA Pronouncements*, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53* during the fiscal year.

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 10-16 and 50-51 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 the City of Elizabethtown, Kentucky's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013, on our consideration of the City of Elizabethtown, Kentucky'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 City of Elizabethtown, Kentucky's internal control over financial reporting and compliance.

Stiles, Carter & Associates

Certified Public Accountants
Elizabethtown Kentucky
December 3, 2013

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF ELIZABETHTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

The discussion and analysis of City of Elizabethtown, Kentucky's financial performance provides an overall review of the City's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to review the City's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the City was \$32.7 million. This reflects a decrease during the year of \$4.8 million.
- Governmental activities had \$39.2 million and business-type activities had \$21.2 million in revenue for the year.
- Governmental activities had \$35.4 million and business-type activities had \$19.9 million in expenses for the year.
- End-of-year capital assets listed at estimated cost less depreciation totaled \$180.9 million. The City added \$51.8 million in capital assets.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

Component units, which are other governmental units over which the City can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column of the government-wide financial statements. The focus of the statements is clearly on the primary government and the presentation allows the user to address the relative relationship with the component units. The City's component units issue separate audited financial statements which are available from the City finance department.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes, sales taxes, license fees and permits, insurance premiums taxes, user charges and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, public safety, public works and recreation/tourism. The business-type activities of the City include water & sewer and gas operations. Capital assets and related debt are also supported by the revenue sources mentioned above.

The government-wide financial statements can be found on pages 17 - 18 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary and fiduciary funds. The proprietary funds are our water and sewer and gas operations and an internal service fund. The only fiduciary fund is an agency fund. All other activities of the City are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 19 - 26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 - 49 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$171.9 million as of June 30, 2013.

The largest portion of the City's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, office equipment, technical equipment, construction and maintenance equipment, other equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The City's combined net position increased from \$166.9 million to \$171.9 million. Looking at the net position and net expenses of governmental and business-type activities separately, the change can be further explained. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

(Table 1)
Net Position
June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 24,695,255	\$ 28,406,615	\$ 22,473,807	\$ 24,090,905	\$ 47,169,062	\$ 52,497,520
Capital Assets	112,031,544	108,116,137	68,874,717	64,217,949	180,906,261	172,334,086
Total Assets	136,726,799	136,522,752	91,348,524	88,308,854	228,075,323	224,831,606
Long-term Debt	38,647,364	40,584,325	10,722,102	9,370,599	49,369,466	49,954,924
Other Liabilities	4,778,707	6,447,912	1,982,003	1,522,198	6,760,710	7,970,110
Total Liabilities	43,426,071	47,032,237	12,704,105	10,892,797	56,130,176	57,925,034
Net Position						
Net Investment in capital assets	71,604,572	65,829,647	58,582,547	54,996,416	130,187,119	120,826,063
Restricted	2,805,019	4,367,920	-	-	2,805,019	4,367,920
Unrestricted	18,891,137	19,292,948	20,061,872	22,419,641	38,953,009	41,712,589
Total Net Position	\$ 93,300,728	\$ 89,490,515	\$ 78,644,419	\$ 77,416,057	\$ 171,945,147	\$ 166,906,572

Governmental activity unrestricted net position, the portion of net position that can be used to finance day-to-day governmental operations (without constraints established by debt covenants, enabling legislation or other legal requirements), decreased 2% from \$19.3 million to \$18.9 million at June 30, 2013. This was due to funds spent on the capital projects and general operating expenses. Restricted net position, those restricted mainly for capital projects and debt service decreased \$1.6 million (36.4%). This was due to funds spent on the E-town Sports Park. Net investment in governmental capital assets increased by \$5.8 million (8.8%). This was due to assets put in service.

Business-type activities unrestricted net position decreased by \$2.3 million or 10.3% at June 30, 2013. Investment in business-type capital assets increased by \$3.6 million (6.5%). The net increase was due to continued investments in capital projects.

(Table 2)
Change in Net Position
Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
REVENUES:						
Program revenues:						
Charges for services	\$ 6,301,308	\$4,447,621	\$21,087,821	\$15,326,959	\$27,389,129	\$19,774,580
Operating grants and contributions	2,912,789	1,694,119	-	-	2,912,789	1,694,119
Capital grants and contributions	3,615,086	2,852,658	-	2,237,329	3,615,086	5,089,987
General revenues:						
Property taxes	3,289,412	3,178,147	-	-	3,289,412	3,178,147
Franchise taxes	1,020,128	949,472	-	-	1,020,128	949,472
Insurance premiums tax	3,251,752	3,092,907	-	-	3,251,752	3,092,907
Transient room tax	513,885	478,586	-	-	513,885	478,586
Restaurant tax	2,615,008	2,460,875	-	-	2,615,008	2,460,875
Withholding tax	12,937,241	11,851,072	-	-	12,937,241	11,851,072
Net profits tax	2,462,321	1,735,046	-	-	2,462,321	1,735,046
Investment earnings	(33,806)	446,847	101,926	92,317	68,120	539,164
Gain on asset disposal	2,400	-	-	24,838	2,400	24,838
Miscellaneous	290,795	231,180	-	-	290,795	231,180
Total revenues	39,178,319	33,418,530	21,189,747	17,681,443	60,368,066	51,099,973
EXPENSES						
Program Activities						
Primary Government:						
General government	9,932,133	8,887,190	-	-	9,932,133	8,887,190
Public safety	11,386,572	10,917,133	-	-	11,386,572	10,917,133
Public works	5,255,366	5,287,481	-	-	5,255,366	5,287,481
Recreation/tourism	7,215,730	4,793,198	-	-	7,215,730	4,793,198
Interest costs	1,578,305	1,244,948	-	-	1,578,305	1,244,948
Business-type Activities:						
Gas	-	-	12,002,987	9,684,586	12,002,987	9,684,586
Water & sewer	-	-	7,958,398	7,900,547	7,958,398	7,900,547
Total expenses	35,368,106	31,129,950	19,961,385	17,585,133	55,329,491	48,715,083
Change in net position	\$ 3,810,213	\$2,288,580	\$ 1,228,362	\$ 96,310	\$ 5,038,575	\$ 2,384,890

The City's total revenues increased by \$9.3 million or 18.2%. The total cost of all programs and services increased by \$6.6 million or 13.5%. The increase in revenues was primarily from business-type charges for services. The increase in costs was primarily from items spent that were budgeted.

Governmental Activities

Revenues for the City's governmental activities increased \$5.8 million (17.4%) while total expenses increased \$4.3 million (13.8%). Expenses increased due general operating costs and additional expenses related to the employee benefits trust.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. The net cost shows the financial burden/benefit that was placed/received on/by the City's taxpayers by each of these functions.

(Table 3)
Governmental Activities Total

	Cost of Services		Net Cost of Services	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General government	\$ 9,932,133	\$ 8,887,190	\$ 3,903,233	\$ 5,167,410
Public safety	11,386,572	10,917,133	10,128,531	9,803,984
Public works	5,255,366	5,287,481	3,715,406	3,785,708
Recreation/tourism	7,215,730	4,793,198	6,015,412	3,890,938
Interest costs	1,578,305	1,244,948	(1,223,659)	(512,488)
Total expenses	<u>\$ 35,368,106</u>	<u>\$ 31,129,950</u>	<u>\$ 22,538,923</u>	<u>\$ 22,135,552</u>

Business-Type Activities

The business-type activities include the gas and water and sewer operations. These activities had total revenues of \$21.2 million and expenses of \$19.9 million, for fiscal year 2013. Of the revenues, \$21.1 million was charges for services and the remaining was for investment income. Business-type activities receive no support from tax revenues. The City will continue to monitor the charges and costs of these activities. If it becomes necessary, the City will increase the charges for these activities.

The gas operation had a decrease in net position of \$394 thousand. Metered sales revenue increased by \$2.7 million; however, distribution expenses increased by \$2.5 million.

The water and sewer operation had an increase in net position of \$1.6 million. Operating revenue increased \$2.9 million and operating expenses increased \$100 thousand.

The City's Funds

Information about the City's major funds starts on page 19. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$43.9 million and expenditures and other financing uses of \$46.6 million. The General Fund experienced a \$2.9 million decrease in fund balance. This decrease was due capital outlays and general operating costs.

For the Cemetery Fund, fund balance increased because investment income was in excess of the amount required for operations.

General Fund-Budget Highlights

The City's budget is prepared according to Kentucky law. The most significant budgeted fund is the General Fund.

For the General Fund, revenues were budgeted at \$26.7 million with actual amounts of \$27.8 million. The excess of actual over budgeted revenues is primarily a result of increases in tax revenue. Budgeted expenditures of \$32.3 million compare with actual expenditures of \$26.9 million. The excess of actual over budgeted expenditures is primarily a result of capital outlay expenditures not incurred for stormwater.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013 the City had \$180.9 million invested in a variety of capital assets, as reflected in the following table, and \$112.0 million in governmental activities. See Note 7 to the basic financial statements for additional information concerning capital assets.

(Table 4)
Capital Assets at June 30, 2013 and 2012
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land	\$ 22,747,405	\$ 9,465,253	\$ 1,549,866	\$ 1,549,866	\$ 24,297,271	\$ 11,015,119
Buildings	39,041,146	26,522,980	37,941,959	36,794,817	76,983,105	63,317,797
Distribution and collection	-	-	20,794,753	20,165,311	20,794,753	20,165,311
Infrastructure	40,356,966	32,976,636	-	-	40,356,966	32,976,636
Vehicles	2,456,612	2,338,581	409,742	436,877	2,866,354	2,775,458
Office equipment	123,341	12,064	27,749	2,867	151,090	14,931
Technical equipment	4,446,655	1,281,707	226,815	160,633	4,673,470	1,442,340
Construction and maintenance equipment	1,617,059	960,528	296,456	301,000	1,913,515	1,261,528
Other equipment	2,470	3,705	-	-	2,470	3,705
Total	110,791,654	73,561,454	61,247,340	59,411,371	172,038,994	132,972,825
Construction in progress	1,239,890	34,554,683	7,627,377	4,806,578	8,867,267	39,361,261
Total	\$ 112,031,544	\$ 108,116,137	\$ 68,874,717	\$ 64,217,949	\$ 180,906,261	\$ 172,334,086

The following reconciliation summarizes the change in Capital Assets for the years ended June 30, 2013 and 2012:

(Table 5)
Change in Capital Assets
Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Beginning balance	\$ 108,116,137	\$ 84,635,729	\$ 64,217,949	\$ 59,475,173	\$ 172,334,086	\$ 144,110,902
Additions	45,254,093	27,002,456	9,576,367	8,560,864	54,830,460	35,563,320
Retirements	(37,915,895)	(973,676)	(3,158,760)	(2,089,236)	(41,074,655)	(3,062,912)
Depreciation	(3,422,791)	(2,548,372)	(1,760,839)	(1,728,852)	(5,183,630)	(4,277,224)
Ending balance	\$ 112,031,544	\$ 108,116,137	\$ 68,874,717	\$ 64,217,949	\$ 180,906,261	\$ 172,334,086

The City invested in additional land, buildings, infrastructure, vehicles and equipment during the fiscal year. The City also added the Elizabethtown Sports Park, police vehicles and several other vehicles and construction equipment.

Debt

At June 30, 2013, the City had \$51.7 million in bonds and notes outstanding. A total of \$2.4 million is due within one year. See Note 8 to the basic financial statements for additional information concerning outstanding debt.

(Table 6)
Outstanding Debt
June 30, 2013 and 2012

	2013	2012
Governmental:		
Bonds	\$41,355,000	\$43,140,000
Notes	88,173	128,848
Sub-total	41,443,173	43,268,848
Business-type:		
Water & Sewer System Loans	9,950,042	8,818,207
Water & Sewer System Notes	342,128	403,326
Sub-total	10,292,170	9,221,533
Total	<u>\$ 51,735,343</u>	<u>\$ 52,490,381</u>

Principal payments for governmental activities were \$1.9 million and business-type activities were \$558 thousand. The City also issued \$5.8 million in general obligation refunding bonds to refund the 2003 general obligation bonds.

City Challenges for the Future

The City continues to be financially sound. However, the current state and national financial climate requires the City to remain prudent.

The City of Elizabethtown will continue to use careful planning and monitoring of finances to provide quality services to its citizens.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Stephen D. Park, Director of Finance, P.O. Box 550, City Hall, Elizabethtown, Kentucky 42702-0550, (270) 765-6121.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ELIZABETHTOWN
STATEMENT OF NET POSITION
JUNE 30, 2013

Assets	Governmental Activities	Business- Type Activities	Total	Component Airport Board	Units Tourism & Convention
Current Assets					
Cash and cash equivalents	\$ 6,337,741	\$ 9,449,573	\$ 15,787,314	\$ 39,041	\$ 1,534,669
Restricted cash - customer deposits	-	102,147	102,147	-	-
Investments	12,926,425	-	12,926,425	-	-
Receivables:					
Taxes-current	3,471,074	-	3,471,074	-	-
Taxes-delinquent	74,857	-	74,857	-	-
Accounts receivable	-	1,679,434	1,679,434	-	-
Unbilled accounts	-	1,098,211	1,098,211	-	-
Sewer assessments	-	212,308	212,308	-	-
Intergovernmental-State	114,011	-	114,011	388,632	-
Intergovernmental-Indirect Federal	-	-	-	-	-
Intergovernmental-Direct Federal	691,386	-	691,386	-	-
Other receivables	551,221	87,368	638,589	-	338,209
Inventory	88,421	6,420,000	6,508,421	-	4,159
Internal balances	440,119	(440,119)	-	-	-
Total Current Assets	24,695,255	18,608,922	43,304,177	427,673	1,877,037
Noncurrent Assets					
Restricted cash and cash equivalents	-	3,389,060	3,389,060	2,000	-
Restricted investments - customer deposits	-	475,825	475,825	-	-
Capital assets, net of accumulated depreciation	112,031,544	68,874,717	180,906,261	11,734,740	1,273,773
Total Noncurrent Assets	112,031,544	72,739,602	184,771,146	11,736,740	1,273,773
Total Assets	136,726,799	91,348,524	228,075,323	12,164,413	3,150,810
Liabilities					
Current Liabilities					
Accounts payable	789,283	1,443,397	2,232,680	388,632	29,440
Accrued liabilities	257,685	66,495	324,180	-	24,990
Other liabilities	200	4,703	4,903	-	-
Unearned revenue	1,332,262	-	1,332,262	-	-
Interest payable	232,213	-	232,213	-	-
Current portion of customer deposits	-	75,676	75,676	-	-
Current portion of unearned lease income	-	-	-	1,221	-
Current portion of bond obligations	1,995,000	-	1,995,000	-	-
Current portion of loans payable	-	283,674	283,674	17,188	-
Current portion of compensated absences	129,152	46,860	176,012	-	-
Current portion of notes payable	42,912	61,198	104,110	-	-
Total Current Liabilities	4,778,707	1,982,003	6,760,710	407,041	54,430
Noncurrent Liabilities					
Noncurrent portion of unearned lease income	-	-	-	100,638	-
Noncurrent portion of bond obligations	38,343,799	-	38,343,799	-	-
Noncurrent portion of loans payable	-	-	-	395,948	-
Noncurrent portion of construction loan	-	9,666,368	9,666,368	-	-
Noncurrent portion of notes payable	45,261	280,930	326,191	-	-
Noncurrent portion of customer deposits	-	681,084	681,084	-	-
Noncurrent portion of ticket bank payable	-	-	-	2,000	-
Noncurrent portion of compensated absences	258,304	93,720	352,024	-	-
Total Noncurrent Liabilities	38,647,364	10,722,102	49,369,466	498,586	-
Total Liabilities	43,426,071	12,704,105	56,130,176	905,627	54,430
Net Position					
Net investment in capital assets	71,604,572	58,582,547	130,187,119	10,932,972	1,273,773
Restricted for:					
Fire Protection	233	-	233	-	-
Cemetery	1,309,328	-	1,309,328	-	-
Grants	380,258	-	380,258	-	-
Capital projects	1,102,117	-	1,102,117	-	-
Debt service	13,083	-	13,083	-	-
Unrestricted	18,891,137	20,061,872	38,953,009	325,814	1,822,607
Total Net Position	\$ 93,300,728	\$ 78,644,419	\$ 171,945,147	\$ 11,258,786	\$ 3,096,380

The accompanying notes are an integral part of this statement.

CITY OF ELIZABETHTOWN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets				
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total	Component Units Airport Board	Component Units Tourism & Convention
Primary government:									
Governmental activities:									
General government	\$ 9,932,133	\$ 4,584,449	\$ 1,179,090	\$ 265,361	\$ (3,903,233)	\$ -	\$ (3,903,233)	\$ -	\$ -
Public safety	11,386,572	100,853	1,157,188	-	(10,128,531)	-	(10,128,531)	-	-
Public works	5,255,366	963,449	576,511	-	(3,715,406)	-	(3,715,406)	-	-
Recreation/tourism	7,215,730	652,557	-	547,761	(6,015,412)	-	(6,015,412)	-	-
Interest on long-term debt	1,578,305	-	-	2,801,964	1,223,659	-	1,223,659	-	-
Total governmental activities	35,368,106	6,301,308	2,912,789	3,615,086	(22,538,923)	-	(22,538,923)	-	-
Business-type activities:									
Gas	12,002,987	11,599,199	-	-	-	(403,788)	(403,788)	-	-
Water and sewer	7,958,398	9,488,622	-	-	-	1,530,224	1,530,224	-	-
	19,961,385	21,087,821	-	-	-	1,126,436	1,126,436	-	-
	<u>\$ 55,329,491</u>	<u>\$ 27,389,129</u>	<u>\$ 2,912,789</u>	<u>\$ 3,615,086</u>	<u>(22,538,923)</u>	<u>1,126,436</u>	<u>(21,412,487)</u>	<u>-</u>	<u>-</u>
Component units:									
Airport Board	\$ 435,377	\$ 94,214	\$ 51,221	\$ 555,246	-	-	-	265,304	-
Tourism and Convention	2,830,625	117,557	60,894	-	-	-	-	-	(2,652,174)
	<u>\$ 3,266,002</u>	<u>\$ 211,771</u>	<u>\$ 112,115</u>	<u>\$ 555,246</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>265,304</u>	<u>(2,652,174)</u>
General revenues:									
Taxes:									
Property taxes, levied for general purposes					3,289,412	-	3,289,412	-	-
Franchise taxes					1,020,128	-	1,020,128	-	-
Insurance premiums tax					3,251,752	-	3,251,752	-	-
Transient room tax					513,885	-	513,885	-	-
Restaurant tax					2,615,008	-	2,615,008	-	-
Withholding tax					12,937,241	-	12,937,241	-	-
Net profits tax					2,462,321	-	2,462,321	-	-
Intergovernmental					-	-	-	-	3,020,498
Gain on disposal of capital assets					2,400	-	2,400	-	-
Interest and investment earnings					(33,806)	101,926	68,120	66	14,937
Miscellaneous					290,795	-	290,795	-	-
Total general revenues					26,349,136	101,926	26,451,062	66	3,035,435
Change in net position					3,810,213	1,228,362	5,038,575	265,370	383,261
Net position - beginning					89,490,515	77,416,057	166,906,572	10,993,416	2,713,119
Net position - ending					<u>\$ 93,300,728</u>	<u>\$ 78,644,419</u>	<u>\$ 171,945,147</u>	<u>\$ 11,258,786</u>	<u>\$ 3,096,380</u>

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF ELIZABETHTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	GENERAL FUND	CEMETERY FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Non-pooled cash and cash equivalents	\$ 6,131,302	\$ 206,028	\$ 413	\$ 6,337,743
Investments	9,195,006	1,103,300	2,628,117	12,926,423
Receivables, (net where applicable of allowance for doubtful accounts):				
Taxes - current	3,471,074	-	-	3,471,074
Taxes - delinquent	74,857	-	-	74,857
Other receivables	526,864	-	-	526,864
Intergovernmental-State of KY	-	-	11,466	11,466
Due from other funds	445,899	-	196,970	642,869
Inventories, at cost	88,421	-	-	88,421
TOTAL ASSETS	\$ 19,933,423	\$ 1,309,328	\$ 2,836,966	\$ 24,079,717
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 583,913	\$ -	\$ 8,813	\$ 592,726
Other liabilities	-	-	200	200
Accrued liabilities	257,685	-	-	257,685
Unearned revenue	-	-	1,332,262	1,332,262
Due to other funds	374,948	-	-	374,948
TOTAL LIABILITIES	1,216,546	-	1,341,275	2,557,821
Fund Balances:				
Nonspendable	88,421	-	-	88,421
Restricted	-	1,309,328	1,495,691	2,805,019
Unassigned	18,628,456	-	-	18,628,456
TOTAL FUND BALANCES	18,716,877	1,309,328	1,495,691	21,521,896
TOTAL LIABILITIES AND FUND BALANCES	\$ 19,933,423	\$ 1,309,328	\$ 2,836,966	\$ 24,079,717

The accompanying notes are an integral part of this statement.

CITY OF ELIZABETHTOWN
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2013

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Total fund balance per fund financial statements	\$ 21,521,896
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	112,031,544
Certain receivables are not available to pay current expenditures and are not recorded in the funds. The receivables are as follows:	
State grants	102,543
Federal grants	691,386
Certain liabilities (such as bonds and capital leases, certain payables, accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	(41,046,641)
Internal service funds are used by management to charge the costs of certain activities such as insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. Assets were \$196,557 and liabilities were \$196,557 for a net of \$0.	-
Net position for governmental activities	<u>\$ 93,300,728</u>

The accompanying notes are an integral part of this statement.

CITY OF ELIZABETHTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

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	GENERAL FUND	CEMETERY FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Property taxes	\$ 3,289,412	\$ -	\$ -	\$ 3,289,412
Sales taxes	3,128,893	-	-	3,128,893
Licenses and permits	17,768,381	-	-	17,768,381
Fines, forfeitures and penalties	129,304	-	-	129,304
Revenue from use of money and property	(103,163)	69,002	353	(33,808)
Charges for current services	227,564	-	-	227,564
Recreation fees	652,557	-	-	652,557
Miscellaneous revenue	1,230,481	-	-	1,230,481
Contributions	813,122	-	-	813,122
Insurance premiums tax	-	-	3,251,752	3,251,752
Local government	-	-	1,634,833	1,634,833
State of Kentucky	142,682	-	2,355,594	2,498,276
Federal grant revenue	482,208	-	348,268	830,476
TOTAL REVENUES	27,761,441	69,002	7,590,800	35,421,243
EXPENDITURES:				
Current:				
General government	4,005,445	10,828	413,082	4,429,355
Public safety	6,621,888	-	3,738,439	10,360,327
Public works	4,445,868	-	525,557	4,971,425
Recreation/tourism	6,396,680	-	-	6,396,680
Capital outlay	5,365,870	-	1,972,328	7,338,198
Bond issuance costs	-	-	53,857	53,857
Debt service-principal	40,675	-	1,900,000	1,940,675
Debt service-interest and fiscal charges	7,086	-	1,524,522	1,531,608
TOTAL EXPENDITURES	26,883,512	10,828	10,127,785	37,022,125
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	877,929	58,174	(2,536,985)	(1,600,882)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	2,598,761	2,598,761
Insurance proceeds	22,687	-	-	22,687
Proceeds from disposal of capital assets	2,400	-	-	2,400
Refunding bond proceeds	-	-	5,780,000	5,780,000
Payment to refunded bond escrow agent	-	-	(5,788,066)	(5,788,066)
Bond premium	-	-	65,155	65,155
Transfers out	(3,797,460)	-	-	(3,797,460)
TOTAL OTHER FINANCING SOURCES (USES)	(3,772,373)	-	2,655,850	(1,116,523)
NET CHANGE IN FUND BALANCES	(2,894,444)	58,174	118,865	(2,717,405)
FUND BALANCES, July 1, 2012	21,611,321	1,251,154	1,374,663	24,237,138
FUND BALANCES, June 30, 2013	\$ 18,716,877	\$ 1,309,328	\$ 1,493,528	\$ 21,519,733

The accompanying notes are an integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013

Net change in total fund balances per fund financial statements	\$ (2,717,405)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.	3,915,407
Bond and long-term debt payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	1,940,675
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	3,232
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	(82,861)
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.	-
Revenues that were recorded as revenues in the statement of activities in prior years do not provide current financial resources but are reported as revenues in the funds.	(42,764)
Receivables that were recorded as revenues in the statement of activities do not provide current financial resources but are reported as revenues in the funds.	793,929
Change in net position of governmental activities	<u>\$ 3,810,213</u>

The accompanying notes are an integral part of this statement.

ASSETS	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	GAS	WATER & SEWER	TOTALS	
CURRENT ASSETS:				
Non-pooled cash and cash equivalents	\$ 7,826,874	\$ 1,622,699	\$ 9,449,573	\$ -
Restricted cash-customer deposits	45,777	56,370	102,147	-
Investments	-	-	-	2
Inventory	6,420,000	-	6,420,000	-
Receivables (net of allowance for uncollectible):				
Accounts	807,336	872,098	1,679,434	-
Unbilled accounts	485,388	612,823	1,098,211	-
Sewer assessments	-	212,308	212,308	-
Other receivables	87,368	-	87,368	24,357
Due from other funds	209	5,573	5,782	172,198
TOTAL CURRENT ASSETS	15,672,952	3,381,871	19,054,823	196,557
NONCURRENT ASSETS:				
Restricted cash and cash equivalents:				
Customer deposits	91,553	112,740	204,293	-
Depreciation fund	-	2,459,282	2,459,282	-
Construction/improvements	-	90,082	90,082	-
KIA debt service	-	635,403	635,403	-
Restricted investments-customer deposits	325,342	150,483	475,825	-
Capital assets:				
Land	1,228,000	321,866	1,549,866	-
Construction in progress	-	7,627,377	7,627,377	-
Distribution and collection systems	8,977,456	30,355,531	39,332,987	-
Buildings and equipment	1,020,660	52,969,320	53,989,980	-
Less: accumulated depreciation	(5,333,232)	(28,292,261)	(33,625,493)	-
TOTAL NONCURRENT ASSETS	6,309,779	66,429,823	72,739,602	-
TOTAL ASSETS	21,982,731	69,811,694	91,794,425	196,557
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	781,371	662,026	1,443,397	196,557
Accrued liabilities	15,750	50,745	66,495	-
Loans payable	-	283,674	283,674	-
Customer deposits	43,724	31,952	75,676	-
Compensated absences	12,577	34,283	46,860	-
Other liabilities	4,703	-	4,703	-
Notes payable	-	61,198	61,198	-
Due to other funds	151,315	294,586	445,901	-
TOTAL CURRENT LIABILITIES	1,009,440	1,418,464	2,427,904	196,557
NONCURRENT LIABILITIES:				
Construction loan	-	9,666,368	9,666,368	-
Customer deposits	393,515	287,569	681,084	-
Notes payable	-	280,930	280,930	-
Compensated absences	25,154	68,566	93,720	-
TOTAL NONCURRENT LIABILITIES	418,669	10,303,433	10,722,102	-
TOTAL LIABILITIES	1,428,109	11,721,897	13,150,006	196,557
NET POSITION:				
Net investment in capital assets	5,892,884	52,689,663	58,582,547	-
Unrestricted	14,661,738	5,400,134	20,061,872	-
TOTAL NET POSITION	\$ 20,554,622	\$ 58,089,797	\$ 78,644,419	\$ -

The accompanying notes are an integral part of this statement.

CITY OF ELIZABETHTOWN
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	GAS	WATER & SEWER	TOTALS	
OPERATING REVENUE:				
Charges for metered sales	\$ 11,493,894	\$ 9,104,141	\$ 20,598,035	\$ -
Charges for services	-	-	-	1,981,305
Water sold at plant	-	4,475	4,475	-
Sewer surcharge fees	-	3,133	3,133	-
Other services and tap fees	105,305	376,873	482,178	-
Stop loss proceeds	-	-	-	999,515
TOTAL OPERATING REVENUE	11,599,199	9,488,622	21,087,821	2,980,820
OPERATING EXPENSES:				
Distribution	9,682,182	-	9,682,182	-
Administrative and general	2,119,302	2,313,853	4,433,155	-
Operating expenses Plant #1	-	746,394	746,394	-
Operating expenses Plant #2	-	1,583,815	1,583,815	-
Maintenance	-	382,853	382,853	-
Services	-	932,894	932,894	-
Construction	-	210,514	210,514	-
Operating expense - water tower	-	135,775	135,775	-
Operating expense - lift stations	-	77,497	77,497	-
Insurance claims and expenses	-	-	-	4,179,521
Depreciation	201,503	1,559,336	1,760,839	-
TOTAL OPERATING EXPENSES	12,002,987	7,942,931	19,945,918	4,179,521
INCOME (LOSS) FROM OPERATIONS	(403,788)	1,545,691	1,141,903	(1,198,701)
NON-OPERATING REVENUE (EXPENSE):				
Investment income	9,704	92,222	101,926	2
Interest paid on KIA loan	-	(15,467)	(15,467)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	9,704	76,755	86,459	2
NET INCOME (LOSS) BEFORE TRANSFERS	(394,084)	1,622,446	1,228,362	(1,198,699)
Transfers in	-	-	-	1,198,699
CHANGE IN NET POSITION	(394,084)	1,622,446	1,228,362	-
NET POSITION, July 1, 2012	20,948,706	56,467,351	77,416,057	-
NET POSITION, June 30, 2013	\$ 20,554,622	\$ 58,089,797	\$ 78,644,419	\$ -

The accompanying notes are an integral part of this statement.

CITY OF ELIZABETHTOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	GAS	WATER & SEWER	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers and users	\$ 11,916,930	\$ 8,851,961	\$ 20,768,891	\$ 1,911,346
Cash received from other funds for services	-	-	-	-
Cash received from insurance claims	-	-	-	1,027,479
Cash payments to employees	(736,724)	(1,874,041)	(2,610,765)	-
Cash payments for insurance claims	-	-	-	(4,152,564)
Cash payments for operating expenses	(8,955,085)	(3,986,119)	(12,941,204)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,225,121	2,991,801	5,216,922	(1,213,739)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	-	-	-	1,198,699
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	-	-	1,198,699
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(115,377)	(6,031,841)	(6,147,218)	-
Principal paid on KIA loan	-	(558,125)	(558,125)	-
Principal paid on notes payable	-	(61,198)	(61,198)	-
Interest paid on KIA loan	-	(285,826)	(285,826)	-
Borrowing on on KIA loan	-	1,689,960	1,689,960	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(115,377)	(5,247,030)	(5,362,407)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments	(4,095)	(425)	-	(2)
Investment income	9,704	92,222	101,926	2
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,609	91,797	101,926	-
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	2,115,353	(2,163,432)	(43,559)	(15,040)
CASH AND RESTRICTED CASH, July 1, 2012	5,848,851	7,140,008	12,988,859	15,040
CASH AND RESTRICTED CASH, June 30, 2013	\$ 7,964,204	\$ 4,976,576	\$ 12,945,300	\$ -
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Income (Loss) from operations	(403,788)	1,545,691	1,141,903	(1,198,701)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	201,503	1,559,336	1,760,839	-
Change in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(763,065)	(636,661)	(1,399,726)	-
Other receivables	1,056,176	-	1,056,176	27,964
Sewer assessments	-	63,300	63,300	-
Due from other funds	1,191	10,803	11,994	(69,959)
Prepaid expenses	26,680	48,180	74,860	-
Inventory	1,680,757	-	1,680,757	-
Increase (decrease) in:				
Accounts payable	410,792	340,000	750,792	26,957
Accrued liabilities	(6,709)	(11,889)	(18,598)	-
Due to other funds	18,058	68,125	86,183	-
Compensated absences	2,283	2,485	4,768	-
Other liabilities	77	-	77	-
Customer deposits	1,166	2,431	3,597	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,225,121	\$ 2,991,801	\$ 5,216,922	\$ (1,213,739)

The accompanying notes are an integral part of this statement.

CITY OF ELIZABETHTOWN
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS - NARCOTICS TASK FORCE
JUNE 30, 2013

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ASSETS	
Cash and cash equivalents	\$ 281,423
Investments	<u>22,332</u>
TOTAL ASSETS	<u>\$ 303,755</u>
LIABILITIES	
Liabilities:	
Due to other entities	<u>\$ 303,755</u>
TOTAL LIABILITIES	<u>\$ 303,755</u>

The accompanying notes are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESGENERAL STATEMENT

The financial statements of the City of Elizabethtown, Kentucky (the "City") have been prepared to conform 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 accepted standard setting body for establishing governmental accounting and financial reporting principles.

FINANCIAL REPORTING ENTITYCOMPONENT UNITS

The City of Elizabethtown is a chartered City in which citizens elect the mayor at large and six council members at large. The accompanying financial statements present the various governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information and illustrate the respective changes in financial position and cash flows, where applicable.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the City is financially accountable. The City is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the City or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the City or the nature and significance of the relationship between the City and the organization is such that exclusion would cause the City's financial statements to be incomplete. Applying this definition, City management has determined that the following component units are reportable within the accompanying financial statements.

Elizabethtown Tourism and Convention Bureau - (ETCB) The ETCB promotes convention and tourist activities which are financed by room tax revenues collected by the City and expenditures are authorized as part of the City's annual budget. ETCB was established by ordinance of the City of Elizabethtown on March 17, 1976. All Board Members are appointed by the Mayor. ETCB is presented discretely in the basic financial statements. The ETCB is separately audited and a copy of the independent auditor's report can be obtained from ETCB, 1030 North Mulberry Street, Elizabethtown, Kentucky 42701.

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013

Elizabethtown Airport Board - (EAB) The Elizabethtown Airport Board is a municipal corporation established under Chapter No. 76.77 of the 1928 Public Acts of the State of Kentucky and expanded by Kentucky Revised Statutes Chapter 183. The EAB operates and manages the Elizabethtown Airport. The EAB promotes the use of the airport and obtains revenues through the sale of fuel and airplane supplies through a management company. All Board members are appointed by the Mayor and the Board is financially dependent on the City. EAB is presented discretely in the basic financial statements. The EAB is separately audited and a copy of the independent auditor's report can be obtained from EAB, 1828 Kitty Hawk Drive, Elizabethtown, Kentucky 42701.

Elizabethtown Public Properties Holding Company, Inc. - In 1971, the Elizabethtown City Council resolved to authorize the establishment of the Elizabethtown Public Properties Holding Company, Inc. (a non-profit, non-stock corporation) as an agency of the City for financing the acquisition, construction and operation of public building facilities. The Council members of the City of Elizabethtown also comprise the Corporation's Board of Directors. The Company is blended into the City's basic financial statements. This includes the 2007 bond Fund.

BASIS OF PRESENTATION - FUND ACCOUNTING

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are ordered into three major categories: governmental, proprietary and fiduciary. Governmental funds include the general, special revenue, capital projects and debt service funds. Proprietary funds include enterprise funds and an internal service fund. The City has one fiduciary agency fund.

BASIS OF ACCOUNTINGGOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. Fiduciary funds are also excluded from the government-wide financial statements.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements.

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013

The government-wide Statement of Net Position presents the financial condition of the governmental and business-type activities of the City at year-end. The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

The following are the City's Governmental Fund types:

General Fund -

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund. This is a major fund.

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013

Special Revenue Funds -

The Special Revenue Funds are used to account for the proceeds of specific revenue resources (other than assessments, or major capital projects) that are legally restricted to expenditures for specified purposes. These funds include:

Fire and Police Incentive, Municipal Aid, Special Project Grant, Narcotics Task Force Grant, State Theatre Project, Courthouse Operations Fund, Fire Protection Sinking Fund and Cemetery Fund. The Fire Protection Sinking Fund and Cemetery Fund are major funds. The Fire Protection Sinking Fund is financed by an insurance premiums tax and is used to support fire operations. The Cemetery Fund is financed by the sale of cemetery lots and investment earnings and serves as the City cemetery. The Cemetery Fund is a major fund.

Capital Projects Funds -

The Capital Projects Funds are used to account for the acquisition or construction of capital facilities (other than those financed by Proprietary Funds) being financed from General Obligation or Certificates of Obligation Bonds' proceeds, grants, or transfers from other funds. The capital projects funds are the Courthouse Project and the Elizabethtown Sports Park Project.

Debt Service Funds -

The Debt Service Funds are used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Funds is restricted to signify the amounts that are restricted exclusively for debt service expenditures. The Debt Service Funds are the 1999, 2003, 2007, 2010A, 2011B, 2012C and 2013 bond funds.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). The revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, charges for services, interest income and intergovernmental revenues. All other Governmental revenues are recognized when received. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2013 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

Proprietary funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in these funds. Unbilled utility receivables are recorded at June 30.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all the City's enterprise funds and internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following are the City's Proprietary Fund types:

Enterprise Funds -

Water and Sewer Fund - To account for the provision of water treatment and distribution and sewer treatment to the residential and commercial users of the City. This is a major fund.

Natural Gas - To account for the provision of natural gas distribution to the residential and commercial users of the City. This is a major fund.

Internal Service Funds -

The City's Internal Service Fund is the Employee Benefit Trust. This fund accounts for the costs of providing a self-insured health insurance plan for the City's employees. Revenues include premiums and expenses include claims and administrative items.

FIDUCIARY FUNDS

Fiduciary Funds account for assets held by the City in a trustee or agency capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds use the accrual basis of accounting.

Agency Funds - The Narcotics Task Force is the City's Agency Fund.

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CITY OF ELIZABETHTOWN

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a minimum capitalization threshold of \$5,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20-50 years
Equipment	5-15 years
Vehicles	5-15 years
Infrastructure	20-50 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as separate assets and liabilities in the Statement of Net Position.

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CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013

Budgets and Budgetary Accounting - the City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Director of Finance submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance. Budgets are amended by ordinances approved by the Council to authorize expenditures of various grants received and to adjust budgets as required.
4. The Director of Finance is authorized to transfer budgeted amounts between departments within any function of a fund; however, revisions that alter the total expenditures of any fund or function must have City Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the following Special Revenue Funds: Municipal Aid Program, Incentive Funds, Fire Protection Sinking Funds, Cemetery Fund, Special Project Grant and Narcotics Task Force Funds.
6. Budgets are adopted on the basis consistent with Generally Accepted Accounting Principles (GAAP). Annual appropriated budgets are adopted for general and special revenue funds. All annual appropriations lapse at fiscal year-end.
7. The City Council has budgeted as transfers out funds for principal and interest payments made in the Debt Service Fund.
8. Kentucky Revised Statute 91A.030 prohibits adoption of a budget that provides for appropriations to exceed revenues in any one fiscal year in violation of Section 157 of the Kentucky Constitution.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments are separately held and reflected in their respective fund on the balance sheet. Cash and cash equivalents include demand deposits and cash management accounts. Investments are valued at fair value.

For the purpose of the statement of cash flows, the City considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

RESTRICTED CASH

Restricted assets consist of cash and cash equivalents restricted for use in the Enterprise Funds.

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013INVENTORY

On government-wide financial statements inventories are stated at cost and are expensed when used. On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. All funds use the first-in, first-out method.

PREPAID ASSETS

Payments made that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

RECEIVABLES

The City recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from customers and federal and state governments is limited due to the historical collection rates from customers and the stability of governmental institutions. An allowance of \$50,000 is used for water & sewer and \$25,000 is used for gas.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. Bond premiums/discounts and issuance cost are amortized over the life of the bonds while deferred amounts on advance refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the new bonds both in a systematic and rational method, which approximates the effective-interest method.

CONTRIBUTIONS OF CAPITAL

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

COMPENSATED ABSENCES

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. The City uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

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CITY OF ELIZABETHTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

Fund Financial Statements:

<u>Interfund Balances</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 445,899	\$ 374,948
Special Revenue Funds:		
Fire & Police Incentive	13,831	-
Municipal Aid	183,139	-
Proprietary Funds:		
Water & Sewer	5,573	294,586
Gas	209	151,315
Internal Service Fund:		
Employee benefits trust	172,198	-
Total	<u>\$ 820,849</u>	<u>\$ 820,849</u>

Government-Wide Financial Statements:

<u>Interfund Balances</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 440,119	\$ -
Proprietary Funds:		
Water & Sewer	-	289,013
Gas	-	151,106
Total	<u>\$ 440,119</u>	<u>\$ 440,119</u>

The above table presents the internal balances for the fund financial statements. For the government-wide financial statements, only those balances between the general fund, water & sewer fund and gas funds are included. All balances are between the general fund and the respective paying/receiving fund. The purpose of the balances is for grant funds whose funds are deposited into the general fund and expenses paid by the general fund.

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 reported amounts of assets, liabilities, fund balances/net assets, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLESRecently Issued And Adopted Accounting Principles

In November 2010, the GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011 and the City adopted GASB 60 in fiscal year 2013. The City does not have any SCAs and therefore the adoption of GASB 60 does not have any impact on the City's financial statements.

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012 and the City adopted GASB 61 in fiscal year 2013.

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011 and the City adopted GASB 62 in fiscal year 2013. The adoption of GASB 62 does not have any impact on the City's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, and the City adopted GASB 63 in fiscal year 2013.

In June 2011, the GASB issued Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53*. GASB 64 provides clarification on whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement is effective for periods beginning after June 15, 2011 and the City adopted GASB 64 in fiscal year 2013. The adoption of GASB 64 does not have any impact on the City's current financial statements.

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement.

In March 2012, the GASB issued Statement 66, *Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27*. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2013. Management is currently evaluating the impact of the adoption of this statement.

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CITY OF ELIZABETHTOWN

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

In March 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement is effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of that difference are as follows:

Bonds payable	\$ 41,355,000
Notes payable	88,173
Unamortized bond discount	(633,172)
Deferred amount on bond refunding	(383,029)
Interest payable	232,213
Compensated absences	<u>387,456</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 41,046,641</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay	\$ 7,338,198
Depreciation	<u>(3,422,791)</u>
Net adjustment to increase changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,915,407</u>

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013NOTE 3 - FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2013, the General Fund had \$88,421 of nonspendable fund balance related to inventory and prepaid items.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the City had \$1,309,328 restricted for the cemetery in the Cemetery fund, and \$1,495,691 restricted in the nonmajor funds (\$233 restricted due to tax requirements in the Fire Protection Sinking Fund \$380,258 restricted for grants, \$1,102,117 for capital projects and \$13,083 restricted for debt service).

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the City Council. The City Council must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The City had no committed funds at June 30, 2013.

Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The City had no assigned funds at June 30, 2013.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. No minimum fund balance policy has been adopted.

NOTE 4 - PROPERTY TAX

Property taxes are levied by the City of Elizabethtown as of October 1 and payable to the City by December 31 of each year. The taxes become a lien on the first day of January of the succeeding year. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide statements. Taxes levied to finance fiscal year 2013 were \$.116 per \$100 valuation for real property, \$.116 per \$100 valuation for business personal property and \$.116 per \$100 valuation for motor vehicles.

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CITY OF ELIZABETHTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - RESTAURANT AND TRANSIENT ROOM TAX

The City levies a 2 percent restaurant tax whose proceeds are remitted to the Elizabethtown Tourism and Convention Bureau. The City also levies a 3 percent transient room tax whose proceeds are remitted to the Elizabethtown Tourism and Convention Bureau.

NOTE 6 - DEPOSITS AND INVESTMENTS

DEPOSITS

It is the City's policy for deposits to be 105% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned or that the City will not be able to recover collateral securities in the possession of an outside party. At June 30, 2013, \$2,727,737 of the government's bank balance of \$8,740,345 was exposed to custodial credit risk. Of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

INVESTMENTS

As of June 30, 2013, the City had the following investments and maturities:

	Fair Value	Average Credit Quality Ratings (1)	Less Than 1	1-5	6-10	MORE THAN 10
Federal Farm Credit Bonds	\$ 1,651,523	AA+/Aaa	\$ -	\$ -	\$ 714,848	\$ 936,675
Federal Home Loan Bonds	473,135	AA+/Aaa	-	-	235,900	237,235
Federal Home Loan Mortgage Company	578,109	AA+/Aaa	-	-	236,973	341,136
Federal National Mortgage Assn	1,268,843	AA+/Aaa	-	-	-	1,268,843
Government National Mortgage Assn	1,820	AA+/Aaa	-	-	-	1,820
KY Local Government Bonds	403,108	AA+/Aaa	-	20,257	21,230	361,621
Money Market Mutual Funds	20,612,396	Not Rated	20,612,396	-	-	-
Total Investments with Maturities	24,988,934		\$ 20,612,396	\$ 20,257	\$ 1,208,951	\$ 3,147,330
Mutual Funds	329,877	N/A				
Domestic Equities	60,054	N/A				
Total Investments	\$25,378,865					

(1) Ratings are provided where applicable to indicate associated *Credit Risk*. N/A indicates not applicable. Ratings are from Standard & Poor's and Moody's Investors Service and are presented in that order.

The City had no investments reported at amortized cost.

(Continued next page)

CITY OF ELIZABETHTOWN

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

Investment Policies

City Policy

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are under the custody of the City Finance Director. Investing policies comply with the State Statutes and the City Charter. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations of any corporation of the United States Government;
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency;
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Commercial paper rated in the highest category by a nationally recognized rating agency;
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics:
 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.
- Investments of the cemetery fund have no restrictions.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. **Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the City's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The City does not have more than 5% or more of investments subject to the concentration of credit risk disclosure in any one issuer.

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CITY OF ELIZABETHTOWN

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's \$4.4 million in securities is held by the counterparty's trust department but not in the City's name. The City's policy is to have the securities held by the counterparty's trust department according to the trust department's policy.

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for governmental activities for the year ended June 30, 2013, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental activities:				
Non-Depreciable Assets:				
Land	\$ 9,465,253	\$ 13,282,152	\$ -	\$ 22,747,405
Construction in progress	34,554,683	4,601,102	(37,915,895)	1,239,890
Depreciable Assets:				
Buildings	33,219,612	13,414,069	-	46,633,681
Infrastructure	66,532,616	8,751,862	-	75,284,478
Vehicles	5,806,603	475,380	-	6,281,983
Office equipment	113,393	128,178	-	241,571
Technical equipment	2,451,132	3,700,009	-	6,151,141
Construction and maintenance equipment	1,818,943	901,341	-	2,720,284
Other equipment	728,079	-	-	728,079
Totals at historical cost	<u>154,690,314</u>	<u>45,254,093</u>	<u>(37,915,895)</u>	<u>162,028,512</u>
Less accumulated depreciation for:				
Buildings	(6,696,632)	(895,903)	-	(7,592,535)
Infrastructure	(33,555,980)	(1,371,532)	-	(34,927,512)
Vehicles	(3,468,022)	(357,349)	-	(3,825,371)
Office equipment	(101,329)	(16,901)	-	(118,230)
Technical equipment	(1,169,425)	(535,061)	-	(1,704,486)
Construction and maintenance equipment	(858,415)	(244,810)	-	(1,103,225)
Other equipment	(724,374)	(1,235)	-	(725,609)
Total accumulated depreciation	<u>(46,574,177)</u>	<u>(3,422,791)</u>	<u>-</u>	<u>(49,996,968)</u>
Governmental activities capital assets, net	<u>\$ 108,116,137</u>	<u>\$ 41,831,302</u>	<u>\$ (37,915,895)</u>	<u>\$ 112,031,544</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 1,706,637
Public safety	613,164
Public works	283,940
Recreation/tourism	819,050
Total governmental activities depreciation expense	<u>\$ 3,422,791</u>

(Continued next page)

CITY OF ELIZABETHTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

Capital asset activity for business-type activities for the year ended June 30, 2013, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Business-type activities:				
Non-Depreciable Assets:				
Land	\$ 1,549,866			\$ 1,549,866
Construction in progress	4,806,578	5,979,559	(3,158,760)	7,627,377
Depreciable Assets:				
Buildings and equipment	51,757,317	2,232,663		53,989,980
Distribution and collection systems	37,968,842	1,364,145		39,332,987
Totals at historical cost	96,082,603	9,576,367	(3,158,760)	102,500,210
Less accumulated depreciation for:				
Buildings and equipment	(14,061,123)	(1,026,136)		(15,087,259)
Distribution and collection systems	(17,803,531)	(734,703)		(18,538,234)
Total accumulated depreciation	(31,864,654)	(1,760,839)	-	(33,625,493)
Business-type activities capital assets, net	\$ 64,217,949	\$ 7,815,528	\$ (3,158,760)	\$ 68,874,717

Depreciation was charged to functions as follows:

Business-type activities:	
Water and sewer	\$ 1,559,336
Natural gas	201,503
Total business-type activities depreciation expense	\$ 1,760,839

NOTE 8 - LONG TERM LIABILITIES

Outstanding Debt - At June 30, 2013, bonds payable consisted of the following individual issues:

	Original Issue Amount	Governmental Activities Debt
1999 General Obligation Bonds, dated July 1, 1999, issued through the City. Payments are due in annual installments through 2015, bearing interest rates of 4.0% to 5.0%.	\$ 1,860,000	\$ 335,000
2003 General Obligation Bonds, dated October 1, 2003, issued through the City. Payments are due in annual installments through 2034, bearing interest rates of 1.8% to 4.625%.	7,500,000	375,000
2007 First Mortgage Refunding Revenue Bonds, dated January 1, 2007, issued through the Elizabethtown Public Properties Holding Company, Inc. Payments are due in annual installments through April 1, 2022, bearing interest rates of 3.45% to 4.0%.	11,640,000	7,540,000
2010A General Obligation Bonds, dated July 1, 2010, issued through the City. Payments are due in annual installments through 2036, bearing interest rates of .8% to 5.625%.	10,000,000	9,400,000
2011B General Obligation Bonds, dated November 1, 2011, issued through the City. Payments are due in annual installments through 2037, bearing interest rates of 2.0% to 3.6%.	10,000,000	9,745,000
2012C General Obligation Bonds, dated April 1, 2012, issued through the City. Payments are due in annual installments through 2037, bearing interest rates of 1.0% to 3.75%.	8,500,000	8,180,000
2013 General Obligation Redunding Bonds, dated April 16, 2013, issued through the City. Payments are due in annual installments through 2034 bearing interest rates of 1.0% to 3.0%.	5,780,000	5,780,000
Total bonds payable	\$ 49,500,000	\$ 35,575,000

(Continued next page)

CITY OF ELIZABETHTOWN

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental Activities					
Bonds and notes payable:					
Mortgage revenue bonds	\$ 8,230,000	\$ -	\$ (690,000)	\$ 7,540,000	\$ 715,000
General obligation bonds	34,910,000	5,780,000	(6,875,000)	33,815,000	1,280,000
Bond discount	(687,293)	11,298	42,825	(633,170)	(43,630)
Deferred amount on refunding	(295,065)	(123,066)	35,100	(383,031)	(35,100)
Notes payable	128,848		(40,675)	88,173	42,912
Total bonds and notes payable	42,286,490	5,668,232	(7,527,750)	40,426,972	1,959,182
Other liabilities:					
Compensated absences	357,765	119,530	(89,839)	387,456	129,152
Governmental Activities, long-term liabilities	\$42,644,255	\$ 5,787,762	\$ (7,617,589)	\$ 40,814,428	\$ 2,088,334
Business-type Activities					
Loans and notes payable:					
Water and sewer loans	\$ 841,799	\$ -	\$ (558,125)	\$ 283,674	\$ 283,674
Water and sewer const. loans	7,976,408	1,689,960	-	9,666,368	-
Notes payable	403,326	-	(61,198)	342,128	61,198
Total bonds and notes payable	9,221,533	1,689,960	(619,323)	10,292,170	344,872
Other liabilities:					
Compensated absences	135,812	53,226	(48,458)	140,580	46,860
Business-type Activities, long-term liabilities	\$ 9,357,345	\$ 1,743,186	\$ (667,781)	\$ 10,432,750	\$ 391,732
Component Units					
Tourism & Convention Bureau	\$ -	\$ -	\$ -	\$ -	\$ -
Airport Board	429,491	-	(16,355)	413,136	17,188
Total Component Units	\$ 429,491	\$ -	\$ (16,355)	\$ 413,136	\$ 17,188

Compensated absences are generally paid through the general, water and sewer and gas funds. The general fund, the water and sewer fund and gas fund were the funds with reductions in compensated absences during the fiscal year.

Mortgage Revenue Bonds - Mortgage Revenue Bonds were issued by the Elizabethtown Public Properties Holding Company, Inc., for financing the acquisition of the Elizabethtown City Hall and Hardin County Courthouse.

General Obligation Bonds - General obligation bonds were issued by the City for financing the acquisition of passive park land, construction of police and fire stations and construction of a sports park.

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CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013

On November 23, 2004, the City exercised an option on a parcel of land which requires annual payments of \$47,761 at 5.5% interest over a 10 year period for a total principal payment of \$360,000.

On November 8, 2007, the City agreed to pay for sewer extension costs incurred by a land development company. The agreement requires annual payments of \$17,252 at no interest over a 10 year period for a total payment of \$172,520.

The City entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA), an instrumentality of the Commonwealth of Kentucky, to provide funds for the expansion of a 4.5 million gallon per day sewer treatment facility. Payments are due in semi-annual installments of \$286,796, bearing an interest rate of 2.20%.

The City entered into an agreement to refund sewer extension costs to two entities during the fiscal year. The agreement requires the city to repay \$439,163 in equal installments over 10 years beginning in fiscal 2011.

On August 4, 2010, the City issued \$10,000,000 in 2010A Series General Obligation Bonds (Build America Bonds) with an average interest rate of 3.41 percent. The net proceeds of \$9,796,873 (after \$105,000 in cost of issuance and \$98,127 of discount) were deposited in the General Fund. The bonds, which allow a direct federal payment subsidy, are taxable bonds issued by state and local governments that gives access to the conventional corporate debt markets. At the election of the state and local governments, the Treasury Department makes a direct payment to the state or local governmental issuer.

On November 3, 2011, the City issued \$10,000,000 in 2011B Series General Obligation Bonds with an average interest rate of 3.13 percent. The net proceeds of \$9,885,644 (after \$101,331 in cost of issuance and \$13,025 of discount) were deposited in the 2011B Debt Service Fund and then transferred to the General Fund.

On April 3, 2012, the City issued \$8,500,000 in 2012C Series General Obligation Bonds with an average interest rate of 2.79 percent. The net proceeds of \$8,401,198 (after \$85,200 in cost of issuance and \$13,602 of discount) were deposited in the 2012C Debt Service Fund and then transferred to the General Fund.

On April 16, 2013, the City issued \$5,780,000 in General Obligation Refunding Bonds with an average interest rate of 2.40 percent to advance refund \$5,665,000 of outstanding 2003 Series General Obligation Bonds. The refunding was a partial advance refunding. The net proceeds of \$5,788,066 (after \$53,857 in cost of issuance, \$65,155 in bond premium and \$3,232 in interest which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to call the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$123,066. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2034 using the effective-interest method.

The City completed the refunding to reduce its total debt service payments over the next 20 years by \$1,454,778 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,156,035. The 2003 bonds will be called on October 1, 2013.

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CITY OF ELIZABETHTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

Principal and interest requirements to retire the City's long-term obligations are as follows:

Year	Mortgage Revenue Bonds		General Obligation Bonds		Notes Payable		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
Governmental Activities							
2014	\$ 715,000	\$ 297,056	\$ 1,280,000	\$ 1,054,208	\$ 42,912	\$ 4,849	\$ 3,394,025
2015	745,000	271,138	1,305,000	1,030,010	45,261	2,500	3,398,909
2016	770,000	243,200	1,150,000	1,004,123	-	-	3,167,323
2017	800,000	212,400	1,170,000	982,912	-	-	3,165,312
2018	835,000	180,400	1,190,000	958,488	-	-	3,163,888
2019-2023	3,675,000	374,800	6,350,000	4,327,308	-	-	14,727,108
2024-2028	-	-	7,160,000	3,342,466	-	-	10,502,466
2029-2033	-	-	8,300,000	2,009,338	-	-	10,309,338
2034-2037	-	-	5,910,000	435,468	-	-	6,345,468
Total	<u>\$ 7,540,000</u>	<u>\$1,578,994</u>	<u>\$ 33,815,000</u>	<u>\$ 15,144,321</u>	<u>\$ 88,173</u>	<u>\$ 7,349</u>	<u>\$58,173,837</u>

Year	Loans Payable		Notes Payable		Totals
	Principal	Interest	Principal	Interest	
Business-type Activities					
2014	\$ 283,674	\$ 3,120	\$ 61,198	\$ -	\$ 347,992
2015	-	-	61,198	-	61,198
2016	-	-	43,946	-	43,946
2017	-	-	43,946	-	43,946
2018	-	-	43,946	-	43,946
2019-2021	-	-	87,894	-	87,894
Total	<u>\$ 283,674</u>	<u>\$ 3,120</u>	<u>\$342,128</u>	<u>\$ -</u>	<u>\$ 628,922</u>

The water and sewer construction loan payment terms have not been established at June 30, 2013. See the commitments note for more information on this loan.

Total interest costs incurred during 2013 were \$1,817,434. Of this amount, \$1,547,075 was charged to expense and \$270,359 was capitalized in the water & sewer fund.

NOTE 9 - RETIREMENT SYSTEM

The City participates in the County Employees Retirement System (CERS).

Plan Description - The City participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System's Board of Trustees. CERS provides benefits to its participants upon retirement. CERS issues a publicly available financial report that includes financial statements and required supplementary information for the retirement plan. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 502-564-4646.

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CITY OF ELIZABETHTOWN

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

Funding Policy - Plan members working in non-hazardous positions employed before September 1, 2008, are required to contribute 5% of their annual covered salary and those hired on or after September 1, 2008, are required to contribute 6% of their annual covered salary. Members working in hazardous positions employed before September 1, 2008, are required to contribute 8% of their annual covered salary and those hired on or after September 1, 2008, are required to contribute 9% of their annual covered salary. The City is required to contribute at an actuarially determined rate. The contribution rates for 2013, 2012, and 2011 were 19.55%, 18.96% and 16.93% for non-hazardous employees and 37.60%, 35.76% and 33.25% for hazardous employees. The contribution requirements of the City are established and may be amended by the Kentucky Retirement System's Board of Trustees. The City's contribution requirements to CERS for the years ended June 30, 2013, 2012, and 2011 were \$3,039,847, \$3,039,847 and \$2,627,414. Payroll for plan employees was \$12,757,590, \$12,092,919 and \$11,083,938. The City contributed the required percentage for the years ended June 30, 2013, 2012, and 2011. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

NOTE 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 11 - SELF-INSURANCE

As disclosed in Note 1, the Internal Service Fund (Employee Benefits Trust Fund) was established effective April 6, 1990, to account for the City's employee health care coverage program, which is self-insured by the City. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. Liabilities for unpaid claims are estimated based on a review of claims incurred during the fiscal year but not paid until the following fiscal year. Changes in claims liability during fiscal years ended June 30, 2013 and 2012, were as follows:

Fiscal year Ended June 30,	Balance at beginning of fiscal year	Current-year claims and changes in estimates	Claim payments and transfers	Balance at end of fiscal year
2013	\$ 15,040	\$ 2,938,825	\$ 2,953,865	\$ -
2012	\$ 6,944	\$ 3,217,471	\$ 3,209,375	\$ 15,040

Claims due within one year at June 30, 2013 were \$196,557. The health care coverage program maintains a policy with a commercial insurance company that covers any claims greater than \$75,000 per year per employee and also covers any aggregate claims greater than \$2,244,000 per year. For the fiscal years ending June 30, 2013, 2012 and 2011, no settlements exceeded insurance coverage.

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CITY OF ELIZABETHTOWN

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 12 - INTERFUND TRANSFERS

	Transfers In	Transfers Out
General Fund	\$ -	\$ 3,797,460
Capital Projects Fund:		
E-town Sports Park	1,972,328	-
Debt Service Funds:		
1999 Bonds	179,500	-
2003 Bonds	446,933	-
Internal Service Fund	1,198,699	-
	<u>\$ 3,797,460</u>	<u>\$ 3,797,460</u>

These transfers were eliminated in the preparation of the government-wide financial statements. The transfers were made to make debt payments through the debt service fund, to advance funds to the internal service fund from the general fund and to transfer construction funds to the E-town Sports Park.

NOTE 13 - INSURANCE AND RELATED ACTIVITIES AND RISK MANAGEMENT

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The City has purchased certain policies, which are retrospectively rated which include workers' compensation insurance. To obtain insurance for workers' compensation, the City participates in the Kentucky League of Cities Workers' Compensation Trust. This public entity risk pool operates as a common risk management and insurance program for all participating cities of Kentucky who are members of the Kentucky League of Cities. The City pays an annual premium to the fund for coverage. Contributions to the Workers' Compensation Trust are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term.

The City purchased unemployment insurance through the Kentucky League of Cities Unemployment Compensation Reimbursement Trust; however, risk has not been transferred to such fund.

NOTE 14 - INDIVIDUAL FUND EXPENDITURES IN EXCESS OF APPROPRIATIONS

The following funds had expenditures in excess of appropriations for the year ended June 30, 2013:

General Fund	\$2,894,444
Fire Protection Sinking Fund	1,930
Courthouse Operations Fund	3,510
Gas Fund	394,084

(Continued next page)

CITY OF ELIZABETHTOWNNOTES TO BASIC FINANCIAL STATEMENTSJUNE 30, 2013(Concluded)NOTE 15 - COMMITMENTS AND CONTINGENCIES

The City is a defendant in a number of lawsuits that have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty. In the opinion of the City Attorney, these actions when finally adjudicated will not have material adverse effect on the financial position of the City. The City has no cases that are expected to result in a payment in future years. Also, the City has entered into various construction commitments related to the construction projects. The City has also received a commitment from the Kentucky Infrastructure Authority to receive up to \$21.2 million in a loan to upgrade the Valley Creek Wastewater Treatment Plant. The amount borrowed at June 30, 2013, was \$9,666,368.

NOTE 16 - SUBSEQUENT EVENTS

On September 17, 2013, the City entered into a letter of intent to enter into an asset purchase agreement with Hardin County Water District No. 2 for the transfer of its Water System. The consideration specified in the letter is for Hardin County Water District No 2 to pay the City \$8 million in twenty annual installments with the first payment being due and payable one year from the date of proposed closing.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELIZABETHTOWN
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2013

50

	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL FAVORABLE (UNFAVORABLE)
REVENUES:			
Property taxes	\$ 3,342,000	\$ 3,289,412	\$ (52,588)
Sales taxes	3,095,000	3,128,893	33,893
Licenses and permits	15,441,800	17,768,381	2,326,581
Fines, forfeitures and penalties	111,500	129,304	17,804
Revenue from use of money and property	392,952	(103,163)	(496,115)
Charges for current services	247,920	227,564	(20,356)
Recreation fees	807,900	652,557	(155,343)
Miscellaneous revenue	1,132,787	1,230,481	97,694
Contributions	1,782,761	813,122	(969,639)
State grant revenue	308,000	142,682	(165,318)
Federal grant revenue	22,500	482,208	459,708
TOTAL REVENUES	26,685,120	27,761,441	1,076,321
EXPENDITURES:			
Current:			
General government	4,119,192	4,005,445	113,747
Public safety	6,467,623	6,621,888	(154,265)
Public works	4,545,283	4,445,868	99,415
Recreation/tourism	6,248,406	6,396,680	(148,274)
Capital outlay	10,886,639	5,365,870	5,520,769
Debt service-principal	40,675	40,675	-
Debt service-interest	7,086	7,086	-
TOTAL EXPENDITURES	32,314,904	26,883,512	5,431,392
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,629,784)	877,929	6,507,713
OTHER FINANCING SOURCES (USES):			
Transfers in	223,000	-	(223,000)
Insurance proceeds	-	22,687	22,687
Transfers out	(2,480,557)	(3,797,460)	(1,316,903)
Proceeds from disposal of property	20,000	2,400	(17,600)
TOTAL OTHER FINANCING SOURCES (USES)	(2,237,557)	(3,772,373)	(1,534,816)
NET CHANGE IN FUND BALANCES	(7,867,341)	(2,894,444)	4,972,897
FUND BALANCES, July 1, 2012	7,867,341	21,611,321	13,743,980
FUND BALANCES, June 30, 2013	\$ -	\$ 18,716,877	\$ 18,716,877

NOTE (1) - The basis of budgeting is the same as GAAP.

CITY OF ELIZABETHTOWN
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 MAJOR SPECIAL REVENUE FUND - CEMETERY FUND
 YEAR ENDED JUNE 30, 2013

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Revenue from use of money and property	\$ 40,000	\$ 69,002	\$ 29,002
EXPENDITURES:			
Current:			
General government	-	10,828	10,828
Capital outlay	40,000	-	40,000
Total expenditures	40,000	10,828	50,828
NET CHANGE IN FUND BALANCES	-	58,174	58,174
FUND BALANCES, July 1, 2012	-	1,251,154	1,251,154
FUND BALANCES, June 30, 2013	\$ -	\$ 1,309,328	\$ 1,309,328

NOTE (1) - The basis of budgeting is the same as GAAP.

COMBINING FINANCIAL STATEMENTS

CITY OF ELIZABETHTOWN
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ 413	\$ -	\$ -	\$ 413
Investments	180,655	1,102,117	1,345,345	2,628,117
Receivables:				
Intergovernmental - State	11,466	-	-	11,466
Due from other funds	196,970	-	-	196,970
Total Assets	\$ 389,504	\$ 1,102,117	\$ 1,345,345	\$ 2,836,966
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ 8,813	\$ -	\$ -	\$ 8,813
Other liabilities	200	-	-	200
Unearned revenue	-	-	1,332,262	1,332,262
Total Liabilities	9,013			1,341,275
Fund Balances				
Restricted	380,491	1,102,117	13,083	1,495,691
Total Fund Balances	380,491	1,102,117	13,083	1,495,691
Total Liabilities and Fund Balances	\$ 389,504	\$ 1,102,117	\$ 1,345,345	\$ 2,836,966

CITY OF ELIZABETHTOWN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Revenues				
Insurance premiums tax	\$ 3,251,752	\$ -	\$ -	\$ 3,251,752
State of Kentucky	1,343,525	-	1,012,069	2,355,594
From use of money and property	280	67	6	353
Local government	-	-	1,634,833	1,634,833
Federal grant revenue	193,206	-	155,062	348,268
Total Revenues	4,788,763	67	2,801,970	7,590,800
Expenditures				
General government	413,082	-	-	413,082
Public safety	3,738,439	-	-	3,738,439
Public works	525,557	-	-	525,557
Capital outlay	-	1,972,328	-	1,972,328
Bond issuance costs	-	-	53,857	53,857
Debt service:				
Principal	-	-	1,900,000	1,900,000
Interest	-	-	1,524,522	1,524,522
Total Expenditures	4,677,078	1,972,328	3,478,379	10,127,785
Excess (Deficiency) of Revenues over Expenditures	111,685	(1,972,261)	(676,409)	(2,536,985)
Other Financing Sources (Uses)				
Refunding bond proceeds			5,780,000	5,780,000
Payment to refunded bond escrow agent			(5,788,066)	(5,788,066)
Bond premium			65,155	65,155
Transfers in	-	1,972,328	626,433	2,598,761
Total Other Financing Sources (Uses)	-	1,972,328	683,522	2,655,850
Net Change in Fund Balances	111,685	67	7,113	118,865
Fund balance, July 1, 2012	268,806	1,102,050	5,970	1,376,826
Fund balance, June 30, 2013	\$ 380,491	\$ 1,102,117	\$ 13,083	\$ 1,495,691

CITY OF ELIZABETHTOWN
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2013

	FIRE PROTECTION SINKING FUND	FIRE AND POLICE INCENTIVE	MUNICIPAL AID	SPECIAL PROJECT GRANT	NARCOTICS TASK FORCE GRANT	COURTHOUSE OPERATIONS FUND	TOTALS
ASSETS							
Cash and cash equivalents	\$ 213	\$ -	\$ -	\$ -	\$ 200	\$ -	\$ 413
Investments	20	-	-	-	-	180,635	180,655
Intergovernmental receivable-state of KY	-	11,466	-	-	-	-	11,466
Due from other funds	-	13,831	183,139	-	-	-	196,970
TOTAL ASSETS	\$ 233	\$ 25,297	\$ 183,139	\$ -	\$ 200	\$ 180,635	\$ 389,504
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,813	\$ 8,813
Other liabilities	-	-	-	-	200	-	200
TOTAL LIABILITIES	-	-	-	-	200	8,813	9,013
Fund Balance:							
Restricted	233	25,297	183,139	-	-	171,822	380,491
TOTAL FUND BALANCE	233	25,297	183,139	-	-	171,822	380,491
TOTAL LIABILITIES AND FUND BALANCE	\$ 233	\$ 25,297	\$ 183,139	\$ -	\$ 200	\$ 180,635	\$ 389,504

CITY OF ELIZABETHTOWN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2013

	FIRE PROTECTION SINKING FUND	FIRE AND POLICE INCENTIVE	MUNICIPAL AID	SPECIAL PROJECT GRANT	NARCOTICS TASK FORCE GRANT	COURTHOUSE OPERATIONS FUND	TOTALS
REVENUES:							
Insurance premiums tax	\$ 3,251,752	\$ -	\$ -	\$ -	-	\$ -	\$ 3,251,752
State of Kentucky	-	294,229	565,106	11,405	-	472,785	1,343,525
From use of money and property	268	-	-	-	-	12	280
Federal grant revenue	-	-	-	-	193,206	-	193,206
TOTAL REVENUES	3,252,020	294,229	565,106	11,405	193,206	472,797	4,788,763
EXPENDITURES:							
General government	-	-	-	-	-	413,082	413,082
Public safety	3,253,950	291,283	-	-	193,206	-	3,738,439
Public works	-	-	514,152	11,405	-	-	525,557
TOTAL EXPENDITURES	3,253,950	291,283	514,152	11,405	193,206	413,082	4,677,078
NET CHANGE IN FUND BALANCES	(1,930)	2,946	50,954	-	-	59,715	111,685
FUND BALANCES, July 1, 2012	2,163	22,351	132,185	-	-	112,107	268,806
FUND BALANCES, June 30, 2013	\$ 233	\$ 25,297	\$ 183,139	\$ -	\$ -	\$ 171,822	\$ 380,491

CITY OF ELIZABETHTOWN
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2013

ASSETS	<u>COURTHOUSE</u>	<u>E-TOWN SPORTS PARK</u>	<u>TOTALS</u>
Investments	<u>\$ 1,102,117</u>	<u>\$ -</u>	<u>\$ 1,102,117</u>
TOTAL ASSETS	<u>\$ 1,102,117</u>	<u>\$ -</u>	<u>\$ 1,102,117</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES	-	-	-
Fund Balance:			
Restricted	<u>1,102,117</u>	<u>-</u>	<u>1,102,117</u>
TOTAL FUND BALANCE	<u>1,102,117</u>	<u>-</u>	<u>1,102,117</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,102,117</u>	<u>\$ -</u>	<u>\$ 1,102,117</u>

CITY OF ELIZABETHTOWN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2013

	COURTHOUSE	E-TOWN SPORTS PARK	TOTALS
REVENUES:			
From use of money and property	\$ 67	\$ -	\$ 67
TOTAL REVENUES	67	-	67
EXPENDITURES:			
Public Safety	-	-	-
Capital Outlay	-	1,972,328	1,972,328
TOTAL EXPENDITURES	-	1,972,328	1,972,328
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	67	(1,972,328)	(1,972,261)
OTHER FINANCING SOURCES (USES):			
TRANSFERS IN	-	1,972,328	1,972,328
TOTAL OTHER FINANCING SOURCES (USES)	-	1,972,328	1,972,328
NET CHANGE IN FUND BALANCES	67	-	67
FUND BALANCES, July 1, 2012	1,102,050	-	1,102,050
FUND BALANCES, June 30, 2013	\$ 1,102,117	\$ -	\$ 1,102,117

CITY OF ELIZABETHTOWN
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 JUNE 30, 2013

	1999 GENERAL OBLIGATION BONDS	2003 GENERAL OBLIGATION BONDS	2007 MORTGAGE REVENUE BONDS	2010A GENERAL OBLIGATION BONDS	2011B GENERAL OBLIGATION BONDS	2012C GENERAL OBLIGATION BONDS	2013 GENERAL OBLIGATION BONDS	TOTALS
ASSETS								
Investments	\$ 3,875	\$ 5,638	\$ 334	\$ 520,508	\$ 443,244	\$ 368,514	\$ 3,232	\$ 1,345,345
TOTAL ASSETS	<u>\$ 3,875</u>	<u>\$ 5,638</u>	<u>\$ 334</u>	<u>\$ 520,508</u>	<u>\$ 443,244</u>	<u>\$ 368,514</u>	<u>\$ 3,232</u>	<u>\$ 1,345,345</u>
LIABILITIES AND FUND BALANCES								
Unearned revenue	\$ -	\$ -	\$ -	\$ 520,506	\$ 443,243	\$ 368,513	\$ -	\$ 1,332,262
TOTAL LIABILITIES	-	-	-	520,506	443,243	368,513	-	1,332,262
FUND BALANCES:								
Restricted	3,875	5,638	334	2	1	1	3,232	13,083
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,875</u>	<u>\$ 5,638</u>	<u>\$ 334</u>	<u>\$ 520,508</u>	<u>\$ 443,244</u>	<u>\$ 368,514</u>	<u>\$ 3,232</u>	<u>\$ 1,345,345</u>

CITY OF ELIZABETHTOWN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED JUNE 30, 2013

	1999 GENERAL OBLIGATION BONDS	2003 GENERAL OBLIGATION BONDS	2007 MORTGAGE REVENUE BONDS	2010A GENERAL OBLIGATION BONDS	2011B GENERAL OBLIGATION BONDS	2012C GENERAL OBLIGATION BONDS	2013 GENERAL OBLIGATION BONDS	TOTALS
REVENUES:								
From use of money and property	\$ -	\$ 1	\$ 1	\$ 2	\$ 1	\$ 1	\$ -	\$ 6
Local government	-	-	-	587,974	579,403	467,456	-	1,634,833
State of Kentucky	-	-	1,012,069	-	-	-	-	1,012,069
Federal government	-	-	-	155,062	-	-	-	155,062
TOTAL REVENUES	-	1	1,012,070	743,038	579,404	467,457	-	2,801,970
EXPENDITURES:								
Bond issuance costs	-	-	-	-	-	-	53,857	53,857
Debt service:								
Principal retirement	155,000	180,000	690,000	300,000	255,000	320,000	-	1,900,000
Interest and fiscal charges	20,625	266,933	322,069	443,036	324,403	147,456	-	1,524,522
TOTAL EXPENDITURES	175,625	446,933	1,012,069	743,036	579,403	467,456	53,857	3,478,379
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(175,625)	(446,932)	1	2	1	1	(53,857)	(676,409)
OTHER FINANCING SOURCES (USES):								
Refunding bond proceeds	-	-	-	-	-	-	5,780,000	5,780,000
Payment to refunded bond escrow agent	-	-	-	-	-	-	(5,788,066)	(5,788,066)
Bond premium	-	-	-	-	-	-	65,155	65,155
Transfers in	179,500	446,933	-	-	-	-	-	626,433
Transfers out	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	179,500	446,933	-	-	-	-	57,089	683,522
NET CHANGE IN FUND BALANCES	3,875	1	1	2	1	1	3,232	7,113
FUND BALANCE, July 1, 2012	-	5,637	333	-	-	-	-	5,970
FUND BALANCE, June 30, 2013	\$ 3,875	\$ 5,638	\$ 334	\$ 2	\$ 1	\$ 1	\$ 3,232	\$ 13,083

CITY OF ELIZABETHTOWN
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
 NARCOTICS TASK FORCE
 YEAR ENDED JUNE 30, 2013

	<u>BALANCE</u> <u>JULY 1, 2012</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2013</u>
ASSETS				
Cash	\$ 182,951	\$ 329,704	\$ 231,232	\$ 281,423
Investments	87,297	4	64,969	22,332
Total Assets	<u>\$ 270,248</u>	<u>\$ 329,708</u>	<u>\$ 296,201</u>	<u>\$ 303,755</u>
LIABILITIES				
Due to other entities	<u>\$ 270,248</u>	<u>\$ 329,708</u>	<u>\$ 296,201</u>	<u>\$ 303,755</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF ELIZABETHTOWN
 COMPARATIVE BALANCE SHEETS
 GENERAL FUND

	June 30,	
	2013	2012
ASSETS		
Non-pooled cash and cash equivalents	\$ 6,131,300	\$ 6,891,792
Investments	9,195,006	10,533,324
Restricted investments	-	3,104,318
Receivables	526,864	18,113
Taxes receivable	3,545,931	3,301,631
Prepays	-	179,679
Due from other funds	445,901	359,716
Inventories, at cost	88,421	92,470
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 19,933,423</u>	<u>\$ 24,481,043</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable	\$ 583,913	\$ 515,632
Accrued liabilities	257,685	351,270
Due to other funds	374,948	2,002,820
	<u> </u>	<u> </u>
TOTAL LIABILITIES	1,216,546	2,869,722
FUND BALANCES:		
Nonspendable	88,421	272,109
Restricted	-	3,104,318
Unassigned	18,628,456	18,234,894
	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>18,716,877</u>	<u>21,611,321</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 19,933,423</u>	<u>\$ 24,481,043</u>

CITY OF ELIZABETHTOWN
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2013

	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL FAVORABLE (UNFAVORABLE)
REVENUES:			
Property taxes	\$ 3,342,000	\$ 3,289,412	\$ (52,588)
Sales taxes	3,095,000	3,128,893	33,893
Licenses and permits	15,441,800	17,768,381	2,326,581
Fines, forfeitures and penalties	111,500	129,304	17,804
Revenue from use of money and property	392,952	(103,163)	(496,115)
Charges for current services	247,920	227,564	(20,356)
Recreation fees	807,900	652,557	(155,343)
Miscellaneous revenue	1,132,787	1,230,481	97,694
Contributions	1,782,761	813,122	(969,639)
State grant revenue	308,000	142,682	(165,318)
Federal grant revenue	22,500	482,208	459,708
TOTAL REVENUES	26,685,120	27,761,441	1,076,321
EXPENDITURES:			
Current:			
General government	4,119,192	4,005,445	113,747
Public safety	6,467,623	6,621,888	(154,265)
Public works	4,545,283	4,445,868	99,415
Recreation/tourism	6,248,406	6,396,680	(148,274)
Capital outlay	10,886,639	5,365,870	5,520,769
Debt service-principal	40,675	40,675	-
Debt service-interest	7,086	7,086	-
TOTAL EXPENDITURES	32,314,904	26,883,512	5,431,392
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,629,784)	877,929	6,507,713
OTHER FINANCING SOURCES (USES):			
Transfers in	223,000	-	(223,000)
Insurance proceeds	-	22,687	22,687
Transfers out	(2,480,557)	(3,797,460)	(1,316,903)
Proceeds from disposal of property	20,000	2,400	(17,600)
TOTAL OTHER FINANCING SOURCES (USES)	(2,237,557)	(3,772,373)	(1,534,816)
NET CHANGE IN FUND BALANCES	(7,867,341)	(2,894,444)	4,972,897
FUND BALANCES, July 1, 2012	7,867,341	21,611,321	13,743,980
FUND BALANCES, June 30, 2013	\$ -	\$ 18,716,877	\$ 18,716,877

CITY OF ELIZABETHTOWN
 SCHEDULE OF GENERAL FUND REVENUES - BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2013

	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
GENERAL FUND REVENUES:			
Property Taxes:			
General	\$ 3,342,000	\$ 3,289,412	\$ (52,588)
Sales Taxes:			
Transient room tax	575,000	513,885	(61,115)
Restaurant tax	2,520,000	2,615,008	95,008
Total Sales Taxes	3,095,000	3,128,893	33,893
Licenses and Permits:			
Minimum license fee	90,000	101,408	11,408
Tax on net profits	1,900,000	2,462,321	562,321
Occupational license fees	11,600,000	12,937,241	1,337,241
Building permits/plan reviews	180,000	184,494	4,494
Electrical inspections	78,000	106,854	28,854
Utility franchises	968,000	1,020,128	52,128
Sign/parking permits	15,000	17,285	2,285
ABC license/regulatory fees	592,000	911,385	319,385
Miscellaneous fees	18,800	27,265	8,465
Total Licenses and Permits	15,441,800	17,768,381	2,326,581
Fines, Forfeitures and Penalties:			
Parking fines	4,000	3,120	(880)
Penalties	70,000	89,319	19,319
Judicial court fees	37,500	36,865	(635)
Total Fines, Forfeitures and Penalties	111,500	129,304	17,804
Revenue From Use of Money and Property:			
Interest on investments	300,000	(193,027)	(493,027)
Rental income	92,952	89,864	(3,088)
Total Revenue From Use of Money and Property	392,952	(103,163)	(496,115)
Charges for Current Services:			
Parking meters/run reimbursement	3,000	1,086	(1,914)
Labor charges	52,000	51,243	(757)
Erosion permits	5,000	2,975	(2,025)
Administration charges for utility department	187,920	172,260	(15,660)
Total Charges for Current Services	247,920	227,564	(20,356)
Recreation Fees:			
Outdoor pool	24,000	19,569	(4,431)
Golf course	21,500	13,767	(7,733)
Freeman Lake Park	35,550	32,243	(3,307)
Community center	90,850	96,112	5,262
Elizabethtown Sports Park	636,000	490,866	(145,134)
Total Recreation Fees	807,900	652,557	(155,343)
State grant revenue	308,000	142,682	(165,318)
Federal grant revenue	22,500	482,208	459,708
Contributions	1,782,761	813,122	(969,639)
Miscellaneous revenue and reimbursement	1,132,787	1,230,481	97,694
TOTAL GENERAL FUND REVENUES	\$ 26,685,120	\$ 27,761,441	\$ 1,076,321

CITY OF ELIZABETHTOWN
 SCHEDULE OF GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2013

	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
GENERAL FUND EXPENDITURES:			
Current:			
General government	\$ 4,119,192	\$ 4,005,445	\$ 113,747
Public Safety:			
Public safety garage	141,373	152,331	(10,958)
Parking meter department	35,394	34,745	649
Police department	5,424,466	5,458,439	(33,973)
Fire department	4,366,390	4,230,323	136,067
Less: Fire department sinking fund	(3,500,000)	(3,253,950)	(246,050)
Total Public Safety	6,467,623	6,621,888	(154,265)
Public Works:			
Street department	2,471,178	2,598,122	(126,944)
Engineering department	429,679	446,586	(16,907)
Public works department	1,819,075	1,730,200	88,875
Storm water	864,638	634,409	230,229
Less: Utility reimbursement	(1,039,287)	(963,449)	(75,838)
Total Public Works	4,545,283	4,445,868	99,415
Recreation Department	6,248,406	6,396,680	(148,274)
Total Current Expenditures	21,380,504	21,469,881	(89,377)
Capital Outlay	10,886,639	5,365,870	5,520,769
Debt Service	47,761	47,761	-
TOTAL GENERAL FUND EXPENDITURES	\$ 32,314,904	\$ 26,883,512	\$ 5,431,392

CITY OF ELIZABETHTOWN
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2013

	BUDGET FIRE PROTECTION SINKING FUND	ACTUAL FIRE PROTECTION SINKING FUND	BUDGET FIRE AND POLICE INCENTIVE	ACTUAL FIRE AND POLICE INCENTIVE	BUDGET MUNICIPAL AID	ACTUAL MUNICIPAL AID	BUDGET SPECIAL PROJECT GRANT	ACTUAL SPECIAL PROJECT GRANT	BUDGET NARCOTICS TASK FORCE GRANT	ACTUAL NARCOTICS TASK FORCE GRANT
REVENUES:										
Insurance premiums tax	\$ 3,500,000	\$ 3,251,752	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State of Kentucky	-	-	306,100	294,229	520,000	565,106	12,000	11,405	-	-
From use of money and property	500	268	-	-	-	-	-	-	-	-
Federal grant revenue	-	-	-	-	-	-	-	-	201,000	193,206
TOTAL REVENUES	3,500,500	3,252,020	306,100	294,229	520,000	565,106	12,000	11,405	201,000	193,206
EXPENDITURES:										
General government	-	-	-	-	-	-	-	-	-	-
Public safety	3,500,500	3,253,950	306,100	291,283	-	-	-	-	201,000	193,206
Public works	-	-	-	-	520,000	514,152	12,000	11,405	-	-
TOTAL EXPENDITURES	3,500,500	3,253,950	306,100	291,283	520,000	514,152	12,000	11,405	201,000	193,206
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(1,930)	-	2,946	-	50,954	-	-	-	-
OTHER FINANCING SOURCES (USES):										
Transfers out	-	-	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	(1,930)	-	2,946	-	50,954	-	-	-	-
FUND BALANCES, July 1, 2012	-	2,163	-	22,351	-	132,185	-	-	-	-
FUND BALANCES, June 30, 2013	\$ -	\$ 233	\$ -	\$ 25,297	\$ -	\$ 183,139	\$ -	\$ -	\$ -	\$ -

CITY OF ELIZABETHTOWN
 COMPARATIVE STATEMENTS OF NET POSITION
 GAS SYSTEM

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	June 30,	
	2013	2012
CURRENT ASSETS:		
Non-pooled cash and cash equivalents	\$ 7,826,874	\$ 5,712,687
Restricted cash - customer deposits	45,777	45,388
Receivables (net of allowance for uncollectible):		
Accounts	807,336	240,316
Unbilled accounts	485,388	289,343
Other	87,368	1,143,544
Prepaid expenses	-	26,680
Inventory	6,420,000	8,100,757
Due from other funds	209	1,400
TOTAL CURRENT ASSETS	15,672,952	15,560,115
NONCURRENT ASSETS:		
Restricted cash - customer deposits	91,553	90,776
Investments - customer deposits	325,342	321,242
Capital assets:		
Land	1,228,000	1,228,000
Distribution and collection systems	8,977,456	8,894,647
Buildings and equipment	1,020,660	988,092
Less: accumulated depreciation	(5,333,232)	(5,131,729)
TOTAL NONCURRENT ASSETS	6,309,779	6,391,028
TOTAL ASSETS	21,982,731	21,951,143
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	781,371	370,579
Accrued liabilities	15,750	22,459
Customer deposits	43,724	43,607
Compensated absences	12,577	11,816
Other liabilities	4,703	4,621
Due to other funds	151,315	133,257
TOTAL CURRENT LIABILITIES	1,009,440	586,339
NONCURRENT LIABILITIES:		
Customer deposits	393,515	392,466
Compensated absences	25,154	23,632
TOTAL NONCURRENT LIABILITIES	418,669	416,098
TOTAL LIABILITIES	1,428,109	1,002,437
NET POSITION:		
Net investment in capital assets	5,892,884	5,979,010
Unrestricted	14,661,738	14,969,696
TOTAL NET POSITION	\$ 20,554,622	\$ 20,948,706

CITY OF ELIZABETHTOWN
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 GAS SYSTEM

67

	YEARS ENDED JUNE 30,	
	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Charges for metered sales	\$ 11,493,894	\$ 8,763,804
Other services and tap fees	<u>105,305</u>	<u>75,183</u>
TOTAL OPERATING REVENUE	11,599,199	8,838,987
OPERATING EXPENSES:		
Distribution	9,682,182	7,091,478
Administrative and general	2,119,302	2,356,036
Depreciation	<u>201,503</u>	<u>233,072</u>
TOTAL OPERATING EXPENSES	<u>12,002,987</u>	<u>9,680,586</u>
LOSS FROM OPERATIONS	(403,788)	(841,599)
NON-OPERATING REVENUE (EXPENSE):		
Loss on capital asset disposals	-	(4,000)
Investment income	<u>9,704</u>	<u>5,452</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>9,704</u>	<u>1,452</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	(394,084)	(840,147)
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>87,534</u>
CHANGE IN NET POSITION	(394,084)	(752,613)
NET POSITION, beginning of year	<u>20,948,706</u>	<u>21,701,319</u>
NET POSITION, end of year	\$ 20,554,622	\$ 20,948,706

CITY OF ELIZABETHTOWN
 COMPARATIVE STATEMENTS OF CASH FLOWS
 GAS SYSTEM

	YEARS ENDED JUNE 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 11,916,930	\$ 9,179,732
Cash payments to employees	(736,724)	(757,668)
Cash payments for operating expenses	(8,955,085)	(10,274,825)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,225,121	(1,852,761)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributed capital	-	87,534
Proceeds from disposal of capital assets	-	1,400
Acquisition and construction of capital assets	(115,377)	(111,259)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(115,377)	(22,325)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(4,095)	-
Investment income	9,704	5,452
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,609	5,452
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	2,115,353	(1,869,634)
CASH AND RESTRICTED CASH, beginning of year	5,848,851	7,718,485
CASH AND RESTRICTED CASH, end of year	\$ 7,964,204	\$ 5,848,851
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Loss from operations	\$ (403,788)	\$ (841,599)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	201,503	233,072
Change in assets and liabilities (Increase) decrease in:		
Accounts receivable	(763,065)	415,928
Other receivables	1,056,176	(1,143,544)
Prepaid expenses	26,680	(829)
Due from other funds	1,191	(1,400)
Inventory	1,680,757	(39,809)
Increase (decrease) in:		
Accounts payable	410,792	(432,270)
Accrued liabilities	(6,709)	22,148
Compensated absences	2,283	-
Due to other funds	18,058	(64,209)
Other liabilities	77	(44)
Customer deposits	1,166	(205)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,225,121	\$ (1,852,761)

CITY OF ELIZABETHTOWN
 COMPARATIVE STATEMENTS OF NET POSITION
 WATER AND SEWER SYSTEM

69

	JUNE 30,	
	2013	2012
CURRENT ASSETS:		
Non-pooled cash and cash equivalents	\$ 1,622,699	\$ 135,262
Restricted cash - customer deposits	56,370	55,560
Receivables (net of allowance for uncollectible):		
Accounts	872,098	484,143
Unbilled accounts	612,823	364,117
Sewer assessments	212,308	275,608
Prepaid expenses	-	48,180
Due from other funds	5,573	16,376
TOTAL CURRENT ASSETS	3,381,871	1,379,246
NONCURRENT ASSETS:		
Restricted cash and cash equivalents:		
Customer deposits	112,740	111,120
Depreciation fund	2,459,282	2,784,451
Construction/improvements	90,082	3,170,018
KIA debt service	635,403	883,597
Restricted investments - customer deposits	150,483	150,058
Capital assets:		
Land	321,866	321,866
Construction in progress	7,627,377	4,806,578
Distribution and collection systems	30,355,531	29,074,195
Buildings and equipment	52,969,320	50,769,225
Less: accumulated depreciation	(28,292,261)	(26,732,925)
TOTAL NONCURRENT ASSETS	66,429,823	65,338,183
TOTAL ASSETS	69,811,694	66,717,429
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	662,026	322,026
Accrued liabilities	50,745	62,604
KIA loan	283,674	558,125
Customer deposits	31,952	31,709
Compensated absences	34,283	33,454
Notes payable	61,198	61,198
Due to other funds	294,586	226,461
TOTAL CURRENT LIABILITIES	1,418,464	1,295,577
NONCURRENT LIABILITIES:		
KIA loan	-	283,674
Construction loan	9,666,368	7,976,408
Customer deposits	287,569	285,381
Notes payable	280,930	342,128
Compensated absences	68,566	66,910
TOTAL NONCURRENT LIABILITIES	10,303,433	8,954,501
TOTAL LIABILITIES	11,721,897	10,250,078
NET POSITION:		
Net investment in capital assets	52,689,663	49,017,406
Unrestricted	5,400,134	7,449,945
TOTAL NET POSITION	\$ 58,089,797	\$ 56,467,351

CITY OF ELIZABETHTOWN
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 WATER AND SEWER SYSTEM

70

	YEARS ENDED JUNE 30,	
	2013	2012
OPERATING REVENUE:		
Charges for metered sales	\$ 9,104,141	\$ 6,218,086
Water sold at plant	4,475	3,764
Sewer surcharge fees	3,133	1,302
Other services and tap fees	376,873	264,820
TOTAL OPERATING REVENUE	9,488,622	6,487,972
OPERATING EXPENSES:		
Administrative and general	2,313,853	2,220,936
Operating expenses Plant #1	746,394	863,601
Operating expenses Plant #2	1,583,815	1,729,744
Maintenance	382,853	355,887
Services	932,894	903,155
Construction	210,514	110,691
Operating expense - water tower	135,775	83,201
Operating expense - lift stations	77,497	110,006
Depreciation	1,559,336	1,495,780
TOTAL OPERATING EXPENSES	7,942,931	7,873,001
INCOME (LOSS) FROM OPERATIONS	1,545,691	(1,385,029)
NON-OPERATING REVENUE (EXPENSE):		
Investment income	92,222	86,865
Gain on capital asset disposals	-	24,838
Interest paid on KIA loan	(15,467)	(27,546)
TOTAL NON-OPERATING REVENUES (EXPENSES)	76,755	84,157
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	1,622,446	(1,300,872)
CAPITAL CONTRIBUTIONS	-	2,149,795
CHANGE IN NET POSITION	1,622,446	848,923
NET POSITION, beginning of year	56,467,351	55,618,428
NET POSITION, end of year	\$ 58,089,797	\$ 56,467,351

CITY OF ELIZABETHTOWN
 COMPARATIVE STATEMENTS OF CASH FLOWS
 WATER AND SEWER SYSTEM

71

	YEARS ENDED JUNE 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 8,851,961	\$ 6,317,853
Cash payments to employees	(1,874,041)	(1,932,678)
Cash payments for operating expenses	(3,986,119)	(4,136,184)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,991,801	248,991
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(6,031,841)	(6,136,147)
Proceeds from disposal of capital assets	-	7,700
Principal paid on KIA loan	(558,125)	(546,046)
Principal paid on notes payable	(61,198)	(33,494)
Interest paid on KIA loans	(285,826)	(225,113)
Borrowing on KIA loan	1,689,960	2,413,156
Contributed capital	-	2,577,601
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(5,247,030)	(1,942,343)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(425)	-
Investment income	92,222	86,865
NET CASH PROVIDED BY INVESTING ACTIVITIES	91,797	86,865
NET DECREASE IN CASH AND RESTRICTED CASH	(2,163,432)	(1,606,487)
CASH AND RESTRICTED CASH, beginning of year	7,140,008	8,746,495
CASH AND RESTRICTED CASH, end of year	\$ 4,976,576	\$ 7,140,008
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income (loss) from operations	\$ 1,545,691	\$ (1,385,029)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,559,336	1,495,780
Change in assets and liabilities		
(Increase) decrease in:		
Receivables	(636,661)	94,701
Sewer assessments	63,300	(119,820)
Due from other funds	10,803	(11,023)
Prepaid expenses	48,180	(2,438)
Increase (decrease) in:		
Accounts payable	340,000	272,877
Accrued liabilities	(11,889)	42,106
Due to other funds	68,125	(141,611)
Compensated absences	2,485	(2,598)
Customer deposits	2,431	6,046
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,991,801	\$ 248,991

CITY OF ELIZABETHTOWN
SCHEDULE OF GOVERNMENTAL CAPITAL ASSETS
BY FUNCTION AND ACTIVITY
JUNE 30, 2013

FUNCTION AND ACTIVITY	LAND	BUILDINGS	INFRASTRUCTURE	VEHICLES	OFFICE EQUIPMENT	TECHNICAL EQUIPMENT	CONSTRUCTION & MAINTENANCE EQUIPMENT	OTHER EQUIPMENT	TOTAL
GENERAL GOVERNMENT:									
Administration	\$ 3,172,156	\$ 17,898,470	\$ 25,814,888	\$ 90,200	\$ 21,920	\$ 655,324	\$ -	\$ -	\$ 47,652,958
Finance	100,000	-	-	-	5,775	-	-	236,847	342,622
Planning and development	-	-	-	79,187	30,501	-	-	49,071	158,759
Cemetery	900	121,617	-	-	-	-	-	-	122,517
TOTAL GENERAL GOVERNMENT	3,273,056	18,020,087	25,814,888	169,387	58,196	655,324	-	285,918	48,276,856
PUBLIC SAFETY:									
Police	697,900	8,740,370	-	1,921,769	-	1,290,978	-	47,781	12,698,798
Fire	4,700	3,091,094	87,295	2,725,378	27,837	437,317	-	82,103	6,455,724
Parking lots	140,792	-	388,951	-	-	10,425	-	-	540,168
TOTAL PUBLIC SAFETY	843,392	11,831,464	476,246	4,647,147	27,837	1,738,720	-	129,884	19,694,690
PUBLIC WORKS:									
Engineering	-	-	-	65,337	17,830	182,023	-	255,452	520,642
Public works	192,300	729,201	-	113,014	-	40,070	90,781	5,105	1,170,471
Storm water	1,881,822	-	61,143	76,938	-	-	476,940	-	2,496,843
Streets	-	-	47,030,017	1,119,352	-	-	1,417,967	-	49,567,336
TOTAL PUBLIC WORKS	2,074,122	729,201	47,091,160	1,374,641	17,830	222,093	1,985,688	260,557	53,755,292
RECREATION	16,556,835	16,052,929	1,902,184	90,808	137,708	3,535,004	734,596	51,720	39,061,784
Construction in progress	-	-	872,095	367,795	-	-	-	-	1,239,890
GOVERNMENTAL CAPITAL ASSETS	\$ 22,747,405	\$ 46,633,681	\$ 76,156,573	\$ 6,649,778	\$ 241,571	\$ 6,151,141	\$ 2,720,284	\$ 728,079	\$ 162,028,512

CITY OF ELIZABETHTOWN
SCHEDULE OF CHANGES IN GOVERNMENTAL CAPITAL ASSETS
BY FUNCTION AND ACTIVITY
YEAR ENDED JUNE 30, 2013

FUNCTION AND ACTIVITY	GOVERNMENTAL CAPITAL ASSETS 7/1/2012	ADDITIONS	DEDUCTIONS	GOVERNMENTAL CAPITAL ASSETS 6/30/2013
GENERAL GOVERNMENT:				
Administration	\$ 41,023,400	\$ 6,629,558	\$ -	\$ 47,652,958
Finance	342,622	-	-	342,622
Planning and development	158,759	-	-	158,759
Cemetery	122,517	-	-	122,517
TOTAL GENERAL GOVERNMENT	41,647,298	6,629,558	-	48,276,856
PUBLIC SAFETY:				
Police	12,291,709	407,089	-	12,698,798
Fire	6,376,857	78,867	-	6,455,724
Parking lots	540,168	-	-	540,168
TOTAL PUBLIC SAFETY	19,208,734	485,956	-	19,694,690
PUBLIC WORKS:				
Engineering	397,486	123,156	-	520,642
Public works	1,161,473	8,998	-	1,170,471
Storm water	2,267,853	228,990	-	2,496,843
Streets	48,983,875	583,461	-	49,567,336
TOTAL PUBLIC WORKS	52,810,687	944,605	-	53,755,292
RECREATION	6,468,912	32,592,872	-	39,061,784
Construction in progress	34,554,683	4,601,102	(37,915,895)	1,239,890
GOVERNMENTAL CAPITAL ASSETS	\$ 154,690,314	\$ 45,254,093	\$ (37,915,895)	\$ 162,028,512

STATISTICAL SECTION

This part of the City of Elizabethtown's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial condition.

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

REVENUE CAPACITY

These schedules contain information to help the reader assess the City's most significant local revenue sources.

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and its ability to issue additional debt in the future. The City has no overlapping debt.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the respective year.

CITY OF ELIZABETHTOWN, KENTUCKY
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GOVERNMENTAL ACTIVITIES										
Net investment in capital assets	\$ 36,306	\$ 38,996	\$ 41,520	\$ 45,311	\$ 47,718	\$ 55,758	\$ 58,162	\$ 59,381	\$ 65,830	\$ 71,605
Restricted	2,313	1,389	1,304	1,722	1,382	1,388	1,110	8,038	5,731	2,805
Unrestricted	13,270	13,206	14,108	20,688	24,325	20,351	23,545	19,783	17,829	18,891
Total governmental activities net position	<u>\$ 51,889</u>	<u>\$ 53,591</u>	<u>\$ 56,932</u>	<u>\$ 67,721</u>	<u>\$ 73,425</u>	<u>\$ 77,497</u>	<u>\$ 82,817</u>	<u>\$ 87,202</u>	<u>\$ 89,390</u>	<u>\$ 93,301</u>
BUSINESS-TYPE ACTIVITIES										
Net investment in capital assets	\$ 27,084	\$ 31,223	\$ 30,921	\$ 33,184	\$ 33,929	\$ 35,536	\$ 46,793	\$ 57,623	\$ 54,996	\$ 58,582
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	24,172	21,853	24,588	25,115	24,635	22,859	21,283	19,697	22,420	20,062
Total business-type activities net position	<u>\$ 51,256</u>	<u>\$ 53,076</u>	<u>\$ 55,509</u>	<u>\$ 58,299</u>	<u>\$ 58,564</u>	<u>\$ 58,395</u>	<u>\$ 68,076</u>	<u>\$ 77,320</u>	<u>\$ 77,416</u>	<u>\$ 78,644</u>
PRIMARY GOVERNMENT										
Net investment in capital assets	\$ 63,390	\$ 70,219	\$ 72,441	\$ 78,495	\$ 81,647	\$ 91,294	\$ 104,955	\$ 117,004	\$ 120,826	\$ 130,187
Restricted	2,313	1,389	1,304	1,722	1,382	1,388	1,110	8,038	5,731	2,805
Unrestricted	37,442	35,059	38,696	45,803	48,960	43,210	44,828	39,480	40,249	38,953
Total primary government net position	<u>\$ 103,145</u>	<u>\$ 106,667</u>	<u>\$ 112,441</u>	<u>\$ 126,020</u>	<u>\$ 131,989</u>	<u>\$ 135,892</u>	<u>\$ 150,893</u>	<u>\$ 164,522</u>	<u>\$ 166,806</u>	<u>\$ 171,945</u>

CITY OF ELIZABETHTOWN, KENTUCKY
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EXPENSES										
Governmental activities:										
General government	\$ 5,459	\$ 5,397	\$ 6,309	\$ 6,851	\$ 5,967	\$ 6,453	\$ 7,079	\$ 8,295	\$ 8,887	\$ 9,932
Public safety	6,456	7,255	7,938	8,227	9,184	10,138	10,237	10,499	10,917	11,387
Public works	2,033	2,271	2,051	3,754	4,042	4,956	4,252	4,735	5,288	5,255
Recreation/tourism	1,236	1,271	1,251	1,771	3,503	4,229	4,360	4,579	4,793	7,216
Interest on long-term debt	780	1,020	1,004	830	874	836	799	1,008	1,245	1,578
Total governmental activities expenses	<u>15,964</u>	<u>17,214</u>	<u>18,553</u>	<u>21,433</u>	<u>23,570</u>	<u>26,612</u>	<u>26,727</u>	<u>29,116</u>	<u>31,130</u>	<u>35,368</u>
Business-type activities:										
Gas	9,873	10,879	14,673	12,341	17,869	15,783	12,508	12,214	9,684	12,003
Water and sewer	6,197	6,428	6,312	6,361	6,663	6,828	6,876	7,832	7,900	7,958
Total business-type activities expenses	<u>16,070</u>	<u>17,307</u>	<u>20,985</u>	<u>18,702</u>	<u>24,532</u>	<u>22,611</u>	<u>19,384</u>	<u>20,046</u>	<u>17,584</u>	<u>19,961</u>
Total primary government expenses	<u>\$ 32,034</u>	<u>\$ 34,521</u>	<u>\$ 39,538</u>	<u>\$ 40,135</u>	<u>\$ 48,102</u>	<u>\$ 49,223</u>	<u>\$ 46,111</u>	<u>\$ 49,162</u>	<u>\$ 48,714</u>	<u>\$ 55,329</u>
PROGRAM REVENUES										
Governmental activities:										
Charges for services:										
General government	\$ 2,069	\$ 2,320	\$ 3,747	\$ 2,655	\$ 2,423	\$ 2,928	\$ 3,326	\$ 3,685	\$ 3,257	\$ 4,584
Public safety	86	262	104	43	150	351	145	46	90	101
Public works	12	46	49	18	1,075	1,404	992	974	965	963
Recreation/tourism	144	160	153	164	332	516	370	397	135	653
Operating grants and contributions	1,857	1,510	1,184	2,399	1,642	1,088	1,293	1,557	1,694	2,913
Capital grants and contributions	940	2,022	1,996	4,628	1,554	2,349	3,714	2,674	2,853	3,615
Total governmental activities program revenues	<u>5,108</u>	<u>6,320</u>	<u>7,233</u>	<u>9,907</u>	<u>7,176</u>	<u>8,636</u>	<u>9,840</u>	<u>9,333</u>	<u>8,994</u>	<u>12,829</u>
Business-type activities:										
Charges for services	16,894	18,741	22,764	18,979	24,202	21,579	18,421	18,852	15,327	11,599
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	507	-	149	-	17	675	10,286	10,341	2,237	9,489
Total business-type activities program revenues	<u>17,401</u>	<u>18,741</u>	<u>22,913</u>	<u>18,979</u>	<u>24,219</u>	<u>22,254</u>	<u>28,707</u>	<u>29,193</u>	<u>17,564</u>	<u>21,088</u>
Total primary government program revenues	<u>\$ 22,509</u>	<u>\$ 25,061</u>	<u>\$ 30,146</u>	<u>\$ 28,886</u>	<u>\$ 31,395</u>	<u>\$ 30,890</u>	<u>\$ 38,547</u>	<u>\$ 38,526</u>	<u>\$ 26,558</u>	<u>\$ 33,917</u>
Net (expense)/revenue										
Governmental activities	\$ (10,856)	\$ (10,894)	\$ (11,320)	\$ (11,526)	\$ (16,394)	\$ (17,976)	\$ (16,887)	\$ (19,783)	\$ (22,136)	\$ (22,539)
Business-type activities	1,331	1,434	1,928	277	(313)	(357)	9,323	9,147	(20)	1,127
Total primary government net expense	<u>\$ (9,525)</u>	<u>\$ (9,460)</u>	<u>\$ (9,392)</u>	<u>\$ (11,249)</u>	<u>\$ (16,707)</u>	<u>\$ (18,333)</u>	<u>\$ (7,564)</u>	<u>\$ (10,636)</u>	<u>\$ (22,156)</u>	<u>\$ (21,412)</u>

(Continued next page)

CITY OF ELIZABETHTOWN, KENTUCKY
 CHANGES IN NET POSITION
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)
 (Concluded)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION										
Governmental activities:										
Property taxes	\$ 2,485	\$ 2,428	\$ 2,620	\$ 2,736	\$ 2,925	\$ 3,039	\$ 3,025	\$ 3,104	\$ 3,178	\$ 3,290
Franchise taxes	521	632	707	748	811	852	873	961	949	1,020
Insurance premiums tax	2,729	2,840	3,008	2,914	2,933	2,985	2,998	3,199	3,093	3,252
Transient room tax	-	-	-	431	489	533	537	580	479	514
Restaurant tax	-	-	-	-	1,583	2,236	2,221	2,410	2,461	2,615
Withholding tax	5,648	5,709	7,525	8,395	10,927	10,505	10,580	11,354	11,851	12,937
Net profits tax	879	657	957	1,180	1,424	1,612	1,689	2,054	1,735	2,462
Interest and investment earnings	296	329	495	902	718	184	239	387	447	(34)
Gain on asset disposal	18	-	15	42	15	7	-	-	-	2
Miscellaneous	-	-	-	208	274	95	44	119	231	291
Special item - sale of land	-	-	764	2,582	-	-	-	-	-	-
Total governmental activities	12,576	12,595	16,091	20,138	22,099	22,048	22,206	24,168	24,424	26,349
Business-type activities:										
Gain (loss) on asset disposal	-	-	-	-	(6)	-	264	-	25	-
Interest and investment earnings	82	198	504	800	583	188	94	97	92	102
Total business-type activities	82	198	504	800	577	188	358	97	117	102
Total primary government	\$ 12,658	\$ 12,793	\$ 16,595	\$ 20,938	\$ 22,676	\$ 22,236	\$ 22,564	\$ 24,265	\$ 24,541	\$ 26,451
CHANGE IN NET POSITION										
Governmental activities	\$ 1,720	\$ 1,701	\$ 4,771	\$ 8,612	\$ 5,705	\$ 4,072	\$ 5,319	\$ 4,385	\$ 2,288	\$ 3,810
Business-type activities	1,413	1,632	2,432	1,077	264	(169)	9,681	9,244	97	1,229
Total primary government	\$ 3,133	\$ 3,333	\$ 7,203	\$ 9,689	\$ 5,969	\$ 3,903	\$ 15,000	\$ 13,629	\$ 2,385	\$ 5,039

CITY OF ELIZABETHTOWN, KENTUCKY
GOVERNMENTAL FUND TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Property Tax	(1) Franchise Tax	(2) Transient Room Tax	(2) Restaurant Tax	Insurance Premiums Tax	(1) Withholding Tax	(1) Net Profits Tax	Total
2004	\$ 2,482,973	\$ 520,782	\$ -	\$ -	\$ 2,728,861	\$ 5,648,380	\$ 879,315	\$ 12,260,311
2005	2,427,785	632,253	-	-	2,840,033	5,709,414	657,184	12,266,669
2006	2,620,564	706,683	-	-	3,008,279	6,094,672	957,626	13,387,824
2007	2,735,843	747,977	431,032	-	2,914,348	8,394,464	1,180,059	16,403,723
2008	2,925,161	810,704	488,774	1,582,843	2,933,321	10,927,044	1,423,606	21,091,453
2009	3,039,748	852,390	533,256	2,235,476	2,984,995	10,505,163	1,611,683	21,762,711
2010	3,024,571	873,184	537,166	2,221,554	2,998,230	10,580,158	1,689,360	21,924,223
2011	3,104,279	960,706	579,532	2,410,730	3,198,565	11,353,682	2,053,582	23,661,076
2012	3,178,147	949,472	478,586	2,460,875	3,092,907	11,851,075	1,735,046	23,746,108
2013	3,289,412	1,020,128	513,885	2,615,008	3,251,752	12,937,241	2,462,321	26,089,747

(1) Included as part of licenses and permits on the Statement of Revenues, Expenditures and Changes in Fund Balances

(2) Included as part of sales taxes on the Statement of Revenues, Expenditures and Changes in Fund Balances

CITY OF ELIZABETHTOWN, KENTUCKY
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Fund										
Nonspendable	\$ 55	\$ 68	\$ 80	\$ 93	\$ 89	\$ 82	\$ 88	\$ 347	\$ 272	\$ 88
Restricted	-	-	-	-	-	-	-	5,368	3,104	-
Unassigned	11,584	11,868	13,732	19,163	22,734	18,308	22,323	19,980	18,235	18,629
Total General Fund	<u>\$11,639</u>	<u>\$ 11,936</u>	<u>\$ 13,812</u>	<u>\$ 19,256</u>	<u>\$ 22,823</u>	<u>\$ 18,390</u>	<u>\$ 22,411</u>	<u>\$ 25,695</u>	<u>\$ 21,611</u>	<u>\$ 18,717</u>
All other governmental funds										
Restricted	\$ 4,756	\$ 2,418	\$ 2,433	\$ 3,171	\$ 2,839	\$ 2,707	\$ 2,476	\$ 2,669	\$ 2,628	\$ 2,805

CITY OF ELIZABETHTOWN, KENTUCKY
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES										
Taxes	\$ 5,212	\$ 5,268	\$ 5,629	\$ 5,650	\$ 7,930	\$ 8,793	\$ 8,782	\$ 9,293	\$ 9,210	\$ 9,670
Licenses and permits	7,651	7,640	9,864	11,460	13,768	13,444	13,663	14,957	15,440	17,768
Fines, forfeitures and penalties	63	75	73	89	147	135	144	99	189	129
Use of money and property	296	342	612	889	706	184	408	387	447	(34)
Charges for services	193	255	249	249	240	234	238	252	243	228
Recreation fees	144	158	152	164	317	244	367	397	135	653
Local government	-	-	-	-	-	-	-	64	590	1,635
State of Kentucky	2,149	1,937	2,032	2,325	1,959	2,014	2,003	2,112	2,249	2,498
Federal grants	344	522	767	149	248	451	1,455	654	616	830
Contributions	-	-	-	911	784	1,335	2,317	1,482	768	813
Miscellaneous	306	71	140	1,290	1,162	961	1,019	979	1,023	1,231
Total revenues	\$ 16,358	\$ 16,268	\$ 19,518	\$ 23,176	\$ 27,261	\$ 27,795	\$ 30,396	\$ 30,676	\$ 30,910	\$ 35,421
EXPENDITURES										
General government	\$ 2,467	\$ 2,283	\$ 2,544	\$ 2,673	\$ 2,869	\$ 3,282	\$ 2,859	\$ 3,786	\$ 4,231	\$ 4,429
Public safety	6,157	6,850	7,317	7,712	8,449	9,392	9,096	9,498	9,972	10,360
Public works	1,925	2,143	1,908	3,609	3,882	4,356	4,355	4,525	5,033	4,971
Recreation/tourism	1,155	1,196	1,175	1,703	3,434	4,156	4,282	4,496	4,691	6,397
Capital outlay	5,923	4,690	3,612	2,476	3,694	9,354	4,044	12,607	26,074	7,338
Debt Service										
Principal	810	860	918	805	1,086	1,128	1,014	986	1,329	1,941
Interest and fiscal agent fees	910	1,015	999	795	824	786	749	877	1,102	1,532
Bond issuance costs	-	-	-	107	-	-	-	105	186	54
Total expenditures	19,347	19,037	18,473	19,880	24,238	32,454	26,399	36,880	52,618	37,022
Excess of revenues over (under) expenditures	\$ (2,989)	\$ (2,769)	\$ 1,045	\$ 3,296	\$ 3,023	\$ (4,659)	\$ 3,997	\$ (6,204)	\$ (21,708)	\$ (1,601)
OTHER FINANCING SOURCES (USES)										
Issuance of debt	\$ 7,350	\$ -	\$ -	\$ 11,640	\$ -	\$ -	\$ -	\$ 10,000	\$ 18,500	\$ 5,780
Bond premium (discount)	-	-	-	(169)	-	-	-	(98)	(26)	65
Payments to refunded bond escrow agent	-	-	-	(11,362)	-	-	-	-	-	(5,788)
Insurance proceeds	-	667	-	-	-	64	195	-	-	23
Sales of capital assets	14	-	25	42	112	10	56	-	43	2
Transfers in	1,756	924	841	1,252	725	876	844	6,930	39,600	2,599
Transfers out	(2,040)	(867)	(791)	(1,152)	(625)	(856)	(1,301)	(7,151)	(40,533)	(3,797)
Total other financial sources (uses)	7,080	724	75	251	212	94	(206)	9,681	17,584	(1,116)
Special item - sale of land	\$ -	\$ -	\$ 775	\$ 2,635	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ 4,091	\$ (2,045)	\$ 1,895	\$ 6,182	\$ 3,235	\$ (4,565)	\$ 3,791	\$ 3,477	\$ (4,124)	\$ (2,717)
Debt service as a percentage of noncapital expenditures	0.03%	0.04%	0.1%	0.04%	0.1%	0.02%	0.04%	0.01%	0.01%	0.05%

Note: the debt service as a percentage of noncapital expenditures is calculated as follows:

Debt service principal + interest divided by the sum of general government + public safety + public works + recreation/tourism + capitalized capital outlay

CITY OF ELIZABETHTOWN, KENTUCKY
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN CALENDAR YEARS

City Direct Rate				Overlapping Rates			
				Hardin County School District			
Calendar Year	Real Estate	Tangible	Motor Vehicle	Calendar Year	Real Estate	Tangible	Motor Vehicle
2003	\$ 12.7	\$ 12.7	\$ 12.9	2003	\$ 44.4	\$ 45.6	\$ 54.0
2004	12.5	12.5	12.7	2004	44.7	45.6	54.0
2005	12.4	12.4	12.5	2005	45.0	45.6	54.0
2006	12.2	12.2	12.4	2006	50.6	51.2	54.0
2007	11.6	11.6	12.2	2007	50.1	50.1	54.0
2008	11.6	11.6	11.6	2008	49.7	50.4	54.0
2009	11.6	11.6	11.6	2009	51.7	51.7	54.0
2010	11.6	11.6	11.6	2010	58.7	58.7	54.0
2011	11.6	11.6	11.6	2011	58.7	58.7	54.0
2012	11.6	11.6	11.6	2012	58.7	58.7	54.0

Overlapping Rates			
Elizabethtown Ind. School District			
Calendar Year	Real Estate	Tangible	Motor Vehicle
2003	\$ 53.7	\$ 56.2	\$ 53.8
2004	54.0	56.2	53.8
2005	55.9	56.3	53.8
2006	59.7	59.7	53.8
2007	54.7	59.7	53.8
2008	55.2	59.8	53.8
2009	60.5	60.5	53.8
2010	62.5	62.5	53.8
2011	65.0	65.0	53.8
2012	67.1	67.1	53.8

Overlapping Rates												
County-Wide Jurisdictions												
Calendar Year	County			Extension Services			Health			Soil Conservation		
	Real Estate	Tangible	Motor Vehicle	Real Estate	Tangible	Motor Vehicle	Real Estate	Tangible	Motor Vehicle	Real Estate	Tangible	Motor Vehicle
2003	\$ 11.3	\$ 11.5	\$ 11.5	\$ 1.10	\$ 1.46	\$ 1.46	\$ 2.0	\$ 2.0	\$ 2.0	\$ 0.1	\$ -	\$ -
2004	11.2	11.5	11.5	1.10	1.46	1.46	2.0	2.0	2.0	0.1	-	-
2005	11.2	11.5	11.5	1.10	1.46	1.46	2.0	2.0	2.0	0.1	-	-
2006	11.2	11.5	11.5	1.10	1.46	1.46	2.0	2.0	2.0	0.1	-	-
2007	11.0	11.5	11.5	1.10	1.46	1.46	2.0	2.0	2.0	0.1	-	-
2008	10.9	12.1	11.5	1.10	1.46	1.46	2.0	2.0	2.0	0.1	-	-
2009	10.9	12.1	11.5	1.10	1.46	1.46	2.0	2.0	2.0	0.1	-	-
2010	10.9	12.1	11.5	1.10	1.46	1.46	2.0	2.0	2.0	0.1	-	-
2011	10.9	12.0	11.5	1.10	1.46	1.46	2.0	2.0	2.0	0.1	-	-
2012	10.9	11.0	11.5	1.03	1.49	1.49	2.2	2.2	2.2	0.1	-	-

Source: Kentucky Revenue Cabinet Department of Property Valuation

Note: Property taxes are levied on a calendar year basis.

CITY OF ELIZABETHTOWN, KENTUCKY
 PRINCIPAL PROPERTY TAX PAYERS
 JUNE 30, 2013
 (amounts expressed in thousands)

Taxpayer	Calendar Year 2012			Calendar Year 2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Towne Mall, LLC	\$ 25,000	1	1.20%	\$ 25,000	1	1.9%
AGC Automotive America	16,238	2	0.78%			
Wal-mart	10,000	3	0.48%	10,000	3	0.8%
Teachers Retirement System	8,409	4	0.40%	8,409	4	0.6%
Ambrake Mfg., Ltd	8,100	5	0.51%	10,645	2	0.8%
Dow Corning Corp.	6,450	6	0.31%	6,450	5	0.5%
Rouse Companies	6,400	7	0.31%	5,500	7	0.4%
Sun Starlite, LLC	6,300	8	0.30%			
Flint Ink	6,300	9	0.24%	5,000	9	
First Citizens Bank	3,900	10	0.19%	2,000	10	0.4%
Gates Rubber Company				5,100	8	0.4%
Etown Partners				6,025	6	0.5%

Source: City Financial Records and Property Valuation Office.

CITY OF ELIZABETHTOWN, KENTUCKY
 PRINCIPAL WITHHOLDING TAX PAYERS
 JUNE 30, 2013
 (amounts expressed in thousands)

<u>Taxpayer</u>	<u>Fiscal Year 2013</u>			<u>Fiscal Year 2004</u>	
	<u>Taxable Amount</u>	<u>Amount Remitted</u>	<u>Rank</u>	<u>Taxable Amount</u>	<u>Amount Remitted</u>
Hospital	\$ 89,529	\$ 1,209	1		
Industry	67,200	907	2		
Industry	35,715	482	3		
Industry	24,305	328	4		
Industry	23,667	320	5		
State	21,123	285	6		
Education	16,628	224	7		
Education	14,272	193	8		
Retail	13,234	179	9		
Education	13,081	177	10		
Hospital				\$ 63,055	\$ 851
Industry				48,032	648
Industry				33,493	452
Industry				32,057	433
State				20,259	273
Industry				17,800	240
Industry				14,655	198
Industry				14,065	190
Education				12,254	165
Education				11,932	161

Source: City Financial Records.

Note: Individual business names were not listed due to confidentiality laws.
 Instead, the taxpayers were listed by type.

CITY OF ELIZABETHTOWN, KENTUCKY
 ASSESSED VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

Fiscal Year	Residential Property	Commercial Property	Agricultural Property	(1) (2) Personal Property	Less: Homestead Disability Exemptions	Agricultural Exemption	Total Taxable Assessed Value	Tax Rate at Cents Per Hundred
2004	\$ 806,692	\$ 697,910	\$ 28,483	\$ 224,579	\$ 46,442	\$ 17,153	\$ 1,694,069	\$ 12.5
2005	877,754	735,578	29,195	263,743	48,488	18,314	1,839,468	12.4
2006	934,649	766,786	28,545	270,424	48,923	17,519	1,933,962	12.2
2007	1,074,359	850,720	43,150	344,253	53,478	19,824	2,239,180	11.6
2008	1,160,822	888,549	47,388	251,635	54,351	17,346	2,276,697	11.6
2009	1,124,989	910,444	49,186	279,328	58,062	24,410	2,281,475	11.6
2010	1,152,558	935,623	55,683	311,029	60,754	31,448	2,362,691	11.6
2011	1,192,514	922,841	61,754	308,525	61,752	41,022	2,382,860	11.6
2011	1,192,514	922,841	61,754	308,525	61,752	41,022	2,382,860	11.6
2012	1,210,764	954,315	58,754	327,541	63,858	41,173	2,446,343	11.6
2013	1,226,902	994,061	56,278	368,802	68,109	40,753	2,537,181	11.6

Source: Hardin County Property Valuation Office

- (1) Does not include assessed valuations for motor vehicles - tax collected by County Clerk.
- (2) Bank share valuations not included as they are assessed by the Commonwealth of Kentucky and taxed at a rate of 2.5 cents per hundred valuation.
- (3) The actual value is determined by the County Property Valuation Administrator based on valuations performed every 4 years. The City has determined that the actual value is not readily estimable. Therefore, the actual value has not been presented.

CITY OF ELIZABETHTOWN, KENTUCKY
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN CALENDAR YEARS

<u>YEAR</u>	<u>TOTAL LEVIED</u>	<u>CURRENT COLLECTIONS</u>	<u>% OF LEVY</u>	<u>SUBSEQUENT COLLECTIONS</u>	<u>TOTAL</u>	<u>% OF LEVY</u>	<u>TAX BALANCE</u>
For the Calendar							
Year Ended:							
2003	\$ 2,185,649	\$ 2,167,855	99.19%	\$ 16,239	\$ 2,184,094	99.93%	\$ 1,555
2004	2,439,226	2,427,785	99.53%	9,657	2,437,442	99.93%	1,784
2005	2,635,929	2,620,564	99.42%	13,658	2,634,222	99.94%	1,707
2006	2,642,012	2,621,743	99.23%	18,291	2,640,034	99.93%	1,978
2007	2,847,643	2,826,705	98.74%	18,033	2,844,738	99.90%	2,905
2008	2,877,604	2,836,486	98.20%	33,280	2,869,766	99.73%	7,838
2009	2,911,394	2,879,343	98.90%	25,340	2,904,683	99.77%	6,711
2010	2,954,411	2,925,944	99.04%	20,916	2,946,860	99.74%	7,551
2011	3,009,085	2,979,416	99.04%	13,474	2,992,890	99.46%	16,195
2012	3,069,404	3,047,912	99.30%	-	3,047,912	99.30%	21,492

Source: City financial records

All unpaid property taxes on real property are recorded at the county courthouse and a lien is placed against the property.

CITY OF ELIZABETHTOWN
GROWTH HISTORY - INCREASE OF UTILITY CUSTOMERS
LAST TEN FISCAL YEARS

<u>YEAR</u>	<u>WATER CUSTOMERS</u>	<u>SEWER CUSTOMERS</u>	<u>GAS CUSTOMERS</u>
For the Fiscal Year Ended June 30, :			
2004	8,317	10,152	8,181
2005	8,479	10,411	8,293
2006	8,697	10,753	8,365
2007	8,904	11,052	8,404
2008	8,976	11,151	8,476
2009	9,124	11,447	8,362
2010	9,253	11,719	8,305
2011	9,439	11,965	8,368
2012	9,529	12,005	8,340
2013	9,586	12,269	8,331

Source: City financial records

CITY OF ELIZABETHTOWN, KENTUCKY
 RATIOS OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Municipal Property Corporation Bonds	Notes Payable	Revenue Bonds	Loans Payable	Notes Payable			
2004	\$ 8,990	\$ 12,435	\$ 360	\$ 3,680	\$ 4,893	\$ -	\$ 30,358	5.3%	1,210
2005	8,735	11,890	660	-	4,425	-	25,710	4.2%	998
2006	8,475	11,320	572	-	3,946	-	24,313	3.7%	915
2007	8,028	10,925	483	-	3,456	-	22,892	3.5%	874
2008	7,765	10,251	392	-	2,956	738	22,102	3.2%	827
2009	7,491	9,548	299	-	2,445	451	20,234	2.7%	752
2010	7,202	8,974	204	-	6,877	543	23,800	3.5%	858
2011	16,707	8,381	167	-	6,951	465	32,671	4.6%	1,144
2012	34,395	7,763	129	-	8,818	403	51,508	6.8%	1,759
2013	33,237	7,102	88	-	9,950	342	50,719	6.5%	1,724

Note: Details regarding City's outstanding debt can be found in the notes to the financial statements.

See page 88 - Schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF ELIZABETHTOWN, KENTUCKY
 RATIOS OF GENERAL BONDED DEBT OUTSTANDING
 LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities General Obligation Bonds	Percentage of Total Taxable Assessed Value of Property	Per Capita
2004	\$ 8,990,000	0.531%	358
2005	8,735,000	0.475%	339
2006	8,475,000	0.438%	319
2007	8,205,000	0.366%	302
2008	7,930,000	0.348%	286
2009	7,645,000	0.335%	274
2010	7,345,000	0.311%	257
2011	17,035,000	0.715%	597
2012	34,910,000	1.427%	1,192
2013	33,236,924	1.309%	1,107

CITY OF ELIZABETHTOWN, KENTUCKY
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 JUNE 30, 2013

Overlapping Debt	\$ -
City Direct Debt	<u>41,443,173</u>
Total Direct and Overlapping Debt	\$ 41,443,173

CITY OF ELIZABETHTOWN, KENTUCKY
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2013

Assessed valuation of property		<u>\$ 2,573,181,000</u>
Legal debt margin:		
Debt limitation - 10% of assessed value		\$ 257,318,100
Total bonded debt	\$ 41,355,000	
Less: Revenue bonds	<u>7,540,000</u>	<u>33,815,000</u>
Legal debt margin		\$ 223,503,100

CITY OF ELIZABETHTOWN, KENTUCKY
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>10% LIMITATION</u>										
Debt Limit Equal to 10% of Assessed Valuation	\$ 169,401	\$ 183,947	\$ 193,396	\$ 223,918	\$ 227,670	\$ 228,148	\$ 228,924	\$ 238,286	\$ 244,634	\$ 257,318
Total Net Debt Applicable to 10% Limit	<u>8,990</u>	<u>8,735</u>	<u>8,475</u>	<u>8,205</u>	<u>7,930</u>	<u>7,645</u>	<u>7,345</u>	<u>17,035</u>	<u>34,910</u>	<u>33,815</u>
Legal 10% Debt Margin (Available Borrowing Capacity)	<u>\$ 160,411</u>	<u>\$ 175,212</u>	<u>\$ 184,921</u>	<u>\$ 215,713</u>	<u>\$ 219,740</u>	<u>\$ 220,503</u>	<u>\$ 221,579</u>	<u>\$ 221,251</u>	<u>\$ 209,724</u>	<u>\$ 223,503</u>
Total Net Debt Applicable to the 10% Limit as a Percentage of 10% Debt Limit	5.31%	4.75%	4.38%	3.66%	3.48%	3.35%	3.21%	7.15%	14.27%	13.14%

CITY OF ELIZABETHTOWN, KENTUCKY
 PLEDGED-REVENUE COVERAGE
 WATER AND SEWER BONDS
 LAST TEN FISCAL YEARS

Fiscal Year	Operating Revenue	Expenses, net of Interest and Depreciation	Revenue Available For Debt Service	Debt Service Requirements			Coverage (1)
				Principal	Interest	Total	
For the Fiscal Year Ended June 30,							
2004	(2) \$ 6,052,544	\$ 5,352,297	\$ 700,247	\$ 500,000	\$ 227,810	\$ 727,810	.96
2005	N/A	N/A	N/A	-	-	-	- (3)
2006	N/A	N/A	N/A	-	-	-	- (3)
2007	N/A	N/A	N/A	-	-	-	- (3)
2008	N/A	N/A	N/A	-	-	-	- (3)
2009	N/A	N/A	N/A	-	-	-	- (3)
2010	N/A	N/A	N/A	-	-	-	- (3)
2011	N/A	N/A	N/A	-	-	-	- (3)
2012	N/A	N/A	N/A	-	-	-	- (3)
2013	N/A	N/A	N/A	-	-	-	- (3)

Source: City financial records

(1) The City of Elizabethtown Ordinances require a minimum coverage of 1.30 for water and sewer revenue bonds debt service.

(2) Includes KIA revolving loan payments and coverage factors.

(3) Bonds were called October 1, 2004.

CITY OF ELIZABETHTOWN, KENTUCKY
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

Fiscal Year	(1) Population	(2) Personal Income (in thousands)	(3) Per Capita Personal Income	(4) Median Age	(5) Education Level (High School or Above %)	(6) Unemployment Rate
2004	25,096	577,384	23,007	35.9	85.3%	5.6%
2005	25,767	610,600	23,697	35.8	86.1%	6.2%
2006	26,570	648,520	24,408	35.8	86.9%	4.9%
2007	27,181	683,330	25,140	35.8	87.7%	5.7%
2008	27,730	718,066	25,894	35.8	88.5%	6.1%
2009	27,933	774,973	26,670	35.7	89.3%	10.1%
2010	28,531	692,247	24,263	37.6	87.1%	8.7%
2011	29,296	732,107	24,990	37.5	87.6%	8.4%
2012	29,843	768,158	25,740	37.4	88.1%	7.4%
2013	30,013	795,704	26,512	37.4	88.6%	7.2%

- (1) Estimate by Elizabethtown Planning Department based on U.S. Census population 2004 through 2010. For the years 2011 through 2013, estimate was calculated using the 2010 U.S. Census population and total housing usings constructed annually times 2.3 (average household size in 2010 U.S. Census).
- (2) Estimate by Elizabethtown Planning Department based on multiplying per capita income by population.
- (3) Estimate by Elizabethtown Planning Department based on 2010 U.S. Census per capita income of \$24,263, and estimating 3% annual increase in wages.
- (4) Estimate by Elizabethtown Planning Department based on comparison of 2000 Census median age of 35.9 and the 2010 Cenus median age of 35.4 which showed a .05 decrease annually.
- (5) Estimate by Elizabethtown Planning Department based on comparison of 2000 Census and 2010 Census which showed a 5% increase over 10 years.
- (6) Estimate from United States Department of Labor, Bureau of Labor Statistics. 2013 percentage is as of August 2013.

CITY OF ELIZABETHTOWN, KENTUCKY
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

EMPLOYER	2013			2004		
	EMPLOYEES	RANK	PERCENTAGE OF TOTAL EMPLOYEES	EMPLOYEES	RANK	PERCENTAGE OF TOTAL EMPLOYEES
Hardin Memorial Hospital	2,172	1	6.4%	1,774	1	5.8%
Akebono	1,217	2	3.6%	1,111	2	3.6%
Metalsa	722	3	2.1%	1,093	3	3.6%
Commonwealth of Kentucky	612	4	1.8%			
Wal-mart	598	5	1.8%	585	6	1.9%
Altec	534	6	1.6%	355	7	1.2%
AGC Automotive America	507	7	1.5%	700	5	2.3%
Ky Comm & Tech College	449	8	1.3%			
Hardin Co. Schools	438	9	1.3%	934	4	3.0%
Elizabethtown Ind. Schools	408	10	1.2%			
Summit Polymers				345	8	1.1%
Collis				275	9	0.9%
Mouser Cabinets				266	10	0.8%
Total	<u>7,657</u>		<u>22.6%</u>	<u>7,438</u>		<u>24.2%</u>

Source: City Occupational Tax Records.

CITY OF ELIZABETHTOWN, KENTUCKY
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS

	2004	2005	2006	2007	2008	2009	2010	2011	2013
Function									
Administration									
Mayor's Office	11	11	11	11	11	11	11	11	12
Finance	9	9	9	10	11	12	13	12	14
Planning	9	10	10	10	10	10	10	10	10
Public Safety									
Police	50	55	56	56	56	57	57	59	62
Fire	50	50	51	51	50	50	50	53	53
Garage	2	2	2	2	2	2	2	2	2
Drug Task Force	2	2	2	2	2	2	2	2	2
Parking Meter	1	1	1	1	1	1	1	1	1
Public Works									
Engineering	5	5	5	4	5	5	5	5	6
Administration	7	7	7	7	7	7	7	8	8
Street	20	20	20	18	21	22	21	22	21
Stormwater	0	0	0	5	7	9	9	8	8
Recreation	17	17	17	17	17	17	17	20	25
Water & Wastewater	49	49	49	50	50	48	48	48	51
Natural Gas	20	20	20	20	20	20	21	19	19
Total	252	258	260	264	270	273	274	280	294

Source: City payroll department.

CITY OF ELIZABETHTOWN, KENTUCKY
OPERATING INDICATORS BY FUNCTION
LAST TEN CALENDAR YEARS

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
Finance										
Business License Issued	2,915	2,932	2,862	3,179	3,921	3,542	3,947	3,751	4,040	4,056
Planning										
Building Permits Issued	457	517	503	537	484	435	343	427	373	344
Construction Costs(millions)	\$71.90	\$72.40	\$77.50	\$67.60	\$80.40	\$59.30	\$20.40	\$50.04	\$84.21	\$45.37
Public Safety										
Police										
Calls For Service	29,383	30,121	32,244	32,547	33,353	34,259	32,740	29,880	29,719	31,467
Arrests & Citations	7,043	7,643	5,859	5,985	8,020	7,147	6,446	6,550	7,525	6,827
Fire										
Fire Runs	731	721	762	814	791	804	814	1001	1078	1104
Inspections	1,477	1,429	1,380	1,193	1,670	1,936	2,174	2,179	2,353	2,316
Public Works										
Street										
Brush & Trash Loads	1,556	1,714	678	672	1,371	2,935	14,272	2,504	3,235	3,556
Miles of Streets	138	142	144	147	150	150	152	152	154	154
Recreation										
Shelter Rentals	303	295	302	256	295	251	271	252	151	236
Golfers	5,092	4,550	4,112	4,550	1,925	4,450	6,800	6,234	3,229	2,776
Swimmers	11,965	13,533	14,984	13,533	10,931	9,127	7,597	10,145	8,381	7,635
Water										
Daily Production(millions of gallons)	2.45	2.49	3.19	2.66	2.50	2.20	2.51	2.75	2.50	2.99
Purchased Water(millions of gallons)	1.5	1.5	1.5	1.4	1.07	1.13	1.10	1.12	1.25	1.10
Wastewater										
Avg Daily Treatment(millions of gallons)	6.18	5.92	5.49	5.87	5.10	5.43	5.12	4.81	6.56	5.60
Natural Gas										
Gas Usage(1000 MCF)	2.411	2.141	2.107	1.964	1.990	1.953	1.751	1.972	1.870	1.859

*Records requests not included

Source: City of Elizabethtown Departmental Annual Reports

CITY OF ELIZABETHTOWN, KENTUCKY
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public Safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	50	50	50	51	51	51	51	52	55	55
Fire Stations	3	3	3	3	3	3	3	3	3	3
Streets										
Streets (miles)	138	142	144	147	150	150	152	152	154	154
Streetlights	2,638	2,705	2,761	2,813	2,901	2,978	3,021	3,184	3,275	3,386
Parks and Recreation										
Parks	5	5	5	5	6	6	6	6	7	7
Parks acreage	410	410	410	410	430	430	430	560	700	700
Community Centers	1	1	1	1	1	1	1	1	1	1
Soccer Fields	2	2	2	2	2	2	2	8	14	14
Tennis Courts	12	12	12	12	12	12	12	12	12	16
Swimming Pools	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	146	147	148	152	155	158	158	158	161	162
Water meters	8,317	8,479	8,697	8,904	8,926	9,124	9,253	9,439	9,529	9,555
Sewer										
Sewer mains (miles)	186	189	194	201	205	208	208	212	218	220
Avg treated gallons daily - millions	6.18	5.92	5.49	5.87	5.10	5.43	5.12	5.12	6.56	5.60
Customers	#####	10,411	10,753	11,052	11,151	11,447	11,719	11,965	12,065	12,269
Natural Gas										
Mains (miles)	208	209	210	212	213	215	215	217	217	221
Gas meters	8,181	8,293	8,365	8,404	8,476	8,362	8,305	8,368	8,340	8,331

Source: City of Elizabethtown Departmental Annual Reports

GOVERNMENTAL COMPLIANCE SECTION

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

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MEMBER
AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor,
Members of the City Council
and Director of Finance
City of Elizabethtown, Kentucky

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Elizabethtown, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Elizabethtown, Kentucky's basic financial statements and have issued our report thereon dated December 3, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Elizabethtown Tourism and Commission Bureau, a discretely presented component unit, as described in our report on City of Elizabethtown, Kentucky's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance or other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elizabethtown, Kentucky'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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* as item 2013-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Elizabethtown Kentucky's financial statements are free of 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*.

City of Elizabethtown, Kentucky's Response to Findings

City of Elizabethtown Kentucky's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Elizabethtown Kentucky'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 City'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.

Stiles, Carter & Associates

Certified Public Accountants
Elizabethtown, Kentucky
December 3, 2013

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SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

MEMBER
AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs

Honorable Mayor,
Members of the City Council
and Director of Finance
City of Elizabethtown, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Elizabethtown, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Elizabethtown, Kentucky's major federal programs for the year ended June 30, 2013. City of Elizabethtown, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Elizabethtown, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Elizabethtown, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Elizabethtown, Kentucky's compliance

Opinion on Each Major Federal Program

In our opinion, City of Elizabethtown, Kentucky complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

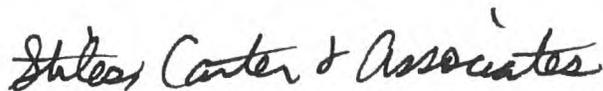
Report on Internal Control Over Compliance

Management of City of Elizabethtown, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Elizabethtown, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Elizabethtown, Kentucky's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants
Elizabethtown, Kentucky
December 3, 2013

CITY OF ELIZABETHTOWN
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2013

100

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Community Development Block Grant	14.218	N/A	\$ 51,656
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>51,656</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Bulletproof Vest Partnership Program	16.607	N/A	2,202
Passed Through City of Louisville: Project Safe Neighborhoods	16.609	LVILLE	16,000
Passed Through Daviess County Sheriff: Public Safety Partnership and Community Policing	16.710	2008-CK-WX0111	9,729
Passed Through Kentucky Justice and Public Safety Cabinet: Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-JAG-CITY OF EL-00913	<u>200,925</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>228,856</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through Kentucky Department of Transportation: State and Community Highway Safety	20.600	PT-13-17	<u>18,670</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>18,670</u>
<u>EXECUTIVE OFFICE OF THE PRESIDENT</u>			
High Intensity Drug Trafficking Areas Program	95.001	N/A	<u>39,373</u>
TOTAL EXECUTIVE OFFICE OF THE PRESIDENT			<u>39,373</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Kentucky Division of Emergency Management: Hazard Mitigation Grant	97.039	DR-1746-0004 DR-1746-0005 DR-1818-094	268,781 25,007 <u>17,033</u>
			<u>310,821</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>310,821</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 649,376</u>

The accompanying notes are an integral part of this schedule.

CITY OF ELIZABETHTOWN, KENTUCKY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Elizabethtown, Kentucky under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of City of Elizabethtown, Kentucky, it is not intended to and does not present the financial position, changes in net assets or cash flows of City of Elizabethtown, Kentucky.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C - SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Elizabethtown, Kentucky
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2013

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified
that are not considered to be material
weaknesses? yes X none reported

Noncompliance material to financial
statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified
that are not considered to be material
weaknesses? yes X none reported

Type of auditor's report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
16.738	Edward Byrne Memorial Justice Assistance Grant Program
97.039	Hazard Mitigation Grant Program

Dollar threshold used to distinguish
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

Section II - Financial Statement Findings

MATERIAL WEAKNESS

REFERENCE NUMBER 2013-01

INVENTORY CONTROL - ELIZABETHTOWN SPORTS PARK

Criteria: The City's management is responsible for establishing and maintaining internal controls over the use of the City's assets.

Condition: We noted that Elizabethtown Sports Park does not have an adequate system of concessions inventory control. The Park conducted random inventory counts during the year, but there was no systematic method. Also, Park management did not utilize the inventory control features contained in its sales management system to monitor the flow of inventory.

Cause: Elizabethtown Sports Park management did not focus on the need to implement sufficient procedures to monitor inventory.

Effect: The lack of adequate internal controls over Elizabethtown Sports Park concessions inventory does not allow the City to monitor items including gross profit percentages, cost of goods sold and anticipated net profit.

Recommendation: We recommend City management implement concessions inventory control procedures at Elizabethtown Sports Park. The procedures should include the use of the Park's sales management system to maintain a perpetual inventory system in conjunction with scheduled physical counts which are reconciled to the system. In addition, the City finance department should implement procedures to monitor gross profit percentages, cost of goods sold and anticipated net profit.

Management Response: The City finance department will meet with Elizabethtown Sports Park management to ensure that the sales management system is utilized to track inventory and that a monthly physical count is conducted. The City finance department will also monitor gross profit percentages, cost of goods sold and anticipated net profit.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

CITY OF ELIZABETHTOWN, KENTUCKY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2013

There were no prior year audit findings.

DAMON R. TALLEY, P.S.C.

112 N. Lincoln Blvd
PO Box 150
Hodgenville, Kentucky 42748

Tel: (270) 358-3187
Fax: (270) 358-9560
E-mail: drtalley@windstream.net

Exhibit 16

Damon R. Talley

Attorney At Law

August 8, 2014

State Local Debt Officer
Department for Local Government
1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601

RE: Notice of Intent to Issue Debt
Hardin County Water District No. 2

Attention State Local Debt Officer:

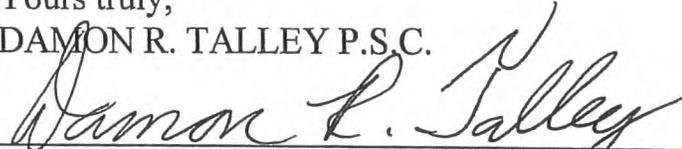
Hardin County Water District No. 2 (the "District") is in the process of purchasing the Water System Assets owned by the City of Elizabethtown (the "City"). The purchase price is \$8,000,000.00, which will be paid in 20 annual installments of \$400,000.00 each. The debt will not bear any interest.

The purpose of this letter is to provide notice, pursuant to KRS 65.117, of the District's intent to incur this long-term debt obligation. The obligation will be evidenced by a Promissory Note issued by the District in favor of the City. A copy of the Promissory Note is enclosed. Also enclosed is the completed Local Debt Notification Form.

Please acknowledge receipt of this Notice of Intent and compliance with KRS 65.117.

Should you need any additional information, please let me know.

Yours truly,
DAMON R. TALLEY P.S.C.



Damon R. Talley
Counsel for Hardin County Water District No. 2

Enclosures

LOCAL DEBT NOTIFICATION

BOND SUMMARY FORM

Please complete this form and return to the State Local Debt Officer. Include all corresponding bond information and the **principal payment schedule**. Completion of this form along with the payment schedule will insure timely entry into the State Local Debt Report. Thank you in advance for your assistance.

Name of Entity Issuing Bond: Hardin County Water District No. 2

County: Hardin and LaRue County

Type of Bond: Promissory Note

Purpose: Purchase City of Elizabethtown Water System Assets

Name, date and principal amount of original issue(s) being refunded: Not Applicable

Is the County Obligated? No

Date the Bond was Issued: October 31, 2014

Bond Series: Not Applicable

Principal Amount: \$8,000,000.00

Type of Interest: Fixed

Interest Rate: Zero

Date of Initial Payment: Not Applicable (interest); October 31, 2015 (principal)

AOC Percent (if applicable): Not applicable

Date of Maturity: October 31, 2034 (final)

Call Date: Not Applicable

Retirement Method: From water system revenues

Financial Advisor: Not Applicable

Trustee/Bond Registrar and Paying Agent: Not Applicable

Bond Counsel: Damon R. Talley, P.S.C.

PROMISSORY NOTE

\$8,000,000.00

**OCTOBER 31, 2014
ELIZABETHTOWN, KENTUCKY**

FOR VALUE RECEIVED, the **HARDIN COUNTY WATER DISTRICT NO. 2** (the “District”) hereby promises to pay to the order of the **CITY OF ELIZABETHTOWN, KENTUCKY** (the “City”) the sum of Eight Million Dollars (\$8,000,000.00), which sum bears no interest and is due and payable in twenty (20) equal annual installments of Four Hundred Thousand Dollars (\$400,000.00) each. The first annual installment shall be due and payable on or before one (1) year from the date of this Promissory Note; and a like installment shall be due and payable on or before the same day of each and every year thereafter until the Promissory Note is paid in full. The final installment shall be due and payable on or before October 31, 2034.

Prepayment Privilege. The District shall have the right to prepay all, or any part thereof, of the unpaid principal of this Promissory Note on any date, without premium or penalty.

Acceleration Clause. If any installment of principal is not paid at the time specified herein, or within thirty (30) days after the due date of said installment, with time being of the essence hereof, the holder of this Promissory Note may, without notice or demand, declare the entire remaining unpaid balance immediately due and payable.

Attorney Fees. In the event it becomes necessary for the holder of this Promissory Note to enforce collection of it by legal action, then it shall be entitled to recover the then unpaid amount of this Promissory Note, plus accrued interest, Court costs, and reasonable attorney fees.

Purpose. This Promissory Note evidences the indebtedness incurred by the District for the purchase of the City's Water System pursuant to the terms of the Asset Purchase Agreement dated July 28, 2014.

Security. The District hereby pledges the income and revenues of its water system to the City as security for the payment of principal hereunder; provided, however, that the pledge of such income and revenues is subordinate, and subject in all respects, to the pledges, liens, rights, and contractual commitments securing the District's Water System Revenue Bonds, Water System Refunding Revenue Bonds, and Revenue Bond Anticipation Notes issued pursuant to KRS Chapter 74

or other applicable law (the “Bonds”) to finance or refinance improvements to the District’s water system, regardless of whether such Bonds were issued by the District before or after the date of this Promissory Note.

No Assumption. No third party may assume the obligations of the District hereunder, in whole or in part, without the prior written consent of the City; provided, however, nothing herein shall prohibit or preclude the assumption of the obligations of the District hereunder by an entity that is the successor of the District by operation of law, consolidation, or merger.

Authority. Michael L. Bell, Chairman of the District, is executing this Promissory Note for and on behalf of the District pursuant to authority granted him by Resolution 2014-07-01 adopted by the of the Board of Commissioners of the District at a meeting held on July 15, 2014.

Immunity of Officials and Officers. Michael L. Bell is executing this Promissory Note in his official capacity as Chairman of the District and not as an individual. He is not incurring any individual or personal liability whatsoever by executing this Promissory Note. In addition, no recourse shall be had for the payment of any amount due hereunder against any present or future Commissioner or officer of the District.

HARDIN COUNTY WATER DISTRICT No. 2

By: _____
Michael L. Bell, Chairman

ATTEST:

By: _____
Morris L. Miller, Secretary

14/HCWD 2/Promissory Note – E-Town 2014

- BOND-AUTHORIZING RESOLUTION -

A RESOLUTION OF THE COMMISSION OF HARDIN COUNTY WATER DISTRICT NO. 2, HARDIN AND LARUE COUNTIES, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE DISTRICT'S MUNICIPAL WATER SYSTEM; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S WATER SYSTEM REVENUE BONDS, SERIES 2007A, TO PAY A PORTION OF THE COSTS THEREOF; CONFIRMING PROVISIONS FOR THE COLLECTION, SEGREGATION AND DISBURSEMENT OF THE INCOME AND REVENUES OF SAID WATER SYSTEM AND PROVIDING FOR THE PAYMENT OF THE BONDS HEREIN AUTHORIZED; ESTABLISHING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM SUCH INCOME AND REVENUES AND RANKING ON A PARITY WITH THE BONDS HEREIN AUTHORIZED; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

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A RESOLUTION OF THE COMMISSION OF HARDIN COUNTY WATER DISTRICT NO. 2, HARDIN AND LARUE COUNTIES, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE DISTRICT'S MUNICIPAL WATER SYSTEM; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S WATER SYSTEM REVENUE BONDS, SERIES 2007A, TO PAY A PORTION OF THE COSTS THEREOF; CONFIRMING PROVISIONS FOR THE COLLECTION, SEGREGATION AND DISBURSEMENT OF THE INCOME AND REVENUES OF SAID WATER SYSTEM AND PROVIDING FOR THE PAYMENT OF THE BONDS HEREIN AUTHORIZED; ESTABLISHING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM SUCH INCOME AND REVENUES AND RANKING ON A PARITY WITH THE BONDS HEREIN AUTHORIZED; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

WHEREAS, upon petition and hearing, and upon proper public notice according to the provisions of Chapter 74 of the Kentucky Revised Statutes ("KRS"), an Order and Judgment was duly entered by the County Court of Hardin County, Kentucky, on June 23, 1965, determining necessity for and creating and establishing the Hardin County Water District No. 2 (the "District"), defining the geographical area thereof and appointing Commissioners, the District constituting and being a public body corporate with all powers and authority as provided in KRS Chapter 74; and subsequently the District has from time to time annexed additional territories in Hardin and Larue Counties pursuant to proper proceedings and is at this time a *de jure* water district situated wholly in Hardin and Larue Counties; and

WHEREAS, the District has for many years owned and operated its municipal water system (the "System") serving the area of the District, and the District currently has outstanding, payable from the revenues of the System, the following revenue bonds:

Water System Revenue Bonds, Series of 1999A, in the outstanding principal amount of \$6,400,000 (the "1999A Bonds"), authorized by Resolution adopted on April 13, 1999 (the "1999A Resolution");

Water System Revenue Bonds, Series 2002A, in the principal amount of \$983,000 (the "2002A Bonds"), authorized by Resolution adopted on June 11, 2002 (the "2002A Resolution");

Water System Refunding Revenue Bonds, Series 2002B, in the outstanding principal amount of \$1,430,000 (the "2002B Bonds"), authorized by Resolution adopted on November 12, 2002 (the "2002B Resolution");

Water System Refunding Revenue Bonds, Series 2002C, in the outstanding principal amount of \$2,890,000 (the “2002C Bonds”), authorized by Resolution adopted on November 12, 2002 (the “2002C Resolution”);

Water System Refunding Revenue Bonds, Series 2003, in the outstanding principal amount of \$4,090,000 (the “2003 Bonds”), authorized by Resolution adopted on March 11, 2003 (the “2003 Resolution”);

Water System Refunding Revenue Bonds, Series 2004A, in the outstanding principal amount of \$2,760,000 (the “2004A Bonds”) authorized by Resolution adopted on March 9, 2004 (the “2004A Resolution”);

Water System Revenue Bonds, Series 2005A, in the outstanding principal amount of \$2,958,000 (the “2005A Bonds”), authorized by Resolution adopted on January 11, 2005 (the “2005A Resolution”); and

Water System Refunding Revenue Bonds, Series 2005B, in the outstanding principal amount of \$1,720,000, authorized by Resolution adopted on April 12, 2005 (the “2005B Resolution”);

WHEREAS, in 1990 the District issued certain Water System Revenue Bonds, Series of 1989, which have been fully paid and retired (the “1989 Bonds”), pursuant to an authorizing Resolution adopted on February 21, 1989, as amended and supplemented on December 11, 1990 (the “1989 Resolution”), and subsequently issued the 1999A Bonds, 2002A Bonds, 2002B Bonds, 2002C Bonds, 2003 Bonds, 2004A Bonds, 2005A Bonds and 2005B Bonds on a parity with the 1989 Bonds (now retired) and parity bonds under the parity bond conditions of the 1989 Resolution; and

WHEREAS, it is provided in the 1989 Resolution, 1999A Resolution, 2002A Resolution, 2002B Resolution, 2002C Resolution, 2003 Resolution, 2004A Resolution, 2005A Resolution and 2005B Resolution (collectively the “Prior Parity Resolutions”) that the District may issue additional bonds ranking on a basis of parity and equality with the outstanding 1999A Bonds, 2002A Bonds, 2002B Bonds, 2002C Bonds, 2003 Bonds, 2004A Bonds, 2005A Bonds and 2005B Bonds (collectively the “Prior Parity Bonds”) for the purpose of financing additional water service facilities upon a showing of compliance with the parity bond coverage test set forth in the Prior Parity Resolutions, and it has been determined by the Commission of the District that the District may now meet such coverage test so that additional parity bonds, ranking on a parity with the Prior Parity Bonds, may now be issued in the amount of \$2,480,000, styled “Water System Revenue Bonds, Series 2007A,” for the purpose of financing a portion of the costs of major new water system facilities previously approved by the Commission of the District (the “Project”), all as more fully described in the plans and specifications heretofore prepared on behalf of the District by Kenvirons, Inc., Frankfort, Kentucky, and on file in the office of the District; and

WHEREAS, in proceedings before the Public Service Commission of Kentucky, the District has obtained the right and authority to construct and operate the Project, the plans and

specifications for the Project have been approved by the District's Commission and all State and other supervisory authorities having jurisdiction thereof, and the District is prepared to undertake the construction, acquisition and installation of the Project; and

WHEREAS, it has been determined upon the basis of public bids for construction duly solicited in the manner required by law, and upon the basis of other costs and estimates, that the amount of the costs of the Project will be \$4,799,000, and to provide such funds the District has received from the United States Department of Agriculture, Rural Development ("USDA"), an offer to make a USDA loan to the District in the amount of \$2,480,000, to be represented by the 2007A Bonds, which together with State IEDF Grants totaling \$2,250,000 and a District Contribution in the amount of \$69,000, will be sufficient to pay the estimated costs of constructing, acquiring and installing the Project; and

WHEREAS, it is now appropriate for the District to provide for borrowing the indicated sum of \$2,480,000 through issuance and sale of the 2007A Bonds according to authority of Kentucky Revised Statutes ("KRS") Chapters 74 and 106 and the applicable provisions of the Prior Parity Resolutions permitting the issuance of bonds on a parity with the outstanding Prior Parity Bonds; and the 2007A Bonds shall be payable as to both principal and interest solely (except as to capitalized interest) from the income and revenues to be derived from the operation of the System, as extended and improved from time to time, on a parity with the Prior Parity Bonds and shall not constitute an indebtedness of the District within the meaning of debt-limiting provisions of the Constitution of Kentucky;

NOW, THEREFORE, THE COMMISSION OF HARDIN COUNTY WATER DISTRICT NO. 2, HARDIN AND LARUE COUNTIES, KENTUCKY, DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1

AFFIRMATION OF PREAMBLE RECITALS;

AUTHORIZATION OF THE PROJECT;

DECLARATION OF NECESSITY

All statements and recitals set forth in the preamble of this Resolution, including the terms defined therein, are hereby affirmed and adopted as a part of this Resolution.

It is further determined and declared to be necessary in the interests of the general welfare of the citizens and inhabitants of the District that the District undertake the construction and installation of the Project, all substantially according to the plans, specifications and designs prepared for the District by Kenvirons, Inc., Frankfort, Kentucky (the "Engineers"). The prior undertaking of such construction and installation is hereby approved.

SECTION 2

PROJECT AND SYSTEM TO BE MUNICIPALLY
OWNED AND OPERATED

The construction, acquisition and installation of the Project has been undertaken by the District for public purposes and the same shall constitute and be a part of the System, and so long as any of the 2007A Bonds hereinafter authorized, or bonds issued on a parity therewith, shall remain outstanding and unpaid as to principal or interest, the System shall continue to be municipally owned, controlled, operated and maintained by the District for the security and source of payment of the 2007A Bonds and such parity bonds. The Project shall be constructed, installed and acquired and the System shall be operated pursuant to the provisions of KRS Chapters 74 and 106.

SECTION 3

2007A BOND ISSUE AUTHORIZED;
CERTAIN TERMS AND DETAILS

For the purpose of providing funds to defray the costs of the Project (to the extent not otherwise provided to be paid), including all necessary and proper appurtenances, and expenses incident thereto and incident to the issuance of the 2007A Bonds hereinafter authorized, there are hereby authorized to be issued the District's Water System Revenue Bonds, Series 2007A, in the principal amount of \$2,480,000 (the "2007A Bonds"), with reservation of right on the part of the District to issue additional bonds in the future, payable from the income and revenues of the System, subject to the conditions and restrictions hereinafter reaffirmed, readopted and set forth. The 2007A Bonds shall be offered at public sale as provided in Section 4 hereof and shall be issuable in the form of a single fully registered bond as provided in Section 5 hereof.

The 2007A Bonds shall be dated as of the date of delivery to the original purchaser thereof; shall mature in installments on January 1 in each of the years 2010 to 2047, inclusive, as set forth in the schedule appearing below; and shall bear interest from their date until payment of principal, such interest to the respective principal maturity dates to be payable semiannually on January 1 and July 1 of each year, and such interest to be at such rate as may be established by a supplemental resolution upon the basis of competitive sale of the 2007A Bonds as hereinafter provided. The installments of principal of the 2007A Bonds, in fully registered form as aforesaid, shall be as set forth in the following schedule:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2010	\$ 28,000	2023	\$ 47,000	2036	\$ 80,000
2011	29,000	2024	49,000	2037	84,000
2012	30,000	2025	51,000	2038	87,000
2013	32,000	2026	54,000	2039	91,000
2014	33,000	2027	56,000	2040	94,000
2015	34,000	2028	58,000	2041	98,000
2016	36,000	2029	60,000	2042	102,000
2017	37,000	2030	63,000	2043	106,000
2018	39,000	2031	66,000	2044	111,000
2019	40,000	2032	68,000	2045	115,000
2020	42,000	2033	71,000	2046	120,000
2021	44,000	2034	74,000	2047	128,000
2022	46,000	2035	77,000		

provided, however, that installments of principal of 2007A Bonds maturing on and after January 1, 2018, shall be subject to prepayment at the option of the District prior to maturity in whole or from time to time in part in inverse order of maturities (less than all of a single maturity to be selected by lot) on any interest payment date on and after January 1, 2017, upon terms of par plus accrued interest without any prepayment premium, upon thirty (30) days' prior written notice mailed to the registered holder or holders of the 2007A Bonds; provided, that so long as USDA is the owner of any of the 2007A Bonds, the same may be prepaid in whole or in part at any time at par plus accrued interest, and without notice or prepayment premium. The 2007A Bonds may be prepaid only in increments of \$1,000.

Both principal of and interest on the 2007A Bonds shall be payable, without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United States of America, to the registered holder at the address shown on the registration books of the District or, so long as USDA is the registered holder, at the office or address as may be designated by USDA from time to time.

If any District officer whose signature appears on any 2007A Bond shall cease to be such officer prior to delivery, such signature shall nevertheless be valid and binding for all purposes, the same as if such officer had continued in office until the time of delivery of such 2007A Bond. The 2007A Bonds, and the interest thereon, and any bonds which may hereafter be issued on a basis of parity therewith subject to the conditions and restrictions hereinafter set forth, shall be payable only out of the 1989 Water System Revenue Bond and Interest Sinking Fund, created by the 1989 Resolution, and shall be a valid claim of the holder thereof only against said Fund and the fixed portion or amount of the revenues of the System which the District has pledged to said Fund, subject to the terms hereof.

SECTION 4

PROVISIONS RELATING TO SALE OF 2007A BOND ISSUE

The 2007A Bonds authorized by this Resolution shall be publicly offered for sale according to a Notice of Sale of Bonds conforming to the requirements of KRS Chapter 424 (and particularly KRS 424.140(3) and KRS 424.360), which shall be published one time, not less than seven (7) days nor more than twenty-one (21) days prior to the date therein specified (by and at the discretion of the Chairman of the Commission of the District) for the opening and consideration of purchase bids, in each of the following: (a) the News-Enterprise, a legal newspaper published in Elizabethtown, Hardin County, Kentucky, which is qualified under KRS 424.120 to publish advertisements for Hardin County and for the District; (b) the Larue County Herald-News, a legal newspaper published in Hodgenville, Larue County, Kentucky, which is qualified under KRS 424.120 to publish advertisements for Larue County and for the District; and (c) The Courier-Journal, Louisville, Kentucky, a legal newspaper having statewide circulation.

Said Notice shall state the name and amount of 2007A Bonds to be sold, the time of the sale and other details concerning the 2007A Bonds and the sale and shall inform prospective bidders that a copy of the Official Notice of Bond Sale, setting out the maturities, security of the 2007A Bonds, provisions as to redemption prior to maturity and related information, may be obtained from the District. Such Official Notice shall contain, *inter alia*, substantially the following bidding requirements:

(A) Bidders shall be limited to institutions or persons having knowledge and experience in financial and business matters who are capable of evaluating the merits and risks of the 2007A Bonds and who are not purchasing for more than one account and do not intend to redistribute the 2007A Bonds. The District will make available to any such qualified bidder, upon written request, any financial or other material information regarding the District and the System in the District's possession. Bidders are required to bid a cash price of not less than par value for the 2007A Bonds.

(B) The single interest rate must be in a multiple of 1/8 or 1/10 of one percent.

(C) Bids will be considered only for the entire 2007A Bond issue.

(D) Bidders (except USDA) are required to deposit a good faith check by cashier's check or certified check in the minimum amount of 2% of the face amount of the 2007A Bonds for which the bid is submitted, which good faith deposit may be applied as partial payment for such 2007A Bonds, or as liquidated damage in the event that such bidder, if successful, fails to comply with the terms of his bid.

(E) Preference in award will be given to the bid resulting in the lowest net interest cost to the District.

(F) The lowest net interest cost will be determined by deducting the total amount of any premium bid from the aggregate amount of interest upon the 2007A Bonds bid for, computed from the first day of the month following the date of sale of the 2007A Bonds (even though the 2007A Bonds will bear interest only from the date of delivery) to the final maturity specified in each bid.

(G) The District expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the 2007A Bonds at the office of the District within 45 days after notice is given of the award. If the 2007A Bonds are not ready for delivery and payment within 45 days from the aforesaid date of sale, the successful bidder shall be relieved of any liability to accept delivery of the 2007A Bonds, except that 2007A Bonds purchased by any agency of the federal government will be delivered to it at a place and time designated by such agency in accordance with its established practices and procedures.

(H) The District reserves the right, in its discretion, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids.

(I) The District will furnish the 2007A Bonds, together with evidence of approval of the 2007A Bond issue by the Public Service Commission of Kentucky pursuant to the requirements of KRS Chapter 278, and customary closing documents, including a no-litigation certificate.

(J) The successful bidder will receive the approving legal opinion of Stoll Keenon Ogden PLLC, Bond Counsel, Louisville, Kentucky, as to the legality of and tax-exempt status of interest on the 2007A Bonds, without additional cost to the successful bidder.

In the event that there is no bid, or that all bids are rejected, the District may re-advertise the sale pursuant to this Resolution.

Bond Counsel having submitted to the Commission of the District forms of the Notice of Sale of Bonds and the Official Notice of Bond Sale, together with an Official Bid Form for use by all bidders except USDA, said documents are hereby approved and authorized for use in connection with the aforesaid sale of the 2007A Bonds.

SECTION 5

2007A BONDS TO BE ISSUED IN FULLY REGISTERED FORM; FULLY REGISTERED BOND FORM

Upon the sale of the 2007A Bonds, the District shall issue a single fully registered 2007A Bond numbered R-1 (hereinafter referred to as a "Fully Registered Bond"). The Fully Registered Bond shall be in the aggregate principal amount of the 2007A Bonds it represents, maturing as to principal in installments as set out in Section 3 hereof. The Fully Registered Bond shall be of type composition, on paper of sufficient weight and strength to prevent deterioration until the last day of maturity of any installment of principal as stated therein, and shall conform in size to standard practice. The Fully Registered Bond shall, upon execution on behalf of the District (which execution shall be by manual signatures of the Chairman and

Secretary-Treasurer of the Commission, and actual impression of the corporate seal), constitute the 2007A Bond issue herein authorized and referred to, shall be non-negotiable, without interest coupons, registered as to principal and interest, payable as directed by the payee, and be in substantially the form hereinafter set forth.

The District hereby directs that books for the registration and for the transfer of the Fully Registered Bond shall be kept by the Secretary-Treasurer, who is hereby appointed as Bond Registrar in connection with such Bond. The Fully Registered Bond shall be transferable only upon said Bond Registrar's books at the request of the registered holder thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Secretary-Treasurer duly executed by the registered holder or his duly authorized attorney. Upon such transfer of the Fully Registered Bond, the Bond Registrar shall complete (with the name of the transferee), date and execute the registration schedule appearing on the Fully Registered Bond and deliver the Fully Registered Bond to such transferee. The person in whose name the Fully Registered Bond shall be properly registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of either principal thereof or interest thereon shall be made only to or upon the order of the registered holder thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon the Fully Registered Bond to the extent of the sum or sums so paid. The face amount of the Fully Registered Bond, portions of which mature on different dates, will be reduced upon the payment of each maturity, and the Secretary-Treasurer shall keep appropriate records of all payments (both principal and interest) with respect to the Fully Registered Bond.

The Fully Registered Bond shall be in substantially the following form (with appropriate insertions):

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
HARDIN AND LARUE COUNTIES, KENTUCKY
HARDIN COUNTY WATER DISTRICT NO. 2
WATER SYSTEM REVENUE BOND, SERIES 2007A

No. R-1

\$2,480,000

KNOW ALL MEN BY THESE PRESENTS:

That Hardin County Water District No. 2 (the "District"), acting by and through its Commission, a public body corporate created and existing pursuant to Chapter 74 of the Kentucky Revised Statutes and situated in Hardin and Larue Counties, Kentucky, for value received, hereby promises to pay to the registered holder hereof, as hereinafter provided, solely from the special fund hereinafter identified, the sum of TWO MILLION FOUR HUNDRED

EIGHTY THOUSAND DOLLARS (\$2,480,000) on the first day of January in years and installments as follows:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
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[Here insert principal maturities of the 2007A Bonds.]

without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United States of America, and in like manner, solely from said special fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, without deduction for exchange or collection charges and in like coin or currency, at the rate of _____ percent (___%) per annum, semiannually on the first days of January and July in each year hereafter until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable to the registered holder hereof at the address shown on the registration books of the District or, so long as the United States of America, Department of Agriculture, is the registered holder of this Bond, at the office or address as may be designated by said Department of Agriculture from time to time.

This Bond is the Bond in fully registered form representing a duly authorized series of Bonds designated “Water System Revenue Bonds, Series 2007A” in the principal amount of \$2,480,000 issued by the District pursuant to the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 74 and 106 of the Kentucky Revised Statutes, and pursuant to a duly adopted Resolution of the District, for the purpose of paying the costs (to the extent not otherwise provided to be paid) of the construction and installation of major improvements and additions to the District’s municipal water system (the “System”), together with appurtenant facilities, and incidental expenses.

This Bond and the series which it represents, together with additional bonds ranking on a parity therewith which have been previously issued and are outstanding and such additional bonds ranking on a parity therewith as may hereafter be issued and outstanding from time to time in accordance with the conditions and restrictions set forth in the Resolution authorizing the issuance of this Bond, are payable from and secured by a pledge of a fixed portion of the income and revenues to be derived from the operation of the System, which fixed portion shall be sufficient to pay the principal of and interest on this Bond and the series which it represents, and any outstanding parity bonds, as and when the same shall become due and payable, and which shall be set aside as a special fund for that purpose and identified as the “1989 Water System Revenue Bond and Interest Sinking Fund.”

A statutory mortgage lien upon the System and appurtenant facilities, together with all future additions and improvements thereto, and extensions thereof, is created by Section 106.080 of the Kentucky Revised Statutes and by the aforesaid Resolution authorizing this Bond for the benefit and protection of the holder of this Bond, and the same shall remain in effect until payment in full of the principal of and interest on this Bond.

This Bond does not in any manner constitute an indebtedness of the District within the meaning of the Statutes and Constitution of Kentucky, and the District is not and shall not be obligated to pay this Bond or the interest hereon except from said special fund. The District, acting by and through its Commission, covenants that it will fix, and if necessary adjust from time to time, such rates and charges for use of the services and facilities of the System and will collect and account for the income and revenues therefrom sufficient to pay promptly the interest on and principal of this series of Bonds and all other bonds ranking on a parity therewith as may be outstanding from time to time and also to pay the costs of operation and maintenance of the System.

This Bond shall be registered as to principal and interest in the name of the holder hereof, after which it shall be transferable only upon presentation to the Secretary-Treasurer of the District, as the Bond Registrar, with a written transfer duly acknowledged by the registered holder or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the books of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2017, in the inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof in multiples of One Thousand Dollars (\$1,000) as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered holder of the Bond at least thirty (30) days prior to the date fixed for prepayment. Provided, however, that so long as the United States of America, Department of Agriculture, is the registered holder of this Bond, this Bond may be prepaid at any time in whole or in part, at par or face value and without notice or prepayment premium.

Upon default in the payment of any principal or interest payment on this Bond or upon failure by the District to comply with any other provisions of this Bond or with the provisions of the Resolution authorizing the issuance of this Bond, the registered holder may, at his option, institute proceedings to enforce all rights and remedies provided by law or by said Resolution.

This Bond is exempt from *ad valorem* taxation in the Commonwealth of Kentucky.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, being the total authorized amount of Bonds of the series of which this Bond is a part, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF, the Hardin County Water District No. 2, in the Commonwealth of Kentucky, by its Commission, has caused this Bond to be executed by the Chairman of its Commission, attested by the Secretary-Treasurer, and its corporate seal to be hereunto affixed, on the date of this Bond, which is _____.

HARDIN COUNTY WATER DISTRICT
NO. 2

Attest:

By _____
Chairman of the Commission

Secretary-Treasurer

(Seal of District)

Provision for Registration

This Bond shall be registered on the books of the Hardin County Water District No. 2 kept for that purpose by the Secretary-Treasurer, as Bond Registrar, upon presentation hereof to the Secretary-Treasurer, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered holder or his attorney, such transfer to be made on said books and endorsed hereon.

(FORM OF REGISTRATION)

<u>Date of Registration</u>	<u>Name of Registered Holder</u>	<u>Signature of the Water District's Bond Registrar</u>
	United States of America Department of Agriculture State Office 771 Corporate Drive, Suite 200 Lexington, Kentucky 40503*	

*(To be inserted if USDA purchases the 2007A Bonds)

SECTION 6

DISPOSITION OF 2007A BOND PROCEEDS; CONSTRUCTION FUND

The Secretary-Treasurer of the District shall be the custodian of all funds belonging to and associated with the System, as expanded and improved from time to time, and such funds shall be deposited in such bank or banks in Elizabethtown, Kentucky, as the Commission of the District may from time to time designate (hereinafter sometimes referred to, singularly and

collectively, as the "Depository Bank"). All such moneys of the District deposited in the Depository Bank in excess of the amount insured by the Federal Deposit Insurance Corporation or one of its agencies ("FDIC") shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The Secretary-Treasurer shall execute a fidelity bond in an amount and with a surety company approved by USDA so long as it is the holder of any of the 2007A Bonds; and USDA and the District shall be named co-obligees in such surety bond, and the amount thereof shall not be reduced without the written consent of USDA. The proceeds of the 2007A Bonds shall be applied as follows:

Upon the issuance and delivery of the 2007A Bonds authorized by this Resolution, the entire proceeds thereof shall be deposited in an account designated "Hardin County Water District No. 2 2007A Construction Fund" (the "Construction Fund"), which is hereby created. The 2007A Bond proceeds shall constitute a part of the Construction Fund and shall be applied, to the extent necessary, in paying the costs incident to constructing, installing and acquiring the Project, including expenses incurred in the issuance of the 2007A Bonds and paying interim financing obligations (both principal and interest) incurred in connection with the Project as authorized by the separate interim financing Resolution of the Commission of the District previously adopted; provided, however, any 2007A Bond proceeds so used to pay such interim financing obligations may be disbursed directly to the appropriate lending institution(s) without the requirement of being deposited to the Construction Fund.

A sum in the Construction Fund estimated to be equal to interest which will accrue on the 2007A Bonds (following delivery thereof) during construction and development of the Project shall be earmarked, used and applied to the payment of interest on the 2007A Bonds next becoming due.

Disbursements from the Construction Fund shall be made by checks signed by the District, and such disbursements shall be authorized and approved in writing by the District Chairman and Secretary-Treasurer and, if USDA is the purchaser of the 2007A Bonds, by USDA.

Pending disbursement, the 2007A Bond proceeds shall be deposited, as aforesaid, in the Construction Fund, and to the extent that such deposit causes the aggregate deposits by the District in the Depository Bank to be in excess of the amount insured by FDIC, the same shall be secured by a surety bond or bonds furnished by a surety company or companies qualified to do business in Kentucky and approved by the Commission of the District, or by a valid pledge of direct obligations of the United States Government, or obligations as to which the payment of principal and interest are guaranteed by the United States Government, having a market value at least equivalent to such deposit.

Where the moneys on deposit in the Construction Fund exceed the estimated disbursements on account of the Project for the next 30 days, the District shall direct the Depository Bank to invest such excess funds in direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government, which shall mature not later than six months after the date of such investment and which shall be subject to

redemption at any time by the holder thereof. The earnings from any such investments shall be deposited in the Construction Fund by the District, unless otherwise authorized by USDA.

In the event any unexpected balance shall remain in the Construction Fund after completion of the Project, and payment of all of the costs thereof, as certified by the Engineers, such unexpended balance, subject to the terms and conditions of the aforesaid USDA loan, and to USDA approval, shall be transferred and deposited in the 1989 Water System Revenue Bond and Interest Sinking Fund, created by the 1989 Resolution, and shall be used at the earliest practicable date for the retirement of 2007A Bonds by purchase thereof (or principal prepayment) in inverse maturity order.

In the event that the amount hereinabove provided to be set aside from 2007A Bond proceeds for payment for interest during the construction and development of the Project should prove to be insufficient for such purpose, additional moneys may, upon approval by USDA, be withdrawn from the Construction Fund and so applied, inasmuch as interest during such period is a proper part of the cost of the Project, to the extent authorized by USDA.

Pending disbursements for the authorized purposes, the proceeds of all 2007A Bonds at any time issued pursuant to this Resolution shall be subject to a first and paramount lien and charge in favor of the holders of 2007A Bonds issued and outstanding hereunder and for their further security.

SECTION 7

OPERATION OF SYSTEM; FLOW OF FUNDS; ACCUMULATION OF REVENUES

It is hereby resolved, ordered and provided that from and after issuance and delivery of the 2007A Bonds herein authorized, and so long as any of the 2007A Bonds or any parity bonds remain outstanding and unpaid, the System shall be operated on a fiscal year basis beginning each January 1 and ending on the last day of the next December, as at present, and on that basis the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

(A) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was continued by the Prior Parity Resolutions designated and identified as the District's "Water Revenue Fund" (the "Revenue Fund"). The moneys in the Revenue Fund from time to time shall be used and disbursed and applied by the District, as permitted by applicable statutes, and in accordance with pre-existing contractual commitments, as follows:

(B) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created in and by the 1989 Resolution and designated and identified as the "1989 Water System Revenue Bond and Interest Sinking Fund" (the "1989 Sinking Fund"), which shall continue to be maintained so long as any of the Prior Parity Bonds and 2007A Bonds (when issued) or parity bonds herein permitted to be issued are outstanding;

and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the 2007A Bonds and any parity bonds hereinafter issued and outstanding pursuant to the provisions of this Resolution.

There shall be set aside and transferred on or before the 20th day of each month from the Revenue Fund to the 1989 Sinking Fund, on account of the 2007A Bonds herein authorized to be issued and in addition to the transfers required for the Prior Parity Bonds, and following delivery of the 2007A Bonds, the following:

- (i) beginning with and including the month in which interest shall last be payable from 2007A Bond proceeds, a sum equal to one-sixth (1/6) of the next succeeding interest installment to become due on all 2007A Bonds then outstanding; and
- (ii) beginning on January 20, 2009, a sum equal to one-twelfth (1/12) of the principal of all 2007A Bonds maturing on the next succeeding January 1.

In the event additional parity bonds are issued pursuant to the conditions and restrictions hereinafter prescribed in that connection, the monthly deposits to the 1989 Sinking Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

If for any reason there should be a failure to pay into the 1989 Sinking Fund the full amounts above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the 1989 Sinking Fund from the first available income and revenues of the System.

No further payments need be made into the 1989 Sinking Fund if and when the amount held therein and in the Debt Service Reserve Fund hereinafter created is at least equal to the amount required to retire all outstanding Prior Parity Bonds, 2007A Bonds and additional parity bonds and paying all interest that will accrue thereon.

(C) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created in and by the 1989 Resolution and designated and identified as the "1989 Water System Revenue Bond Debt Service Reserve Fund" (the "Debt Service Reserve Fund"), which shall be maintained so long as there are outstanding any Prior Parity Bonds and 2007A Bonds and parity bonds herein permitted to be issued on a parity therewith, except those parity bonds the original purchaser or purchasers of which have waived the benefit of, and any claim to, the Debt Service Reserve Fund. Parity bonds which may be issued and outstanding from time to time as hereinafter permitted and with respect to which the original purchaser or purchasers have not waived the benefit of and claim to the Debt Service Reserve Fund, including the 1999A Bonds, 2002B Bonds, 2002C Bonds, 2003 Bonds, 2004A Bonds and 2005B Bonds, are hereafter referred to as "qualified parity bonds." The original purchaser of the 2007A Bonds, by its acceptance of the 2007A Bonds, shall be deemed to have elected, for itself and on behalf of all subsequent holders of the 2007A Bonds, to waive the benefit of and any claim to the Debt Service Reserve Fund.

All moneys deposited in the Debt Service Reserve Fund from time to time shall be held and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the outstanding 1999A Bonds, 2002B Bonds, 2002C Bonds, 2003 Bonds, 2004A Bonds, 2005A Bonds and 2005B Bonds and other qualified parity bonds, if any, if and to the extent insufficient funds are available therefor in the 1989 Sinking Fund. Whenever the amount in the Debt Service Reserve Fund is less than the Reserve Amount, hereinafter defined, the amount necessary to restore the balance in the Debt Service Reserve Fund to the Reserve Amount shall be paid into the Debt Service Reserve Fund in sixty (60) equal monthly installments, each payable on the twentieth (20th) day of the month (except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day) from the Revenue Fund, after making the deposits set out in subsection (B) above (and having due regard to the priorities in connection with the Prior Bonds outstanding), until the Reserve Amount is on deposit in the Debt Service Reserve Fund. The term "Reserve Amount" as used herein means an amount of money equal to the lesser of (i) the maximum principal and interest requirement on the outstanding qualified parity bonds (including the 1999A Bonds, 2002B Bonds, 2002C Bonds, 2003 Bonds, 2004A Bonds and 2005B Bonds) in any year ending January 1, (ii) an amount equal to 10% of the proceeds of all such qualified parity bonds within the meaning of Section 148(d) of the United States Internal Revenue Code of 1986, as amended, or (iii) 125% of the average principal and interest requirement on the outstanding qualified parity bonds in any year ending January 1.

Any amount in the Debt Service Reserve Fund in excess of the Reserve Amount shall be transferred to the 1989 Sinking Fund and applied as credit against payments into the 1989 Sinking Fund from the Revenue Fund on a monthly basis as described in the foregoing subsection (B).

(D) All moneys held in the 1989 Sinking Fund and the Debt Service Reserve Fund shall be deposited in a bank or banks which are members of the Federal Deposit Insurance Corporation (FDIC), and all such deposits which cause the aggregate deposits of the District in any one bank to be in excess of the amount insured by FDIC (including any of its agencies) shall be continuously secured by a valid pledge of direct obligations of the United States of America having an equivalent market value. All or any part of the 1989 Sinking Fund may, and the Debt Service Reserve Fund shall, be invested in Investment Obligations, as hereinafter defined, maturing or being subject to retirement at the option of the holder on such dates as the same may be needed for meeting interest and/or principal payments, and all such investments shall be carried to the credit of the Fund which supplied the funds for such investments, and the income from such investments shall be credited to the 1989 Sinking Fund; provided, however, if the amount in the Debt Service Reserve Fund is less than the Reserve Amount, income from investments in the Debt Service Reserve Fund shall be credited to the Debt Service Reserve Fund until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Fund shall be valued at cost.

Investment income accruing to the 1989 Sinking Fund shall be credited against payments into the 1989 Sinking Fund from the Revenue Fund on a monthly basis as set out in the foregoing section (B) hereof.

As used herein, the term "Investment Obligations" shall mean any of the following, if and to the extent the following are legal investments for the moneys held in the funds and accounts established pursuant to this Resolution: (i) general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, and any certificate or other evidence of an ownership interest in any such securities or in specified portions thereof consisting of the principal thereof or the interest thereon or any combination thereof; (ii) obligations of any agency or instrumentality of the United States of America the payment of principal of and interest on which is backed by the full faith and credit of the United States of America; (iii) savings accounts, interest-bearing time deposits or certificates of deposit in any national bank or bank chartered in Kentucky authorized to engage in the banking business the deposits of which shall be insured by the FDIC and having a combined capital and surplus aggregating not less than Two Million Dollars (\$2,000,000); provided, however, that each such deposit shall be continuously secured (to the extent not insured by FDIC) by lodging with a separate bank or trust company approved by the District, as custodian, collateral security in the form of obligations described in (i) or (ii) above having a market value (exclusive of accrued interest) at all times not less than the amount of such deposit, which collateral security shall be valued by the District at least annually and must be unencumbered and not otherwise pledged and shall be subject to a perfected first lien for the benefit of the District; (iv) repurchase agreements with banks described in (iii) above, continuously secured as provided in (iii) above; (v) money market funds composed of securities described in (i) and (ii) above and rated AAA (or the equivalent thereof) by Standard and Poor's Rating Services or Moody's Investors Service, Inc., provided that any such investment in money market funds shall not exceed six (6) months in duration; and (vi) bonds, notes or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and instrumentalities.

* * *

The District previously created and continued special funds identified as the "Waterworks Bond and Interest Sinking Fund (the "1967 Bond Fund"), the "Water Depreciation Fund" (the "Depreciation Fund") and the "Operation and Maintenance Fund." The Depreciation Fund and the Operation and Maintenance Fund shall continue in effect with the District making monthly transfers to them, on or before the 20th day of each month, from the Revenue Fund as follows:

(i) To the Depreciation Fund there shall be deposited monthly the minimum sum of \$18,025 (increased from \$16,935 as provided in the 2005A Resolution). There shall also be deposited to the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn-out or obsolescent properties of the System, if the same shall be sold upon order of the Commission. Any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System shall be paid, as received, into the Depreciation Fund.

The Depreciation Fund shall be available and may be withdrawn and used by the District, upon appropriate certification as to the authorization for such withdrawal, for the purpose of paying the costs of unusual or extraordinary maintenance, repairs,

renewals or replacements, not included in the Annual Budget of Current Expenses, and the costs of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. The Depreciation Fund shall also be available for transfer to the 1989 Sinking Fund in order to avoid default in connection with any bonds payable therefrom.

(ii) To the Operation and Maintenance Fund there shall next be deposited monthly from the Revenue Fund amounts sufficient to pay as they accrue the Current Expenses of operating and maintaining the System pursuant to the Annual Budget, for which provision is hereinafter made, and to accrue an operation and maintenance reserve not in excess of anticipated requirements for a two-month period pursuant to the Annual Budget.

(F) Moneys in the Depreciation Fund and in the Operation and Maintenance Fund, to the extent not needed within the next thirty days for authorized purposes, may, upon order of the Commission of the District, be invested in Investment Obligations, as defined in Section 7 hereof, being subject to redemption or conversion into cash at not less than par no later than the time moneys shall be needed for the indicated purposes. All investments of moneys in each of the Depreciation Fund and the Operation and Maintenance Fund shall be carried to the credit thereof; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to the investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

SECTION 8

COVENANTS TO BONDHOLDERS

The District hereby irrevocably covenants and agrees with the holder or holders of any and all 2007A Bonds and any parity bonds at any time issued and outstanding pursuant to authority of this Resolution that so long as the same or any part thereof or interest thereon remain outstanding and unpaid:

(A) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky, and by the terms and provisions of this Resolution.

(B) It will at all times operate the System on a revenue-producing basis, and will permit no free services to be rendered or afforded thereby.

(C) It will maintain the System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided; and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of revenues accumulated and set aside for such purposes.

(D) The District covenants and agrees that, so long as any of the 2007A Bonds and parity bonds are outstanding, it will not sell or otherwise dispose of any of the System facilities or any part thereof, and, except as provided for in this Resolution, it will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the 2007A Bonds and parity bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any of its System facilities, provided that:

(i) it is in compliance with all covenants and undertakings in connection with all of its bonds then outstanding and payable from the revenues of the System;

(ii) it will, in the event of sale, apply the proceeds to either (1) redemption of outstanding bonds in accordance with the provisions governing prepayment of bonds in advance of maturity, or (2) replacement of the facility so disposed of by another facility the revenues of which shall be incorporated into the System as hereinbefore provided;

(iii) it certifies, prior to any abandonment of use, that the facility to be abandoned is no longer economically feasible of producing net revenues; and

(iv) notwithstanding all of the foregoing, no such sale, abandonment or transfer of System facilities shall be made so long as USDA owns any of the 2007A Bonds herein authorized, without the written consent and approval of USDA.

(E) It will establish, enforce and collect rates and charges for services rendered and facilities afforded by the System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining it in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all outstanding bonds as aforesaid and the accruing interest thereon, and the accumulation of any required reserves; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the date of issuance of the 2007A Bonds, the District will adopt a Budget of Current Expenses for the System for the remainder of the then current fiscal year of the System, and thereafter, on or before the first day of each fiscal year so long as any 2007A Bonds are outstanding, it will adopt an Annual Budget of Current Expenses for the ensuing fiscal year, and will file a copy of each such Budget, and of any amendments thereto, in the office of the Secretary-Treasurer of the District, and furnish copies thereof to the holder of any 2007A Bond upon request. The term "Current Expenses," as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any

allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the 1989 Sinking Fund and the Debt Service Reserve Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the amounts provided for Current Expenses in the Annual Budget, except upon resolution duly adopted by the Commission of the District determining that such expenses are necessary in order to operate and maintain the System. At the same time, and in like manner, the District agrees that it will prepare an estimate of cash income and revenues to be derived from operation of the System for each fiscal year, and to the extent that said cash income and revenues are insufficient to provide an amount equal to at least 110% of all payments required to be made into the 1989 Sinking Fund during such ensuing fiscal year, and to pay Current Expenses, the District covenants and agrees that it will revise its rates and charges for services rendered by the System, so that the same will be adequate to meet such coverage requirement.

(F) It will not at any time make any reduction in any prevailing schedule of rates and charges for use of the services and facilities of the System without first obtaining the written determination of a consulting engineer of national reputation that the proposed reduction will not adversely affect the ability of the District to meet all the requirements set forth in this Resolution.

(G) It will at all times segregate the revenues of the System from all other revenues, moneys and funds of the District, and will promptly and regularly make application and distribution thereof into the special funds provided in the Prior Resolutions, and in this Resolution, in the amount and with due regard for the priorities herein attributed thereto.

(H) It will keep proper books of record and account, separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries of all transactions relating to the System, and the same shall be available and open to inspection by any 2007A Bondholder, and any agent or representative of a 2007A Bondholder.

(I) It will, within ninety (90) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state-licensed accountant not in the employ of the District on a monthly salary basis, showing all receipts and disbursements, and reflecting in reasonable detail the financial condition and records of the System, including the status of the several funds hereinbefore created, the status of the insurance and fidelity bonding, the number and type of connections, and the current rates and charges, with comments of the auditor concerning whether the books and records are being kept in compliance with this Resolution and in accordance with recognized accounting practices, and will promptly cause a copy of the Audit Report to be filed in the office of the

Secretary-Treasurer where it will be available for public inspection, and will promptly mail a copy thereof to the original recipient of 2007A Bonds issued hereunder. If requested to do so, the District will furnish to any bondholder a condensed form of the balance sheet, and a condensed form of the operating report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the System, and may be paid from revenues allocated for such purposes, as herein provided. Provided, so long as USDA holds any of the 2007A Bonds herein authorized, the District shall furnish operating and other financial statements in such form and substance and for such periods as may be requested by USDA.

(J) Any holder of 2007A Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by the District and its officers and agents of all duties imposed or required by law or this Resolution in connection with the operation of the System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof.

(K) If there be any default in the payment of the principal of or interest on any of the 2007A Bonds, then upon the filing of suit by any holder of the 2007A Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System, and for the payment of Current Expenses, and to apply the revenues in conformity with this Resolution and the provisions of said statute laws of Kentucky aforesaid.

(L) The District will cause each officer or other person (other than depository banks) having custody of any moneys administered under the provisions of this Resolution to be bonded at all times in an amount at least equal to the maximum amount of such moneys in his custody at any time; each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Commission, and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from moneys available in the Operation and Maintenance Fund.

(M) It will procure, and at all times maintain in force, insurance of all insurable properties constituting parts of, or being appurtenant to, the System to the full insurable value thereof, against damage or destruction by fire, windstorm, and the hazards covered by the standard "extended coverage" policy endorsements or provisions, the premiums therefor to be paid from the Operation and Maintenance Fund; and will deposit all sums collected under the terms of such policies in the Depreciation Fund. Such insurance shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percentum (80%) of the full insurable value of the damaged facility.

(N) The District will procure and at all times maintain Public Liability Insurance relating to the operation of the System, with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death; and not less than \$100,000 from claims for damage to property of others which may arise from the District's operation of the System.

(O) The District will carry suitable workers' compensation insurance in accordance with law.

(P) If the District owns or operates a vehicle in the operation of the System, the District will procure and at all times maintain Vehicular Public Liability Insurance with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death, and not less than \$100,000 against claims for damage to property of others which may arise from the District's operation of vehicles. Provided, notwithstanding (M), (N), (O) and (P) above, that so long as USDA holds any 2007A Bonds, the District will procure and maintain insurance of such types and amounts as USDA may specify.

(Q) So long as USDA is the holder of any bonds of the District, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of such bonds held by USDA without immediately prepaying all of such bonds held by USDA.

SECTION 9

PARITY BONDS PERMITTED; TERMS

The 2007A Bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among such bonds, regardless of the fact that they may be actually issued and delivered at different times.

The District hereby reserves the right and privilege of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the 2007A Bonds (herein sometimes referred to as "additional parity bonds") in order to pay the costs of extensions, additions and improvements to the System, provided that either of the conditions set forth in (i) or (ii) below is met.

(i) The net income and revenues of the System for the fiscal year preceding the year in which such additional parity bonds are to be issued were at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to all 2007A Bonds and parity bonds which are then outstanding and the additional parity bonds then proposed to be issued. The term net income and

revenues as herein used is defined as gross income and revenues of the System (including all payments to the Revenue Fund and interest earnings accruing to the 1989 Sinking Fund and the Depreciation Fund) less the sum of Current Expenses as defined in subsection (E) of Section 8 hereof. Such showing of net income and revenues for such preceding fiscal year may be represented by the report of the auditors.

(ii) A statement is filed with the Secretary-Treasurer of the District by (a) an independent certified public accountant or firm of certified public accountants not in the regular employ of the District on a monthly salary basis or (b) an independent professional engineer or firm or firms of professional engineers not in the employ of the District on a monthly salary basis and of recognized excellent expertise and reputation in the field of water engineering and licensed in Kentucky, reciting the opinion based upon necessary investigation that the net income and revenues of the System as defined in (i) above for twelve (12) consecutive months out of the eighteen (18) months preceding the issuance of said additional parity bonds (with adjustments as hereinafter provided) were equal to at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to the 2007A Bonds and parity bonds then outstanding and the proposed additional parity bonds. The net income and revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional parity bonds, and also to reflect any increase in such net income and revenues by reason of the extensions, additions and improvements to the System the cost of which (in whole or in part) is to be paid through the issuance of such additional parity bonds; but such latter adjustments shall only be made if contracts for the immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into prior to the issuance of such additional parity bonds. All such adjustments to reflect any revision of rates and charges or an increase in net income and revenues by reason of extensions, additions and improvements to the System as aforesaid shall be based upon written certification by (a) an independent professional engineer or firm of professional engineers not in the employ of the District on a monthly salary basis and of recognized excellent expertise and reputation in the field of water engineering and licensed in Kentucky or (b) an independent certified public accountant or firm of certified public accountants not in the employ of the District on a monthly salary basis.

The District hereby further reserves the right and privilege of issuing additional parity bonds for the purpose of refunding the 2007A Bonds or any additional parity bonds, or any portion thereof, as may be outstanding, provided that before any additional parity bonds are issued for such purpose, there shall have been procured and filed with the Secretary-Treasurer of the District a statement by an independent certified public accountant or firm of independent certified public accountants reciting the opinion based upon necessary investigation that after the issuance of such additional parity bonds, the net income and revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such additional parity bonds, after taking into account the revised maximum annual debt service resulting from the issuance of such additional parity bonds and from the elimination of the bonds being refunded

thereby, are equal to not less than 120% of the maximum annual debt service requirement for any year ending January 1 with respect to such additional parity bonds and all parity bonds then outstanding and payable from the 1989 Sinking Fund, and calculated in the manner specified above.

The original purchaser or purchasers of a series of additional parity bonds may waive the benefit of and any claim to the Debt Service Reserve Fund, in which event such bonds shall not be secured by or payable from the Debt Service Reserve Fund; and the District may make it a condition to the original sale of any series of additional parity bonds that the purchaser or purchasers thereof, by offering to purchase or by purchasing the same, has agreed to such waiver.

The interest payment dates for all such additional parity bonds shall be semiannually on January 1 and July 1 of each year, and the principal maturities thereof shall be on January 1 of the year in which any such principal is scheduled to become due.

The additional parity bonds, the issuance of which is restricted and conditioned by this Section, shall be understood to mean bonds payable from the income and revenues of the System on a parity with the 2007A Bonds, and shall not be deemed to include or prohibit the issuance of other obligations the security and source of payment of which is subordinate and subject to the priority of the payments into the 1989 Sinking Fund for account of the 2007A Bonds and any outstanding parity bonds.

The District hereby covenants and agrees that in the event additional series of parity bonds are issued, it shall:

(i) adjust the monthly deposits into the 1989 Sinking Fund on the same basis as that prescribed in Section 7 hereof to reflect the annual debt service on the additional bonds;

(ii) adjust and increase appropriately the monthly amount to be deposited into the Depreciation Fund in accord with controlling resolutions to give recognition to the facilities and equipment to be constructed or acquired with the proceeds of such additional bonds; and

(iii) make such additional bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year.

SECTION 10

PROVISIONS OF RESOLUTION CONSTITUTE CONTRACT

The provisions of this Resolution shall constitute a contract between the District and the holders of the 2007A Bonds herein authorized and any parity bonds herein permitted to be issued, and after the issuance of any of the 2007A Bonds, no material change, variation or alteration of any kind of the provisions of this Resolution shall be made in any manner without

the written consent of the holder or holders of the 2007A Bonds, except as herein provided, until such time as all of the 2007A Bonds and any parity bonds issued hereunder, and the interest thereon, have been paid in full.

SECTION 11

MORTGAGE LIEN ACKNOWLEDGED

A statutory mortgage lien upon the System, together with all appurtenances and additions thereto and extensions thereof, and including the revenues thereof, is granted and created by Section 106.080 of the Kentucky Revised Statutes for the benefit and protection of the holders of the 2007A Bonds and parity bonds; and said statutory mortgage lien is hereby recognized and shall be effective upon delivery of any of the 2007A Bonds and shall continue in full force and effect so long as there shall remain unpaid any part of the principal of or interest on the 2007A Bonds and parity bonds.

SECTION 12

TAX COVENANTS

The District covenants and agrees that the Project will be constructed expeditiously and the expenditure of the portion of the proceeds of the 2007A Bonds deposited in the Construction Fund for the payment of the costs of the Project will be made promptly in order that the Project will be completed and in operation at the earliest possible date. The District further certifies and covenants with the holders of the 2007A Bonds that so long as any of the 2007A Bonds remain outstanding, moneys on deposit in any fund or account in connection with the 2007A Bonds, whether or not such moneys were derived from the proceeds of the sale of the 2007A Bonds or from any other sources, will not be invested or used in a manner which will cause the 2007A Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and any lawful regulations promulgated or proposed thereunder, as the same presently exist or may from time to time hereafter be amended, supplemented or revised. The Chairman and/or Secretary-Treasurer, as the officers of the District charged with the responsibility for issuing the 2007A Bonds, are authorized and directed, for and on behalf of the District, to execute all papers, documents, certificates and other instruments that may be required for evidencing compliance with federal "arbitrage bond" regulations, and any representations and certifications contained in such papers, documents, certificates and other instruments so executed shall be deemed to constitute representations and certifications of the District.

The District further represents, warrants, agrees and covenants as follows:

(A) Within the meaning of Section 141 of the Code and the Income Tax Regulations issued thereunder, over the term of the 2007A Bonds (i) less than 10% of the proceeds of the 2007A Bonds, if any, will be applied for any private business use, and the payment of principal of or interest on less than 10% of the amount of the 2007A Bonds, if any, will be secured directly or indirectly by any interest in property used for a private business use, or payments in respect of

such property, or will be derived directly or indirectly from payments (whether or not to the District) in respect of such property; (ii) at least 90% of the proceeds of the 2007A Bonds will be applied for a governmental use of the District; (iii) any private business use of the Project will be related to such governmental use of the District and will not be unrelated or disproportionate; and (iv) none of the proceeds of the 2007A Bonds will be used, directly or indirectly, to make or finance loans to private persons. It is reasonably expected that over the term of the 2007A Bonds (a) the Project will be available for general public use, in that it will be reasonably available for use by natural persons not engaged in a trade or business on the same basis as any other person or entity, (b) no nongovernmental person will have any special legal entitlement to use the Project, and (c) there will be no direct or indirect payments made with respect to the Project or the security of the 2007A Bonds by any persons or entities other than payments by the general public as described in clause (a) above.

(B) Within the meaning of Section 148(f)(4)(B), it is reasonably expected at least 75% of the net proceeds (including investment proceeds) of the 2007A Bonds will be used for construction expenditures with respect to property which is owned by a governmental unit, at least 10% of such proceeds will be spent for the governmental purposes of the issue within six months from the date the 2007A Bonds are issued, at least 45% of such proceeds will be spent for such purposes within one year from such date, at least 75% of such proceeds will be spent for such purposes within eighteen months from such date, and at least 100% of such proceeds will be spent within two years from such date. It is also reasonably expected at least 50% of all proceeds (including investment proceeds) of the 2007A Bonds will be used for expenditures on the Project within six months, at least 60% will be so used within 12 months and 100% will be so used within 18 months from the date of issuance of the 2007A Bonds. If for any reason the arbitrage rebate requirements of Section 148(f) of the Code should be deemed to apply to the 2007A Bonds, the District will take all action necessary to comply therewith.

(C) It is reasonably expected that during the term of the 2007A Bonds the Project will not be disposed of, provided, however, should there be any disposition of any personal property constituting a part of the Project because it is no longer suitable for its governmental purpose, it is reasonably expected that the fair market value of such personal property will not exceed 25% of its cost.

(D) The weighted average maturity of the 2007A Bonds does not exceed 120% of the weighted average useful life of the facilities comprising the Project.

(E) The District has not heretofore expended any sums on the Project which are to be reimbursed from the proceeds of the 2007A Bonds, other than (a) certain preliminary expenditures such as engineering and planning costs not exceeding 20% of the 2007A Bond proceeds, (b) expenditures made within 60 days prior to the date of adoption of this Resolution, and (c) expenditures prior to which the District had adopted an official intent resolution regarding reimbursement from tax-exempt bond proceeds.

(F) The 2007A Bonds are not federally guaranteed within the meaning of Section 149(b) of the Code.

(G) The District will comply with the information reporting requirements of Section 149(e) of the Code.

(H) The District will not use or permit the use of any of the funds provided by the 2007A Bonds in such manner as to, or take or omit to take any action which would, impair the exclusion from gross income for federal income tax purposes of interest on the 2007A Bonds. The District shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the 2007A Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

(I) This Resolution is intended to and does constitute, in part, a declaration of official intent under applicable Income Tax Regulations.

SECTION 13

SEVERABILITY CLAUSE

If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution.

SECTION 14

REPEAL OF INCONSISTENT PROVISIONS

All resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

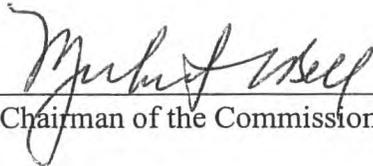
SECTION 15

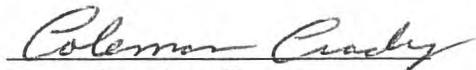
WHEN RESOLUTION EFFECTIVE

This Resolution shall be in full force and effect from and after its adoption, approval and attestation as provided by law.

ADOPTED BY THE COMMISSION OF THE HARDIN COUNTY WATER DISTRICT NO. 2, HARDIN AND LARUE COUNTIES, KENTUCKY, at a meeting held on the 18th day of December, 2007, signed by the Chairman, attested by the Secretary-Treasurer and declared to be in full force and effect.

Attest:

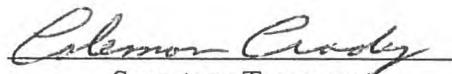

Chairman of the Commission


Secretary-Treasurer

Certification

The undersigned, Secretary-Treasurer of the Commission of Hardin County Water District No. 2, Hardin and Larue Counties, Kentucky, hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission of the District at a properly convened meeting of the Commission of the District held on the 18th day of December, 2007, signed by the Chairman and attested by me as Secretary-Treasurer, as shown by the official records in my custody and under my control.

WITNESS my hand this 18th day of December, 2007.


Secretary-Treasurer

BOND-AUTHORIZING RESOLUTION

A RESOLUTION OF THE COMMISSION OF HARDIN COUNTY WATER DISTRICT NO. 2, HARDIN AND LARUE COUNTIES, KENTUCKY, PROVIDING FOR THE CURRENT REFUNDING OF THE DISTRICT'S OUTSTANDING WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2003 AND WATER SYSTEM REVENUE BONDS, SERIES 2005A; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2012A, FOR SUCH PURPOSE, THE SERIES 2012A BONDS TO BE ISSUED ON A PARITY WITH CERTAIN BONDS OUTSTANDING AND TO BE ISSUED AND OUTSTANDING; CONFIRMING PROVISIONS FOR THE COLLECTION, SEGREGATION AND DISBURSEMENT OF THE INCOME AND REVENUES OF THE DISTRICT'S WATER SYSTEM AND PROVIDING FOR THE PAYMENT OF THE SERIES 2012A BONDS HEREIN AUTHORIZED; CONFIRMING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM SUCH INCOME AND REVENUES AND RANKING ON A PARITY WITH THE 2012A BONDS HEREIN AUTHORIZED; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE 2012A BONDS HEREIN AUTHORIZED.

Adopted August 21, 2012

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BOND-AUTHORIZING RESOLUTION

A RESOLUTION OF THE COMMISSION OF HARDIN COUNTY WATER DISTRICT NO. 2, HARDIN AND LARUE COUNTIES, KENTUCKY, PROVIDING FOR THE CURRENT REFUNDING OF THE DISTRICT'S OUTSTANDING WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2003 AND WATER SYSTEM REVENUE BONDS, SERIES 2005A; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2012A, FOR SUCH PURPOSE, THE SERIES 2012A BONDS TO BE ISSUED ON A PARITY WITH CERTAIN BONDS OUTSTANDING AND TO BE ISSUED AND OUTSTANDING; CONFIRMING PROVISIONS FOR THE COLLECTION, SEGREGATION AND DISBURSEMENT OF THE INCOME AND REVENUES OF THE DISTRICT'S WATER SYSTEM AND PROVIDING FOR THE PAYMENT OF THE SERIES 2012A BONDS HEREIN AUTHORIZED; CONFIRMING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM SUCH INCOME AND REVENUES AND RANKING ON A PARITY WITH THE 2012A BONDS HEREIN AUTHORIZED; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE 2012A BONDS HEREIN AUTHORIZED.

WHEREAS, upon petition and hearing, and upon proper public notice according to the provisions of Chapter 74 of the Kentucky Revised Statutes ("KRS"), an Order and Judgment was duly entered by the County Court of Hardin County, Kentucky, on June 23, 1965, determining the necessity for and creating and establishing the Hardin County Water District No. 2 (the "District"), defining the geographical area thereof and appointing Commissioners, the same thereupon constituting and being a public body corporate with all powers and authority as provided in KRS Chapter 74; and thereafter the District has from time to time annexed additional territories in Hardin and Larue Counties pursuant to proper proceedings and is at this time a de jure water district situated wholly in Hardin and Larue Counties; and

WHEREAS, the District has for many years owned and operated its municipal water system (the "System") serving the area of the District, and the District currently has outstanding, payable from the revenues of the System, the following revenue bonds:

- (i) Water System Refunding Revenue Bonds, Series 2002C, in the outstanding principal amount of \$800,000 (the "2002C Bonds"), authorized by Resolution adopted on November 12, 2002 (the "2002C Resolution");
- (ii) Water System Refunding Revenue Bonds, Series 2003, in the outstanding principal amount of \$3,290,000 (the "2003 Bonds"), authorized by Resolution adopted on March 11, 2003 (the "2003 Resolution");

- (iii) Water System Refunding Revenue Bonds, Series 2004A, in the outstanding principal amount of \$2,130,000 (the "2004A Bonds"), authorized by Resolution adopted on March 9, 2004 (the "2004A Resolution");
- (iv) Water System Revenue Bonds, Series 2005A, in the outstanding principal amount of \$2,775,500 (the "2005A Bonds"), authorized by Resolution adopted on January 11, 2005 (the "2005A Resolution");
- (v) Water System Refunding Revenue Bonds, Series 2005B, a single term bond having an outstanding principal amount of \$1,775,000, having remaining mandatory sinking fund installments of \$1,365,000 (the "2005B Bonds"), and authorized by Resolution adopted on April 12, 2005 (the "2005B Resolution"); and
- (vi) Water System Revenue Bonds, Series 2007A, in the outstanding principal amount of \$2,423,000 (the "2007A Bonds"), authorized by Resolution adopted on December 18, 2007 (the "2007A Resolution"); and
- (vii) Water System Refunding Revenue Bonds, Series 2010A, in the outstanding principal amount of \$5,280,000 (the "2010A Bonds"), authorized by Resolution adopted on November 17, 2009, as amended and supplemented on June 15, 2010 (the "2010A Resolution"); and

WHEREAS, in 1990 the District issued certain Water System Revenue Bonds, Series of 1989, which have been fully paid and retired (the "1989 Bonds"), pursuant to an authorizing Resolution adopted on February 21, 1989, as amended and supplemented on December 11, 1990 (the "1989 Resolution"), and subsequently issued the 2002C Bonds, the 2003 Bonds, the 2004A Bonds, the 2005A Bonds, the 2005B Bonds, the 2007A Bonds and the 2010A Bonds on a parity with the 1989 Bonds (now retired) and one another under the parity bond conditions of the 1989 Resolution; and

WHEREAS, it is provided in the 1989 Resolution, the 2002C Resolution, the 2003 Resolution, the 2004A Resolution, the 2005A Resolution, the 2005B Resolution, the 2007A Resolution and the 2010A Resolution (collectively the "Prior Parity Resolutions") that the District may issue additional bonds ranking on a basis of parity and equality with the outstanding 2002C Bonds, the 2003 Bonds, the 2004A Bonds, the 2005A Bonds, the 2005B Bonds, the 2007A Bonds and the 2010A Bonds (collectively the "Prior Parity Bonds") for the purpose of refunding any of the Prior Parity Bonds upon a showing of compliance with the parity bond coverage test set forth in the Prior Parity Resolutions, and it has been determined by the Commission of the District upon the recommendation of its Financial Advisor, J.J.B. Hilliard, W.L. Lyons, LLC (the "Financial Advisor"), that the District may now meet such coverage test so that additional parity bonds, ranking on a parity with the Prior Parity Bonds (except for the 2003 Bonds and the 2005A Bonds herein provided to be refunded), may now be issued, in order to effect debt service savings, in the amount of \$6,260,000 (subject to adjustment) for the purpose of currently refunding and defeasing the pledges and lien securing the 2003 Bonds and the 2005A Bonds; and

WHEREAS, the approval of the Public Service Commission of Kentucky will be obtained by the District as a condition to its issuance of such current refunding bonds; and

WHEREAS, it is now desirable and appropriate for the District to currently refund and defease the pledges and lien securing the 2003 Bonds and the 2005A Bonds by authorizing by this Resolution and carrying out the sale and issuance of its Water System Refunding Revenue Bonds, Series 2012A (the “2012A Bonds”), according to authority of Kentucky Revised Statutes (“KRS”) Chapters 74 and 106 and the applicable provisions of the Prior Parity Resolutions permitting the issuance of bonds on a parity with the Prior Parity Bonds; and the 2012A Bonds authorized by this Resolution shall be payable as to both principal and interest solely from the income and revenues to be derived from the operation of the System, as extended and improved from time to time, on a parity with the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), and on a first lien basis, and shall not constitute an indebtedness of the District within the meaning of debt-limiting provisions of the Constitution of Kentucky;

NOW, THEREFORE, THE COMMISSION OF HARDIN COUNTY WATER DISTRICT NO. 2 DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. Affirmation of Preamble Recitals; System to Be Municipally Owned and Operated. All statements and recitals set forth in the preamble of this Resolution, including the terms defined therein, are hereby affirmed and adopted as a part of this Resolution. So long as any of the 2012A Bonds hereinafter authorized, or bonds issued on a parity therewith, shall remain outstanding and unpaid as to principal or interest, the System shall continue to be municipally owned, controlled, operated and maintained by the District for the security and source of payment of the 2012A Bonds and such parity bonds. The System shall continue to be operated pursuant to the provisions of KRS Chapters 74 and 106, now in full force and effect.

Section 2. 2012A Bond Issue Authorized. For the current refunding purposes described in the preamble of this Resolution, and to pay expenses incident to the issuance of the 2012A Bonds, there are hereby authorized to be issued the District’s Water System Refunding Revenue Bonds, Series 2012A (the “2012A Bonds”), in the aggregate principal amount of \$6,260,000, which aggregate principal amount, together with corresponding amounts of annual maturities as set out in Section 3 hereof, may be increased or decreased by as much as \$625,000 pursuant to official action of the Chairman or Secretary-Treasurer of the Commission of the District, or by Resolution adopted by the Commission, upon sale of the 2012A Bonds as hereinafter provided in Section 22, and each of which 2012A Bonds shall be designated a “Hardin County Water District No. 2, Water System Refunding Revenue Bond, Series 2012A.”

Section 3. Description of 2012A Bonds.

(a) Payment of Principal and Interest; Other Provisions. The 2012A Bonds shall be dated the date of original issuance, and shall bear interest payable on January 1, 2013, and on each January 1 and July 1 thereafter to maturity or redemption and payment of the 2012A Bonds. Interest on each 2012A Bond not registered in Book-Entry Form to a Securities Depository (as described in Section 3(b) hereof) shall be paid by check or draft drawn upon the Paying Agent and Bond Registrar, hereinafter designated, and mailed to each person in whose name a 2012A Bond is registered as hereinafter provided (a “Registered Holder”) at the address

of such Registered Holder as it appears on the registration books of the Paying Agent and Bond Registrar. First Citizens Bank, Elizabethtown, Kentucky, is hereby designated and appointed as the Paying Agent and Bond Registrar. The principal of the 2012A Bonds not registered in Book-Entry Form to a Securities Depository (as described in Section 3(b) hereof) shall be payable to the respective Registered Holders without exchange or collection charges, in lawful money of the United States of America, upon their presentation and surrender as they respectively become due and payable, whether at maturity or by prior redemption, at the office of the Paying Agent and Bond Registrar in Elizabethtown, Kentucky. The 2012A Bonds shall be issued and reissued by the Paying Agent and Bond Registrar from time to time only as fully registered bonds without coupons in the denominations of \$5,000 and any integral multiple thereof, as hereinafter provided. Unless the District shall otherwise direct, the 2012A Bonds shall be numbered separately from 1 upward.

Principal of and interest on 2012A Bonds registered in Book-Entry Form in the name of the Securities Depository or the Securities Depository Nominee (all as described in Section 3(b) hereof) shall be payable by wire transfer from the Paying Agent and Bond Registrar to the Securities Depository or its nominee.

The 2012A Bonds shall bear interest at a rate or rates to be established by the District on the basis of competition after the 2012A Bonds are offered for sale at an advertised, public, competitive sale as hereinafter provided in Section 22. The fifteenth (15th) day of the month before a January 1 or July 1 interest payment date shall be the record date for the 2012A Bonds (the "Record Date") for the purpose of determining the Registered Holder to whom interest shall be payable on the next succeeding interest payment date, and the Paying Agent and Bond Registrar may treat for such purpose the person in whose name any 2012A Bond is registered on the Record Date as the Registered Holder thereof. Interest shall be computed on the basis of a year of 360 days consisting of twelve 30-day months.

(continued on the following page)

The 2012A Bonds shall mature and be payable as to principal as follows:

Maturity Date	Principal Amount*	Maturity Date	Principal Amount*
January 1, 2013	\$190,000	January 1, 2027	\$255,000
January 1, 2014	200,000	January 1, 2028	265,000
January 1, 2015	205,000	January 1, 2029	275,000
January 1, 2016	205,000	January 1, 2030	280,000
January 1, 2017	210,000	January 1, 2031	290,000
January 1, 2018	210,000	January 1, 2032	300,000
January 1, 2019	215,000	January 1, 2033	310,000
January 1, 2020	215,000	January 1, 2034	220,000
January 1, 2021	220,000	January 1, 2035	225,000
January 1, 2022	225,000	January 1, 2036	235,000
January 1, 2023	230,000	January 1, 2037	240,000
January 1, 2024	240,000	January 1, 2038	250,000
January 1, 2025	245,000	January 1, 2039	40,000
January 1, 2026	250,000	January 1, 2040	15,000

provided, however, certain 2012A Bonds may become Term Bonds subject to mandatory sinking fund redemption as described in Section 4 and Section 22 hereof.

All of the 2012A Bonds, together with the Prior Parity Bonds (excluding the 2003 Bonds and 2005A Bonds) and any additional bonds ranking on a parity therewith as may be issued and outstanding from time to time under the conditions and restrictions hereinafter set forth, and the interest thereon, shall be payable only out of the special fund of the District designated the “1989 Water System Revenue Bond and Interest Sinking Fund” (the “1989 Sinking Fund”) as hereinafter more specifically provided in Section 14 and shall be a valid claim of the Registered Holder thereof only against the 1989 Sinking Fund and the portion or amount of the income and revenues of the System pledged to the 1989 Sinking Fund.

(b) 2012A Bonds Issued in Book-Entry Form. As used in this Resolution, the following terms shall have the indicated meanings:

“Book-Entry Form” means, with respect to the 2012A Bonds, a form or system, as applicable, under which (i) the ownership of beneficial interests in 2012A Bonds and principal and interest payments thereon may be transferred only through a book entry and (ii) physical 2012A Bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee as Registered Holder, with the physical 2012A Bond certificates held in the custody of a Securities Depository.

“Participant” means a member of, or a participant in, the Securities Depository.

“Securities Depository” means any securities depository that is a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency”

* Subject to adjustment by the District as provided in Section 2 hereof and in the Official Terms and Conditions of Bond Sale approved in Section 22 hereof.

registered pursuant to the provisions of Section 17A of the Securities Exchange Act, operating and maintaining, with its Participants or otherwise, a Book-Entry System to record ownership of beneficial interests in bonds and bond service charges, and to effect transfers of bonds in Book-Entry Form, and means, initially, The Depository Trust Company (a limited purpose trust company), New York, New York.

“Securities Depository Nominee” means any nominee of a Securities Depository and shall initially mean Cede & Co., New York, New York, as nominee of The Depository Trust Company.

The 2012A Bonds shall initially be issued in Book-Entry Form and registered in the name of the Securities Depository or the Securities Depository Nominee as provided in this Section 3(b). Except when the 2012A Bonds are no longer issued in Book-Entry Form as provided below in this Section 3(b), the 2012A Bonds shall be registered in the name of the Securities Depository or the Securities Depository Nominee, and ownership thereof shall be maintained in Book-Entry Form by the Securities Depository for the account of the Participants thereof. Initially, the 2012A Bonds shall be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, which shall be the initial Securities Depository. Each of the Chairman, Secretary-Treasurer or General Manager is authorized to approve and execute on behalf of the District a letter of representations or other appropriate instrument with The Depository Trust Company (to which the Paying Agent and Bond Registrar may also be a party) relating to the issuance and administration of the 2012A Bonds in Book-Entry Form.

Except when the 2012A Bonds are no longer issued in Book-Entry Form as provided below in this Section 3(b), the 2012A Bonds may be transferred, in whole but not in part, only to the Securities Depository or the Securities Depository Nominee, or to a successor Securities Depository selected or approved by the District or to a nominee of such successor Securities Depository.

As to any 2012A Bond, the person in whose name the 2012A Bond shall be registered shall be the Registered Holder and the absolute owner thereof for all purposes, and payment of or on account of the principal of and interest on any such 2012A Bond shall be made only to or on the order of the Registered Holder thereof or his legal representative.

Neither the District nor the Paying Agent and Bond Registrar shall have any responsibility or obligation with respect to:

(i) the accuracy of the records of the Securities Depository or any Participant with respect to any beneficial ownership interest in the 2012A Bonds;

(ii) the delivery to any Participant, any beneficial owner of the 2012A Bonds or any other person, other than the Securities Depository, of any notice with respect to the 2012A Bonds; or

(iii) the payment to any Participant, any beneficial owner of the 2012A Bonds or any other person, other than the Securities Depository, of any amount with respect to the principal or interest on the 2012A Bonds.

So long as any 2012A Bonds are registered in Book-Entry Form, the District and the Paying Agent and Bond Registrar may treat the Securities Depository as, and deem the Securities Depository to be, the absolute owner and the Registered Holder of such 2012A Bonds for all purposes whatsoever, including without limitation:

- (i) the payment of principal and interest on the 2012A Bonds;
- (ii) giving notices with respect to the 2012A Bonds;
- (iii) registering transfers with respect to the 2012A Bonds; and
- (iv) for purposes of obtaining any consents under this Resolution.

As used herein, the terms “holder of 2012A Bonds” or “Bondholder” shall be deemed to refer to the Registered Holder of the 2012A Bonds.

If at any time the Securities Depository notifies the District that it is unwilling or unable to continue as Securities Depository with respect to the 2012A Bonds, or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and a successor Securities Depository is not appointed by the District within ninety (90) days after the District receives notice or becomes aware of such condition, as the case may be, then this Section 3(b) shall no longer be applicable and the District shall execute and the Paying Agent and Bond Registrar shall authenticate and deliver certificates representing the 2012A Bonds to the Registered Holders.

Payment of principal and interest on any 2012A Bonds not registered in Book-Entry Form shall be made as provided in Section 3(a) hereof.

Section 4. Redemption of 2012A Bonds.

(a) Mandatory Sinking Fund Redemption. If the successful bidder and original purchaser of the 2012A Bonds so elects in accordance with the applicable provisions of Section 22 hereof and as may be provided in the official action of the Chairman or the Secretary-Treasurer of the Commission, or by Resolution adopted by the Commission, awarding the 2012A Bonds to such original purchaser, the 2012A Bonds stated to mature on the maturity dates set out in the successful bid of such original purchaser shall be combined to comprise the maturities of Term Bonds as set out in the successful bid and in said official action; and such Term Bonds shall be subject to mandatory redemption in part, at the selection of the Paying Agent and Bond Registrar by lot in such manner as the Paying Agent and Bond Registrar may determine, from moneys in the 1989 Sinking Fund on each applicable January 1 at par plus accrued interest to the redemption date, according to the mandatory sinking fund redemption schedule or schedules set out in said official action and in principal amounts corresponding to the above maturity schedule set out in Section 3 hereof, as may be adjusted as provided in Section 2 and Section 22 hereof.

(b) Optional Redemption. The 2012A Bonds maturing on and after January 1, 2024, shall be subject to redemption before maturity at the option of the District on January 1, 2023, and on any date thereafter in whole, or from time to time in part (less than all of the

maturity to be selected by lot by the Paying Agent and Bond Registrar), at the redemption price of par (100% of principal amount) plus accrued interest to the redemption date.

(c) Other Redemption Provisions. The Paying Agent and Bond Registrar shall cause notice of the call for any redemption, identifying the 2012A Bonds or portions thereof (\$5,000 or any integral multiples thereof) to be redeemed, to be sent by first class mail at least thirty (30) but no more than sixty (60) days before the date fixed for redemption to the Registered Holder of each 2012A Bond to be redeemed at the address shown on the registration books. Failure to give such notice by mailing or any defect therein in respect of any 2012A Bond shall not affect the validity of any proceedings for the redemption of any other 2012A Bond. Any notice mailed as provided in this Section 4 shall be conclusively presumed to have been duly given, irrespective of whether the Registered Holder receives the notice.

Before the date fixed for redemption of 2012A Bonds, funds shall be deposited by the District with the Paying Agent and Bond Registrar to pay, and the Paying Agent and Bond Registrar is hereby authorized and directed to deposit such funds into the 1989 Sinking Fund hereinafter identified and to apply such funds to the payment of, the 2012A Bonds or portions thereof called for redemption, together with accrued interest thereon to the redemption date. Upon the giving of notice and the deposit of adequate funds in the 1989 Sinking Fund for redemption of 2012A Bonds, interest on the 2012A Bonds or portions thereof so called for redemption shall cease to accrue after the date fixed for redemption. No payment of principal or interest shall be made by the Paying Agent and Bond Registrar upon any 2012A Bond or portion thereof called for redemption until such 2012A Bond or portion thereof shall have been delivered to the Paying Agent and Bond Registrar for payment or cancellation, or the Paying Agent and Bond Registrar shall have received the items required by Section 7 hereof with respect to any mutilated, lost, stolen or destroyed 2012A Bond.

A portion of any 2012A Bond subject to redemption may be redeemed, but 2012A Bonds shall be redeemed only in the principal amount of \$5,000 each or any integral multiples thereof. Upon surrender of any 2012A Bond for redemption in part only, the District shall execute and the Paying Agent and Bond Registrar shall register, authenticate and deliver to the holder thereof, within a period of three days from surrender of such 2012A Bond to the Paying Agent and Bond Registrar, at the expense of the District, a new 2012A Bond or 2012A Bonds of the same maturity, of authorized denominations and in aggregate principal amount equal to the unredeemed portion of the 2012A Bond surrendered.

Section 5. Limited Obligation. The 2012A Bonds are not general obligations of the District but are special and limited obligations payable solely from the 1989 Sinking Fund as hereinafter provided, and the 1989 Sinking Fund and the income and revenues of the System are hereby specifically assigned and pledged to the holders of the 2012A Bonds and parity bonds for the payment of the 2012A Bonds and parity bonds and interest thereon in the manner and to the extent provided herein. The 2012A Bonds and the interest thereon do not constitute a debt, indebtedness or a pledge of the faith and credit of the District within the meaning of any provision or limitation of the Constitution or statutes of the Commonwealth of Kentucky and shall not constitute a charge against its general credit. The District shall not be obligated to pay the principal of the 2012A Bonds or the interest thereon or other costs incident thereto except from the revenues and amounts assigned and pledged therefor, and the faith and credit of the

District is not assigned or pledged to the payment of the principal of the 2012A Bonds or the interest thereon or other costs incident thereto.

Section 6. Form of 2012A Bonds. The 2012A Bonds shall be issued only in the form of bonds registered as to payment of both principal and interest in substantially the following form, with necessary and appropriate variations, omissions and insertions as permitted or required by this Resolution or customary practice, as follows:

(FORM OF FACE OF BOND)

No. _____ \$ _____

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTIES OF HARDIN AND LARUE
HARDIN COUNTY WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2012A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>BOND DATE</u>	<u>CUSIP</u>
_____ %	January 1, _____	_____, 2012	_____

REGISTERED HOLDER: _____

PRINCIPAL AMOUNT: _____

KNOW ALL MEN BY THESE PRESENTS: That Hardin County Water District No. 2 (the "District"), a statutory water district created, organized and existing pursuant to Chapter 74 of the Kentucky Revised Statutes and situated in Hardin and Larue Counties, Kentucky, acting by and through its Commission, for value received, hereby promises to pay to the registered holder identified above, or registered assigns, solely and only from the special fund pledged for that purpose as hereinafter referred to and not otherwise, the principal amount set out above, on the maturity date set out above, and to pay interest from the same source on the unpaid balance of said amount at the interest rate per annum set out above, payable on the first days of January and July in each year, beginning January 1, 2013, until payment of the principal amount or until the date fixed for redemption if this Bond is called for prior redemption and payment on such redemption date is duly provided for. Each such interest payment shall represent interest accruing on this Bond from the later of the bond date set out above, or the most recent interest payment date (January 1 or July 1) to which interest has been paid or duly provided for.

Interest accruing on this Bond shall be payable as aforesaid by check or draft drawn upon First Citizens Bank, Elizabethtown, Kentucky, as the Paying Agent and Bond Registrar (the "Paying Agent and Bond Registrar"), and mailed to the person who is the registered holder hereof as of the close of business on the Record Date for such interest installment, which Record Date shall be the fifteenth (15th) day of the month (whether or not a business day) next preceding an interest payment date, at the address of such registered holder as it appears on the

books of the Paying Agent and Bond Registrar. Principal shall be paid when due upon delivery of this Bond for payment at the principal office of the Paying Agent and Bond Registrar.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

This Bond is exempt from *ad valorem* taxation by the Commonwealth of Kentucky and by all of the political subdivisions thereof.

This Bond shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been executed by the Paying Agent and Bond Registrar.

IN WITNESS WHEREOF, Hardin County Water District No. 2, acting by and through its Commission, has caused this Bond to be executed with the manual or reproduced facsimile of the official signature of the Chairman of its Commission, to be sealed by an impression or a reproduced facsimile of an impression of the official seal of the District and to be attested by the manual or reproduced facsimile signature of the Secretary-Treasurer of its Commission, in each case as its duly authorized officer, all as of the date of this Bond, which is the bond date set out above.

(Facsimile of Seal
of District)

HARDIN COUNTY WATER DISTRICT
NO. 2

By: (manual or facsimile signature)
Chairman of
the Commission

ATTEST:

By: (manual or facsimile signature)
Secretary-Treasurer
of the Commission

AUTHENTICATION CERTIFICATE

The undersigned hereby certifies
that this is one of the Bonds described above.

FIRST CITIZENS BANK
Elizabethtown, Kentucky
Paying Agent and Bond Registrar

By: (manual signature)
Authorized Officer

Authentication Date: _____

(END OF FACE OF BOND)

(BEGIN REVERSE OF BOND)

This Bond is one of a duly authorized issue of Bonds of the District designated “Hardin County Water District No. 2, Water System Refunding Revenue Bonds, Series 2012A” (the “Bonds”), issued in the original principal amount of \$ _____, authorized and issued by the District pursuant to a Resolution duly adopted by its Commission (the “Bond Resolution”) for the purpose of currently refunding two outstanding series of bonds payable from the revenues of the District’s municipal water system (the “System”), and this Bond has been issued under and in full compliance with the Constitution and statutes of the Commonwealth of Kentucky, including among others Chapters 74 and 106 of the Kentucky Revised Statutes.

Reference is made to the Bond Resolution for provisions with respect to the nature and extent of the security, rights, duties and obligations of the holders of the Bonds, the District and the Paying Agent and Bond Registrar, the terms upon which the Bonds are issued and the terms and conditions upon which the Bonds will be deemed to be paid at or before their scheduled maturity or redemption upon the making of provision for the payment thereof in the manner set forth in the Bond Resolution.

*The Bonds maturing on January 1, 20 __, are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Paying Agent and Bond Registrar by lot, from moneys in the special fund identified hereinafter, at par plus accrued interest to the redemption date, according to following schedule of mandatory sinking fund installments:

<u>January 1</u>	<u>Amount</u>
_____	\$ _____
_____ (maturity)	_____

* This paragraph is to be inserted, and may be repeated, with respect to any Term Bonds as described in Section 4 hereof.

The Bonds maturing on and after January 1, 2024, shall be subject to redemption before maturity at the option of the District on January 1, 2023, and on any date thereafter in whole, or from time to time in part (less than all of the maturity to be selected by lot by the Paying Agent and Bond Registrar), at the redemption price of par (100% of principal amount) plus accrued interest to the redemption date.

At least thirty (30) but no more than sixty (60) days before the redemption date of any Bonds, the Paying Agent and Bond Registrar shall cause a notice of redemption to be mailed postage prepaid by registered or certified mail to all registered holders of Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any such Bond shall not affect the validity of the redemption of any other Bond. Such redemption notice shall set forth in detail the redemption provisions.

This Bond and the series of which it forms a part, together with additional bonds ranking on a parity therewith which have been previously issued and are outstanding and as may be hereafter issued and outstanding from time to time under the conditions and restrictions set forth in the Bond Resolution, are payable from and secured by a pledge of a fixed portion of the revenues to be derived from the operation of the System, which fixed portion shall be sufficient to pay the principal of and interest on this Bond and the series of which it forms a part, and such additional parity bonds, as and when the same become due and payable and which shall be set aside as a special fund for that purpose and identified as the "1989 Water System Revenue Bond and Interest Sinking Fund."

This Bond and the series of which it forms a part do not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations. The District covenants that the System will be continuously operated as a revenue-producing undertaking and that it will fix and charge such rates for the services and facilities of the System so that the revenues therefrom will be sufficient to pay the interest on and principal of this series of Bonds and all other bonds ranking on a parity therewith as may be outstanding from time to time and also to pay the costs of operation and maintenance of the System.

This Bond is issued under and pursuant to the Constitution and statutory laws of the Commonwealth of Kentucky and its construction will be governed thereby.

This Bond shall be transferable only upon the presentation and surrender hereof at the principal office of the Paying Agent and Bond Registrar duly endorsed for transfer or accompanied by an assignment duly executed by the registered holder or his authorized representative.

Bonds shall be exchangeable upon the presentation and surrender thereof at the principal office of the Paying Agent and Bond Registrar for a Bond or Bonds of the same maturity, and in the denomination of \$5,000 or any integral multiple thereof, in an aggregate principal amount or amounts equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent and Bond Registrar shall authenticate and deliver Bonds delivered in exchange in accordance herewith.

A statutory mortgage lien upon the System, together with all future additions and improvements thereto, and extensions thereof, is created by Section 106.080 of the Kentucky Revised Statutes and by the Bond Resolution to and in favor of the registered holder of this Bond and outstanding parity bonds, and the same is hereby recognized as being effective and shall remain in effect until payment in full of the principal of and interest on this Bond and outstanding parity bonds.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of this Bond have existed, have happened and have been performed in due time, form and manner as required by law; that the issuance of this Bond and the series of which it forms a part, together with all other obligations of the District, does not exceed or violate any constitutional or statutory limitation; and that a sufficient portion of the revenues of the System, after allowance for the vested rights and priorities as aforesaid, has been pledged to and will be set aside into said special fund by the

District for the prompt payment of the principal of and interest on this series of Bonds and all other bonds which by their terms and by the provisions of the Bond Resolution are payable from said special fund.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells,
assigns and transfers unto

(Name, Address and Social Security (or other Identifying) Number of
Assignee)

the within Bond and does hereby irrevocably constitute and appoint

attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

NOTICE: The signature of this assignment must correspond with the name of the registered holder as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

Signature guaranteed:

(END OF REVERSE OF BOND)

Section 7. Mutilated, Lost, Stolen or Destroyed 2012A Bonds. In the event any 2012A Bond is mutilated, lost, stolen or destroyed, the District may execute and the Paying Agent and Bond Registrar may authenticate and deliver a new 2012A Bond of like series, date, maturity and denomination as that mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated 2012A Bond, such 2012A Bond shall first be surrendered to the Paying Agent and Bond Registrar, and in the case of any lost, stolen or destroyed 2012A Bond, there shall be first furnished to the District and the Paying Agent and Bond Registrar evidence of such loss, theft or destruction satisfactory to them and such indemnity as the District and the Paying Agent and Bond Registrar may require. In the event any such 2012A Bond shall have matured, in lieu of issuing a duplicate 2012A Bond, the District may pay the same without surrender thereof.

The District and the Paying Agent and Bond Registrar may charge the holder or owner of such 2012A Bond their reasonable fees and expenses in this connection.

Section 8. Registration, Authentication, Transfer and Exchange of 2012A Bonds. So long as any 2012A Bonds remain outstanding, the Paying Agent and Bond Registrar shall keep and maintain at its office in Elizabethtown, Kentucky, complete registration books for the 2012A Bonds and shall provide for the registration and transfer of 2012A Bonds in accordance with the terms of this Resolution. Each 2012A Bond shall be authenticated by the Paying Agent and Bond Registrar. Except as may be otherwise provided in Section 3(b) hereof for 2012A Bonds registered in Book-Entry Form in the name of the Securities Depository or the Securities Depository Nominee, each 2012A Bond shall be transferable only upon the presentation and surrender thereof at the office of the Paying Agent and Bond Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Holder or his authorized representative. Upon receipt of any such 2012A Bond, duly endorsed for transfer or accompanied by any assignment for transfer, the Paying Agent and Bond Registrar shall transfer such 2012A Bond within a period of three days by reissuing such 2012A Bond, duly executed by the District and authenticated by the Paying Agent and Bond Registrar, and delivering the same to the new Registered Holder thereof forthwith.

Except as may be otherwise provided in Section 3(b) hereof for 2012A Bonds registered in Book-Entry Form in the name of the Securities Depository or the Securities Depository Nominee, each 2012A Bond shall be exchangeable upon the presentation and surrender thereof at the office of the Paying Agent and Bond Registrar for a 2012A Bond or 2012A Bonds of the same maturity, in the denomination of \$5,000 or an integral multiple thereof, in an aggregate principal amount or amounts equal to the unpaid principal amount of the 2012A Bond or 2012A Bonds presented for exchange. The Paying Agent and Bond Registrar shall and is hereby authorized to authenticate and deliver 2012A Bonds delivered in exchange in accordance herewith. Each 2012A Bond delivered in exchange for a surrendered 2012A Bond shall constitute an original contractual obligation of the District and shall be entitled to the benefits and security of this Resolution to the same extent as the 2012A Bond or 2012A Bonds in lieu of which any 2012A Bond is delivered in exchange. Any 2012A Bonds surrendered for exchange shall be cancelled by the Paying Agent and Bond Registrar and the Paying Agent and Bond Registrar shall maintain a complete record of all exchanges, transfers and cancellations of 2012A Bonds and shall make a report thereof to the District on not less than an annual basis.

Except as may be otherwise provided in Section 3(b) hereof for 2012A Bonds registered in Book-Entry Form in the name of the Securities Depository or the Securities Depository Nominee, no service charge or other transfer fee shall be charged to any Bondholder in connection with any transfer or exchange of a 2012A Bond. However, the Registered Holder of any 2012A Bond may be required to pay an amount equal to any tax or other governmental charge, if any, that may be imposed in connection with the transfer or exchange of any 2012A Bond.

Section 9. Destruction of 2012A Bonds. Whenever any outstanding 2012A Bond shall be delivered to the Paying Agent and Bond Registrar for cancellation thereof pursuant to this Resolution, upon payment of the principal amount or interest represented thereby or for replacement or exchange, such 2012A Bonds, following such replacement or exchange, shall be

promptly cancelled and destroyed by the Paying Agent and Bond Registrar and counterparts of a certificate of destruction evidencing such destruction shall be furnished by the Paying Agent and Bond Registrar to the District. All 2012A Bonds which have been redeemed shall not be reissued but shall be cancelled and destroyed by Paying Agent and Bond Registrar in accordance with this Section 9.

Section 10. Appointment and Duties of Paying Agent and Bond Registrar. The District hereby appoints First Citizens Bank, Elizabethtown, Kentucky, as Paying Agent and Bond Registrar in respect of the 2012A Bonds. The Paying Agent and Bond Registrar shall maintain a complete and current record of each 2012A Bond issued, the name and address of each owner (Registered Holder) of any 2012A Bonds and such additional information as may be required for compliance with applicable laws and regulations. The Paying Agent and Bond Registrar will also make all payments of interest on the 2012A Bonds and pay principal on the 2012A Bonds as herein provided.

The recitals of fact contained herein and in the 2012A Bonds shall be taken as the statements of the District and the Paying Agent and Bond Registrar assumes no responsibility for the correctness of the same. The Paying Agent and Bond Registrar makes no representations as to the validity or sufficiency of this Resolution or of any 2012A Bonds issued thereunder or in respect of the security afforded by this Resolution, and the Paying Agent and Bond Registrar shall not incur any responsibility in respect thereof. The District shall, however, be responsible for its representations contained in the 2012A Bonds. The Paying Agent and Bond Registrar shall not be under any responsibility or duty with respect to the issuance of the 2012A Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the District. The Paying Agent and Bond Registrar shall be under no obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. The Paying Agent and Bond Registrar shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. The Paying Agent and Bond Registrar may consult with counsel, who may or may not be of counsel to the District, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever the Paying Agent and Bond Registrar shall deem it necessary or desirable that a matter be proved or established before taking or suffering any action hereunder, including payment of moneys out of any fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by an authorized officer of the District and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its discretion the Paying Agent and Bond Registrar may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidences as to it may seem reasonable. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by the District to the Paying Agent and Bond Registrar shall be sufficiently executed if executed in the name of the District by its Chairman or Secretary-Treasurer.

The District shall pay to the Paying Agent and Bond Registrar from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution. The District further agrees to indemnify and hold the Paying Agent and Bond Registrar harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default. The Paying Agent and Bond Registrar will indemnify and hold the District harmless against any liabilities which the District may incur as a result of the negligence or default of the Paying Agent and Bond Registrar.

The Paying Agent and Bond Registrar may become the owner of any 2012A Bonds, with the same rights it would have if it were not the Paying Agent and Bond Registrar. The Paying Agent and Bond Registrar and any other fiduciary may act as depository for, or permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2012A Bondholders or to effect or aid in any reorganization growing out of the enforcement of the 2012A Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the 2012A Bonds then outstanding.

Any company into which the Paying Agent and Bond Registrar may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Paying Agent and Bond Registrar may sell or transfer all or substantially all of its banking and corporate trust business, provided such company shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to the Paying Agent and Bond Registrar without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11. Parity Declaration. The District finds and declares that the 2012A Bonds, when issued, shall rank on a basis of parity and equality as to security and source of payment with the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), inasmuch as the District is in compliance with all covenants and undertakings in connection with the Prior Parity Bonds and can and shall, before the delivery of the 2012A Bonds, satisfy the parity bond coverage requirements and conditions of Section 9 of the 1989 Resolution.

Section 12. Disposition of 2012A Bond Proceeds; Current Refunding of 2003 Bonds and 2005A Bonds; Call for Redemption of 2003 Bonds and 2005A Bonds.

(a) All sums received as 2012A Bond proceeds shall be applied as follows:

(i) There shall first be paid from the 2012A Bond proceeds, by or on the written order of the Chairman or Secretary-Treasurer, the contractual fee of the District's Financial Advisor, the fee and any expenses of the Paying Agent and Bond Registrar, counsel fees and expenses, rating service fees and any other necessary or desirable fees and expenses with respect to the issuance of the 2012A Bonds and the refunding of the 2003 Bonds and the 2005A Bonds. For this purpose, the District may cause a special trust account to be established

and applied upon direction of the Chairman or Secretary-Treasurer for payment of such expenses within thirty (30) days of issuance of the 2012A Bonds; provided any balance in the special account not needed to pay expenses shall be transferred to the 1989 Sinking Fund to be used to pay interest first due on the 2012A Bonds.

(ii) Upon written direction of the Chairman or Secretary-Treasurer, a sufficient portion of the 2012A Bond proceeds together with such other legally available funds of the District as may be necessary (including the portion of the 1989 Sinking Fund allocable to the 2003 Bonds), calculated as of the issuance of the 2012A Bonds and the simultaneous defeasance of the 2003 Bonds, shall be applied to the current refunding of the 2003 Bonds by the payment of the portion of the 2003 Bonds maturing on January 1, 2013, and the redemption on January 1, 2013 of the portion of the 2003 Bonds maturing after that date at 100.0% of par and the payment of all interest accrued on the 2003 Bonds to January 1, 2013, as herein described; and such 2012A Bond proceeds and other moneys, if any, shall be deposited with First Citizens Bank (as Paying Agent and Bond Registrar for the 2003 Bonds) in a special subaccount in the 1989 Sinking Fund to be held, invested and paid out in accordance with the 2003 Resolution for the purpose of currently refunding the 2003 Bonds maturing on January 1, 2013, and the redemption on January 1, 2013 of the portion of the 2003 Bonds maturing after that date at 100.0% of par and the payment of all interest accrued on the 2003 Bonds to January 1, 2013, which are outstanding in the principal amount of \$3,290,000.

(iii) Upon written direction of the Chairman or Secretary-Treasurer, a sufficient portion of the 2012A Bond proceeds together with such other legally available funds of the District as may be necessary (including the portion of the 1989 Sinking Fund allocable to the 2005A Bonds), calculated as of the issuance of the 2012A Bonds and the simultaneous defeasance of the 2005A Bonds, shall be applied to the current refunding of the 2005A Bonds by the payment to the United States Department of Agriculture, Rural Development (“USDA”), the current holder of the 2005A Bonds, an amount equal to the entire outstanding principal amount of the 2005A Bonds (\$2,775,500) plus all interest accrued thereon to the date of such payment, which shall occur on the earliest practicable redemption date for the Series 2005A Bonds.

(iv) Any remaining 2012A Bond proceeds shall be deposited in the 1989 Sinking Fund for payment of interest first due on the 2012A Bonds.

(b) The Chairman or Secretary-Treasurer is authorized and directed to act on behalf of the District in causing the call for redemption on the next practicable redemption date, and the redemption, payment and discharge on that date of the 2003 Bonds and the 2005A Bonds at par plus accrued interest, applying the amounts on deposit in the special subaccount in the 1989 Sinking Fund as set out in subsections (a)(ii)-(iii) above, all pursuant to the terms of the 2003 Resolution and the 2005A Resolution.

Section 13. Defeasance of 2003 Bonds and 2005A Bonds. The District hereby determines and declares that when the deposits set out in subsection (a)(ii) of Section 12 above are made (upon delivery and receipt of the proceeds of the 2012A Bonds) and other actions are provided to be taken pursuant to the 2003 Resolution as conditions precedent to the redemption of the 2003 Bonds, then the pledges and liens securing the 2003 Bonds pursuant to the 2003 Resolution shall be deemed to have been defeased, released and discharged, and the payment of

the 2003 Bonds shall be deemed to have been satisfied, provided that the provisions of the 2003 Resolution with respect to redemption of the 2003 Bonds shall continue in effect until they are fully paid on the redemption date.

The District hereby determines and declares that when the deposits set out in subsection (a)(iii) of Section 12 above are made (upon delivery and receipt of the proceeds of the Series 2012A Bonds) and other actions are provided to be taken pursuant to the 2005A Resolution as conditions precedent to the redemption of the 2005A Bonds, then the pledges and liens securing the 2005A Bonds pursuant to the 2005A Resolution shall be deemed to have been defeased, released and discharged, and the payment of the 2005A Bonds shall be deemed to have been satisfied, provided that the provisions of the 2005A Resolution with respect to redemption of the 2005A Bonds shall continue in effect until they are fully paid on the redemption date.

Section 14. Operation and Revenues of System; Funds and Accounts. It is hereby resolved and provided that from and after issuance and delivery of the 2012A Bonds, and so long as any of the 2012A Bonds or parity bonds remain outstanding and unpaid, the System shall continue to be operated on a fiscal year basis beginning each January 1 and ending on the last day of the following December, as at present, and on that basis the income and revenues of the System shall be collected, segregated, accounted for, invested and distributed as follows:

(a) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was previously created and continued, and is hereby continued, designated and identified as the District's "Water Revenue Fund" (the "Revenue Fund"). The moneys in the Revenue Fund from time to time shall be used and disbursed and applied by the District, as permitted by applicable statutes, and in accordance with pre-existing contractual commitments, as follows:

(b) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created in and by the 1989 Resolution and designated and identified as the "1989 Water System Revenue Bond and Interest Sinking Fund" (the "1989 Sinking Fund"), which shall continue to be maintained so long as any of the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), 2012A Bonds or additional parity bonds herein permitted to be issued are outstanding; and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), 2012A Bonds and any parity bonds hereinafter issued and outstanding pursuant to the provisions of this Resolution.

There shall be set aside and transferred on or before the 20th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the 1989 Sinking Fund sums sufficient to pay when due the principal and interest requirements on the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), the 2012A Bonds and any additional parity bonds. Specifically, there shall be paid into the 1989 Sinking Fund on or before the 20th day of each month, on account of the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds) and 2012A Bonds, not less than the following:

(i) a sum which together with other funds available in the 1989 Sinking Fund for such purpose will be equal to one-sixth (1/6th) of the next succeeding interest installment to become due on all Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds) and 2012A Bonds then outstanding; provided that before the first interest payment date next succeeding the issuance of the 2012A Bonds an amount shall be paid into the 1989 Sinking Fund sufficient to make up any insufficiency therein in order to pay the interest due on such first interest payment date; and

(ii) a sum which together with other funds available in the 1989 Sinking Fund for such purpose will be equal to one-twelfth (1/12th) of the principal of all Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds) and 2012A Bonds maturing on the next succeeding January 1; provided that before the first principal payment date next succeeding the issuance of the 2012A Bonds an amount shall be paid into the 1989 Sinking Fund sufficient to make up any insufficiency therein in order to pay the principal due on such first principal payment date.

In the event additional parity bonds are issued pursuant to the conditions and restrictions hereinafter prescribed in that connection, the monthly deposits to the 1989 Sinking Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

If for any reason there should be a failure to pay into the 1989 Sinking Fund the full amounts above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the 1989 Sinking Fund from the first available income and revenues of the System, subject to the aforesaid priorities.

No further payments need be made into the 1989 Sinking Fund if and when the amount held therein and in the Debt Service Reserve Fund hereinafter created is at least equal to the amount required to retire all outstanding Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), 2012A Bonds and additional parity bonds and paying all interest that will accrue thereon.

(c) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created in and by the 1989 Resolution and designated and identified as the "1989 Water System Revenue Bond Debt Service Reserve Fund" (the "Debt Service Reserve Fund"), which shall continue to be maintained so long as there are outstanding any 2002C Bonds, 2004A Bonds, 2005B Bonds, 2010A Bonds and 2012A Bonds and parity bonds herein permitted to be issued on a parity with the 2012A Bonds, except those parity bonds the original purchaser or purchasers of which have waived the benefit of, and any claim to, the Debt Service Reserve Fund. Parity bonds which may be issued and outstanding from time to time as hereinafter permitted and with respect to which the original purchaser or purchasers have not waived the benefit of and claim to the Debt Service Reserve Fund, including the 2002C Bonds, 2004A Bonds, 2005B Bonds, 2010A Bonds and 2012A Bonds, are hereafter referred to as "Qualified Parity Bonds." It is acknowledged that the original purchaser of the 2007A Bonds by its acceptance of those bonds, elected, for itself and on behalf of all subsequent holders of those bonds, to waive the benefit of and any claim to the Debt Service Reserve Fund.

All moneys deposited in the Debt Service Reserve Fund from time to time shall be held and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the outstanding Qualified Parity Bonds if and to the extent insufficient funds are available therefor in the 1989 Sinking Fund. Whenever the amount in the Debt Service Reserve Fund is less than the Reserve Amount, hereinafter defined, the amount necessary to restore the balance in the Debt Service Reserve Fund to the Reserve Amount shall be paid into the Debt Service Reserve Fund in sixty (60) equal monthly installments, each payable on the twentieth (20th) day of the month (except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day) from the Revenue Fund, after making the deposits set out in subsection (b) above, until the Reserve Amount is on deposit in the Debt Service Reserve Fund. The term "Reserve Amount" as used herein means an amount of money equal to the least of (i) the maximum principal and interest requirement on the respective series of outstanding Qualified Parity Bonds in any year ending January 1, (ii) an amount equal to 10% of the proceeds of the respective series of Qualified Parity Bonds within the meaning of Section 148(d) of the United States Internal Revenue Code of 1986, as amended (the "Code"), and (iii) an amount equal to 125% of the average principal and interest requirement on the respective series of outstanding Qualified Parity Bonds in any year ending January 1 (as prescribed in Section 1.148-2(f) of the Income Tax Regulations promulgated under the Code).

Any amount in the Debt Service Reserve Fund in excess of the Reserve Amount shall be transferred to the 1989 Sinking Fund and applied as credit against payments into the 1989 Sinking Fund from the Revenue Fund on a monthly basis as described in the foregoing subsection (b).

(d) All moneys held in the 1989 Sinking Fund and the Debt Service Reserve Fund shall be deposited in a bank or banks which are members of the Federal Deposit Insurance Corporation ("FDIC"), and all such deposits which cause the aggregate deposits of the District in any one bank to be in excess of the amount insured by FDIC shall be continuously secured by a valid pledge of direct obligations of the United States of America having an equivalent market value. All or any part of the 1989 Sinking Fund may, and the Debt Service Reserve Fund shall, be invested in Investment Obligations, as defined in Section 15 hereof, maturing or being subject to retirement at the option of the holder on such dates as the same may be needed for meeting interest and/or principal payments, and all such investments shall be carried to the credit of the Fund which supplied the funds for such investments, and the income from such investments shall be credited to the 1989 Sinking Fund; provided, however, if the amount in the Debt Service Reserve Fund is less than the Reserve Amount, income from investments in the Debt Service Reserve Fund shall be credited to the Debt Service Reserve Fund until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Fund shall be valued at cost.

Investment income accruing to the 1989 Sinking Fund shall be credited against payments into the 1989 Sinking Fund from the Revenue Fund on a monthly basis as set out in the foregoing section (b) hereof.

(e) The District previously created and continued special funds identified as the "Water Depreciation Fund" (the "Depreciation Fund") and the "Operation and Maintenance

Fund” (the “Operation and Maintenance Fund”). The Depreciation Fund and the Operation and Maintenance Fund shall continue in effect with the District making monthly transfers to them, on or before the twentieth (20th) day of each month, from the Revenue Fund as follows:

(i) To the Depreciation Fund there shall be deposited monthly the minimum sum of \$18,025 (as provided in the 2007A Resolution). There shall also be deposited to the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn-out or obsolescent properties of the System, if the same shall be sold upon order of the Commission. Any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System shall be paid, as received, into the Depreciation Fund.

The Depreciation Fund shall be available and may be withdrawn and used by the District, upon appropriate certification as to the authorization for such withdrawal, for the purpose of paying the costs of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the annual budget of Current Expenses (as defined below), and the costs of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. The Depreciation Fund shall also be available for transfer to the 1989 Sinking Fund in order to avoid default in connection with any bonds payable therefrom.

(ii) To the Operation and Maintenance Fund there shall next be deposited monthly from the Revenue Fund amounts sufficient to pay as they accrue the Current Expenses of operating and maintaining the System pursuant to the annual budget, for which provision is hereinafter made, and to accrue an operation and maintenance reserve not in excess of anticipated requirements for a two-month period pursuant to the annual budget.

(f) Moneys in the Depreciation Fund and in the Operation and Maintenance Fund, to the extent not needed within the next thirty (30) days for authorized purposes, may, upon order of the Commission of the District, be invested in Investment Obligations, as defined in Section 15 hereof, being subject to redemption or conversion into cash at not less than par no later than the time moneys shall be needed for the indicated purposes. All investments of moneys in each of the Depreciation Fund and the Operation and Maintenance Fund shall be carried thereof; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to the investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

Section 15. Investment Obligations. As used in this Resolution, the term “Investment Obligations” shall mean any of the following, if and to the extent the following are legal investments for the moneys held in the funds and accounts established or continued pursuant to this Resolution:

(a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian, which investments may be accomplished through repurchase agreements reached with sources

including, but not limited to, national or state banks chartered in the Commonwealth of Kentucky;

(b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to: (i) United States Treasury; (ii) Export-Import Bank of the United States; (iii) Government National Mortgage Corporation; and (iv) Merchant Marine;

(c) Obligations of any corporation of the United States government, including but not limited to: (i) Federal Home Loan Mortgage Corporation; (ii) Federal Farm Credit Banks; (iii) Bank for Cooperatives; (iv) Federal Intermediate Credit Banks; (v) Federal Land Banks; (vi) Federal Home Loan Banks; (vii) Federal National Mortgage Association; and (viii) Tennessee Valley Authority;

(d) Certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution, including the Paying Agent and Bond Registrar or any of its affiliates, which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by Section 41.240(4) of the Kentucky Revised Statutes;

(e) Uncollateralized certificates of deposit, time deposits, trust accounts, trust deposits and demand deposits, including interest bearing money market accounts, of any bank or savings and loan institution, including the Paying Agent and Bond Registrar or any of its affiliates, rated in one of the three highest categories by a nationally recognized rating agency;

(f) Bankers' acceptances for banks, including the Paying Agent and Bond Registrar or any of its affiliates, rated in one of the three highest categories by a nationally recognized rating agency;

(g) Commercial paper rated in the highest category by a nationally recognized rating agency, including commercial paper issued by the Paying Agent and Bond Registrar or any of its affiliates, if so rated;

(h) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities;

(i) Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and

(j) Shares of mutual funds, each of which shall have the following characteristics:

(i) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

(ii) The management company of the investment company shall have been in operation for at least five years;

(iii) All of the securities in the mutual fund shall be investments in any one or more of the investments described in (a) through (i) above; and

(iv) The mutual funds may include, without limitation, any mutual fund for which the Paying Agent and Bond Registrar or any of its affiliates serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (1) the Paying Agent and Bond Registrar or any of its affiliates receives fees from such funds for services rendered, (2) the Paying Agent and Bond Registrar or any of its affiliates charges and collects fees for services rendered pursuant to this Resolution, which fees are separate from the fees received from such funds, and (3) services performed for such funds and pursuant to this Resolution may at times duplicate those provided to such funds by the Paying Agent and Bond Registrar or its affiliates.

Section 16. Rebate Fund. The following terms when used hereinafter shall have the indicated meanings:

“Computation Period” means, with respect to the 2012A Bonds, the period of time over which Excess Earnings are required to be computed under Section 148(f) of the Code, and applicable regulations thereunder.

“Cumulative Excess Earnings” means the amount of all Excess Earnings earned from the date of original delivery of the 2012A Bonds through the end of the relevant computation date, less the amount of any Excess Earnings paid to the United States pursuant to this Section 16.

“Excess Earnings” means an amount equal to the sum of (a) plus (b) where:

(a) is the excess of:

(i) the aggregate amount earned on all nonpurpose investments in which gross proceeds of the 2012A Bonds are invested (other than investments attributable to an excess described in this clause (a)), over

(ii) the amount which would have been earned if such nonpurpose investments (other than amounts attributable to an excess described in this clause (a)) were invested at a rate equal to the yield on the 2012A Bonds; and

(b) is any income attributable to the excess described in clause (a).

The sum of (a) plus (b) shall be determined in accordance with Section 148(f) of the Code. As used herein, the terms “gross proceeds,” “nonpurpose investments” and “yield” have the meanings assigned to them for purposes of Section 148(f) of the Code.

The Hardin County Water District No. 2 Water System Refunding Revenue Bonds, Series 2012A Rebate Fund (the “Rebate Fund”), is hereby created. Amounts from time to time held in the Rebate Fund, if any, shall be invested in Investment Obligations (to the extent practicable), shall not be subject to the pledge of this Resolution, shall not constitute a part of the funds held for the benefit of the holders of the 2012A Bonds and shall be dedicated to the United

States of America to the extent of any obligation on the part of the District to rebate to the United States Cumulative Excess Earnings.

Within five days after the end of each Computation Period and within five (5) days after the payment in full of all outstanding 2012A Bonds, the District shall calculate the amount of Cumulative Excess Earnings as of the end of that Computation Period or the date of such payment, and shall also determine the amount then on deposit in the Rebate Fund. If the amount then on deposit in the Rebate Fund is in excess of the Cumulative Excess Earnings, the District shall forthwith deposit that excess amount in the 1989 Sinking Fund. If the amount then on deposit in the Rebate Fund is less than the Cumulative Excess Earnings, the District shall within five days deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to the Cumulative Excess Earnings. Within thirty (30) days after the end of the fifth (5th) anniversary date of the issuance of the 2012A Bonds and every such fifth (5th) anniversary date thereafter, the District shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 90% (or such greater percentage not in excess of 100% as the District may direct) of the Cumulative Excess Earnings as of the end of such fifth (5th) anniversary date. Within sixty (60) days after the payment in full of all outstanding 2012A Bonds, the District shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 100% of the Cumulative Excess Earnings as of the date of such payment and any moneys remaining in the Rebate Fund following such payment shall be paid to the 1989 Sinking Fund.

Section 17. Covenants to 2012A Bondholders. The District hereby irrevocably covenants and agrees with the Registered Holders of the 2012A Bonds that so long as the same or any part thereof or interest thereon remain outstanding and unpaid:

(a) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky, and by the terms and provisions of this Resolution.

(b) It will at all times operate the System on a revenue-producing basis, and will permit no free services to be rendered or afforded thereby.

(c) It will maintain the System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided; and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of revenues accumulated and set aside for such purposes.

(d) So long as any of the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds) and 2012A Bonds are outstanding, it will not sell or otherwise dispose of any of the System facilities or any part thereof, and, except as provided for in this Resolution, it will not create or permit to be created any charge or lien on the revenues thereof ranking equal or before the charge or lien of the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds) and 2012A Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any of its System facilities, provided that:

(i) it is in compliance with all covenants and undertakings in connection with all of its bonds then outstanding and payable from the revenues of the System;

(ii) it will, in the event of sale, apply the proceeds to either (1) redemption of outstanding bonds in accordance with the provisions governing prepayment of bonds in advance of maturity, or (2) replacement of the facility so disposed of by another facility the revenues of which shall be incorporated into the System as hereinbefore provided;

(iii) it certifies, before any abandonment of use, that the facility to be abandoned is no longer economically feasible of producing net revenues; and

(iv) notwithstanding all of the foregoing, no such sale, abandonment or transfer of System facilities shall be made so long as the USDA owns any of the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), without the written consent and approval of USDA.

(e) It will establish, enforce and collect rates and charges for services rendered and facilities afforded by the System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining it in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all outstanding bonds as aforesaid and the accruing interest thereon, and the accumulation of any required reserves; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the date of issuance of the 2012A Bonds, the District will adopt a budget of Current Expenses for the System for the remainder of the then current fiscal year of the System, and thereafter, on or before the first day of each fiscal year so long as any 2012A Bonds are outstanding, it will adopt an annual budget of Current Expenses for the ensuing fiscal year, and will file a copy of each such budget, and of any amendments thereto, in the office of the Secretary-Treasurer of the District, and furnish copies thereof to the holder of any 2012A Bond upon request. The term "Current Expenses," as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the 1989 Sinking Fund and the Debt Service Reserve Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the amounts provided for Current Expenses in the annual budget, except upon resolution duly adopted by the Commission of the District determining that such expenses are necessary in order to operate and maintain the System. At the same time, and in like manner, the District agrees that it will prepare an estimate of cash income and revenues to be derived from operation of the System for each fiscal year, and to the extent that said cash income and revenues are insufficient to provide an amount equal to at least 110% of all payments required to be made into the 1989 Sinking Fund during such ensuing fiscal year, and to pay Current Expenses, the

District covenants and agrees that it will revise its rates and charges for services rendered by the System, so that the same will be adequate to meet such coverage requirement.

(f) It will not at any time make any reduction in any prevailing schedule of rates and charges for use of the services and facilities of the System without first obtaining the written determination of a consulting engineer of national reputation that the proposed reduction will not adversely affect the ability of the District to meet all the requirements set forth in this Resolution.

(g) It will at all times segregate the revenues of the System from all other revenues, moneys and funds of the District and will promptly and regularly make application and distribution thereof into the special funds provided in this Resolution, in the amounts and with due regard for the priorities herein attributed thereto.

(h) It will keep proper books of record and account, separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries of all transactions relating to the System, and the same shall be available and open to inspection by any 2012A Bondholder, and any agent or representative of a 2012A Bondholder.

(i) It will, within ninety (90) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state-licensed accountant not in the employ of the District on a monthly salary basis, showing all receipts and disbursements, and reflecting in reasonable detail the financial condition and records of the System, including the status of the several funds hereinbefore created, the status of the insurance and fidelity bonding, the number and type of connections, and the current rates and charges, with comments of the auditor concerning whether the books and records are being kept in compliance with this Resolution and in accordance with recognized accounting practices, and will promptly cause a copy of the District's audited financial statements for such fiscal year to be filed in the office of the Secretary-Treasurer where it will be available for public inspection, and will promptly mail a copy thereof to the original recipient of 2012A Bonds issued hereunder. If requested to do so, the District will furnish to any bondholder a condensed form of the balance sheet, and a condensed form of the operating report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the System, and may be paid from revenues allocated for such purposes, as herein provided. Provided, so long as USDA holds any of the 2012A Bonds herein authorized, the District shall furnish operating and other financial statements in such form and substance and for such periods as may be requested by USDA.

(j) Any holder of 2012A Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by the District and its officers and agents of all duties imposed or required by law or this Resolution in connection with the operation of the System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof.

(k) If there be any default in the payment of the principal of or interest on any of the 2012A Bonds, then upon the filing of suit by any holder of the 2012A Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the

District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System, and for the payment of Current Expenses, and to apply the revenues in conformity with this Resolution and the provisions of the statute laws of the Commonwealth of Kentucky aforesaid.

(l) The District will cause each officer or other person (other than depository banks) having custody of any moneys administered under the provisions of this Resolution to be bonded at all times in an amount at least equal to the maximum amount of such moneys in his custody at any time; each such bond to have surety given by a surety corporation qualified to do business in the Commonwealth of Kentucky and approved by the Commission, and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from moneys available in the Operation and Maintenance Fund.

(m) It will procure, and at all times maintain in force, insurance of all insurable properties constituting parts of, or being appurtenant to, the System to the full insurable value thereof, against damage or destruction by fire, windstorm, and the hazards covered by the standard "extended coverage" policy endorsements or provisions, the premiums therefor to be paid from the Operation and Maintenance Fund; and will deposit all sums collected under the terms of such policies in the Depreciation Fund. Such insurance shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percent (80%) of the full insurable value of the damaged facility.

(n) The District will procure and at all times maintain public liability insurance relating to the operation of the System, with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death; and not less than \$100,000 from claims for damage to property of others which may arise from the District's operation of the System.

(o) The District will carry suitable workers' compensation insurance in accordance with law.

(p) If the District owns or operates a vehicle in the operation of the System, the District will procure and at all times maintain vehicular public liability insurance with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death, and not less than \$100,000 against claims for damage to property of others which may arise from the District's operation of vehicles. Provided, notwithstanding (m), (n), (o) and (p) above, that so long as USDA holds any Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), the District will procure and maintain insurance of such types and amounts as USDA may specify.

(q) So long as USDA is the holder of any bonds of the District, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of such bonds held by USDA without immediately prepaying all of such bonds held by USDA the lien of which is being so defeased or terminated.

Section 18. Statutory Mortgage Lien Acknowledged. A statutory mortgage lien upon the System, together with all appurtenances and additions thereto and extensions thereof, is

granted and created by Section 106.080 of the Kentucky Revised Statutes for the benefit and protection of the holders of the 2012A Bonds and parity bonds; and said statutory mortgage lien is hereby recognized and shall be effective upon delivery of the 2012A Bonds and shall continue in full force and effect so long as there shall remain unpaid any part of the principal of or interest on the 2012A Bonds.

Section 19. No Priority among 2012A Bonds; Issuance of Additional Bonds. The 2012A Bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among such bonds, regardless of the fact that they may be actually issued and delivered at different times.

The District hereby reserves the right and privilege of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the 2012A Bonds (herein sometimes referred to as "Additional Parity Bonds") in order to pay the costs of extensions, additions and improvements to the System, provided that either of the conditions set forth in (a) or (b) below is met.

(a) The net income and revenues of the System for the fiscal year preceding the year in which such Additional Parity Bonds are to be issued were at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to all 2012A Bonds and parity bonds which are then outstanding and the Additional Parity Bonds then proposed to be issued. The term net income and revenues as herein used is defined as gross income and revenues of the System (including all payments to the Revenue Fund and interest earnings accruing to the 1989 Sinking Fund and the Depreciation Fund) less the sum of Current Expenses as defined in subsection (e) of Section 17 hereof. Such showing of net income and revenues for such preceding fiscal year may be represented by the report of the auditors.

(b) A statement is filed with the Secretary-Treasurer of the District by (i) an independent certified public accountant or firm of certified public accountants not in the regular employ of the District on a monthly salary basis or (ii) an independent professional engineer or firm or firms of professional engineers not in the employ of the District on a monthly salary basis and of recognized excellent expertise and reputation in the field of water engineering and licensed in the Commonwealth of Kentucky, reciting the opinion based upon necessary investigation that the net income and revenues of the System as defined in (a) above for twelve (12) consecutive months out of the eighteen (18) months preceding the issuance of said Additional Parity Bonds (with adjustments as hereinafter provided) were equal to at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to the 2012A Bonds and parity bonds then outstanding and the proposed Additional Parity Bonds. The net income and revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such Additional Parity Bonds, and also to reflect any increase in such net income and revenues by reason of the extensions, additions and improvements to the System the cost of which (in whole or in part) is to be paid through the issuance of such Additional Parity Bonds; but such latter adjustments shall only be made if contracts for the

immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into before the issuance of such Additional Parity Bonds. All such adjustments to reflect any revision of rates and charges or an increase in net income and revenues by reason of extensions, additions and improvements to the System as aforesaid shall be based upon written certification by (a) an independent professional engineer or firm of professional engineers not in the employ of the District on a monthly salary basis and of recognized excellent expertise and reputation in the field of water engineering and licensed in Kentucky or (b) an independent certified public accountant or firm of certified public accountants not in the employ of the District on a monthly salary basis.

The District hereby further reserves the right and privilege of issuing Additional Parity Bonds for the purpose of refunding the 2012A Bonds or any parity bonds, or any portion thereof, as may be outstanding, provided that before any Additional Parity Bonds are issued for such purpose, there shall have been procured and filed with the Secretary-Treasurer of the District a statement by an independent certified public accountant or firm of independent certified public accountants reciting the opinion based upon necessary investigation that after the issuance of such Additional Parity Bonds, the net income and revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such Additional Parity Bonds, after taking into account the revised maximum annual debt service resulting from the issuance of such Additional Parity Bonds and from the elimination of the bonds being refunded thereby, are equal to not less than 120% of the maximum annual debt service requirement for any year ending January 1 with respect to such Additional Parity Bonds and all parity bonds then outstanding and payable from the 1989 Sinking Fund, and calculated in the manner specified above.

The original purchaser or purchasers of a series of Additional Parity Bonds may waive the benefit of and any claim to the Debt Service Reserve Fund, in which event such bonds shall not be secured by or payable from the Debt Service Reserve Fund; and the District may make it a condition to the original sale of any series of Additional Parity Bonds that the purchaser or purchasers thereof, by offering to purchase or by purchasing the same, has agreed to such waiver.

The interest payment dates for all such Additional Parity Bonds shall be semiannually on January 1 and July 1 of each year, and the principal maturities thereof shall be on January 1 of the year in which any such principal is scheduled to become due.

The Additional Parity Bonds, the issuance of which is restricted and conditioned by this Section 19, shall be understood to mean bonds payable from the income and revenues of the System on a parity with the 2012A Bonds, and shall not be deemed to include or prohibit the issuance of other obligations the security and source of payment of which is subordinate and subject to the priority of the payments into the 1989 Sinking Fund for account of the 2012A Bonds and any outstanding parity bonds.

Section 20. Tax Covenants and Representations. The District certifies, covenants and agrees to and for the benefit of the 2012A Bondholders that so long as any of the 2012A Bonds remain outstanding, moneys on deposit in any fund or account in connection with the 2012A Bonds, whether or not such moneys were derived from the proceeds of the sale of the 2012A Bonds or from any other sources, will not be invested or used in a manner which will cause the 2012A Bonds to be “arbitrage bonds” within the meaning of Sections 103(b)(2) and 148 of the

United States Internal Revenue Code of 1986, as amended (the “Code”), and any lawful regulations promulgated or proposed thereunder, as the same presently exist, or may from time to time hereafter be amended, supplemented or revised. The Chairman and/or Secretary-Treasurer as the officers of the District charged with the responsibility for issuing the 2012A Bonds are authorized and directed, for and on behalf of the District, to execute all certificates and other documents that may be required for evidencing compliance with federal tax rules, and any representations, certifications and covenants contained in such certificates and other documents so executed shall be deemed to constitute representations, certifications and covenants of the District.

The District further represents, warrants, agrees, covenants and certifies as follows:

(a) Within the meaning of Section 141 of the Code and the Income Tax Regulations issued thereunder, over the term of the 2012A Bonds (i) less than 10% of the proceeds of the 2012A Bonds, if any, will be applied for any private business use, and the payment of principal of or interest on less than 10% of the amount of the 2012A Bonds, if any, will be secured directly or indirectly by any interest in property used for a private business use, or payments in respect of such property, or will be derived directly or indirectly from payments (whether or not to the District) in respect of such property; (ii) at least 90% of the proceeds of the 2012A Bonds will be applied for a governmental use of the District; (iii) any private business use of the facilities refinanced by the 2012A Bonds will be related to such governmental use of the District and will not be unrelated or disproportionate; and (iv) none of the proceeds of the 2012A Bonds will be used, directly or indirectly, to make or finance loans to private persons. It is reasonably expected that over the term of the 2012A Bonds (a) the facilities refinanced by the 2012A Bonds will be available for general public use, in that it will be reasonably available for use by natural persons not engaged in a trade or business on the same basis as any other person or entity, (b) no nongovernmental person will have any special legal entitlement to use the facilities refinanced by the 2012A Bonds, and (c) there will be no direct or indirect payments made with respect to the facilities refinanced by the 2012A Bonds or the security of the 2012A Bonds by any persons or entities other than payments by the general public as described in clause (a) above.

(b) All proceeds of the 2012A Bonds will be expended by a date within ninety (90) days from their date of issuance. The District will take all action necessary to comply with the arbitrage rebate requirements of Section 148(f) of the Code in respect of the 2012A Bonds.

(c) It is reasonably expected that during the term of the 2012A Bonds the facilities refinanced by the 2012A Bonds will not be disposed of; provided, however, should there be any disposition of any personal property constituting a part of the facilities refinanced by the 2012A Bonds because it is no longer suitable for its governmental purpose, it is reasonably expected that the fair market value of such personal property will not exceed 25% of its cost.

(d) The weighted average maturity of the 2012A Bonds does not exceed 120% of the weighted average useful life of the facilities comprising the facilities refinanced by the 2012A Bonds.

(e) The 2012A Bonds are not federally guaranteed within the meaning of Section 149(b) of the Code.

(f) The District will comply with the information reporting requirements of Section 149(e) of the Code.

(g) Within the meaning of Section 265(b) of the Code, the 2012A Bonds are “qualified tax-exempt obligations” and are hereby so designated by the District for purposes of Section 265(b)(3) of the Code, and in this connection the District states that the reasonably anticipated amount of qualified tax-exempt obligations (other than private activity bonds) which will be issued by the District during the year in which the 2012A Bonds are issued does not and will not exceed \$10,000,000.

(h) The District will not use or permit the use of any of the funds provided by the 2012A Bonds in such manner as to, or take or omit to take any action which would, impair the exclusion from gross income for federal income tax purposes of interest on the 2012A Bonds. The District shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the 2012A Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

Section 21. Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the holders of all 2012A Bonds the total principal and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of this Resolution, and all covenants, agreements and other obligations of the District to the Bondholders, shall thereon cease, terminate and become void and be discharged and satisfied.

Whenever there shall be deposited and held irrevocably in the 1989 Sinking Fund or an escrow fund established for such purpose either (a) moneys in an amount which shall be sufficient or (b) direct obligations of or obligations fully guaranteed by the United States of America, including such obligations issued or held in book-entry form, the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the 1989 Sinking Fund or such escrow fund, shall be sufficient to pay when due the principal of and interest on the 2012A Bonds or any part thereof to and including the date on which the 2012A Bonds or any of them will be redeemed in accordance with this Resolution, or the maturity date or dates thereof, as the case may be, then and in any of said events all such 2012A Bonds shall be deemed to have been paid and discharged within the meaning and with the effect expressed above in this Section. Thereafter the holders of such 2012A Bonds shall be entitled only to payment out of the cash and obligations deposited as aforesaid. If the maturity or redemption date of any 2012A Bonds so paid and discharged is more than one year from the date of such deposit, the Paying Agent and Bond Registrar shall and is hereby instructed to mail, via first class mail, irrevocable notice thereof to the holders of such 2012A Bonds, such notice to contain a statement that the cash and obligations as provided above are held in the 1989 Sinking Fund or such escrow fund, that such 2012A Bonds are deemed to have been paid in accordance with this Section, and a statement of the maturities or redemption date or dates on which the moneys are or will become available for the payment of the amounts due.

The provisions of the immediately foregoing paragraph are subject to the limitation that no discharge and release of the pledge of this Resolution shall be accomplished through the use of any funds or investments which, in the opinion of the District's Bond Counsel, would adversely affect the exclusion of interest on any such 2012A Bonds from gross income for federal income tax purposes.

Section 22. Sale of 2012A Bonds. It is hereby ordered that a Notice of Bond Sale be published in the newspapers required by law soliciting sealed, competitive bids for the purchase of the 2012A Bonds, the same to be received by a designated official of the District at the District office in Elizabethtown, Kentucky, until a specified hour and day, as determined by the Chairman or Secretary-Treasurer of the District (which time for receipt of bids for the 2012A Bonds may be rescheduled by the Chairman or Secretary-Treasurer, upon the advice of the Financial Advisor, J.J.B. Hilliard, W.L. Lyons, LLC, to any date before June 30, 2013). The bids theretofore received shall be publicly opened and then considered by the Chairman or Secretary-Treasurer on behalf of the District, and the best bid shall be determined by the Chairman or Secretary-Treasurer with the advice and assistance of the District's Financial Advisor. The District reserves the right to increase or decrease by an amount not exceeding \$625,000 (in \$5,000 denominations) the total amount of 2012A Bonds sold to the best bidder by increasing or decreasing any of the stipulated principal maturities, and the right to adjust principal maturities without changing the total amount of 2012A Bonds sold. In the event of any such adjustment, no rebidding or recalculating of the bids submitted will be required or permitted. The price at which such adjusted amount of 2012A Bonds will be sold will be at the same price per \$1,000 of 2012A Bonds as the price bid per \$1,000 for the aggregate principal amount of 2012A Bonds stipulated in the successful bid.

Bidders shall have the option of specifying that all of the principal amount of 2012A Bonds maturing on any two or more consecutive dates set out in the schedule in Section 3(a) hereof may, in lieu of maturing on each of such dates, be combined to comprise one maturity of 2012A Bonds ("Term Bonds") scheduled to mature on the latest of such dates and be subject to mandatory sinking fund redemption at par in the manner described in Section 4 hereof on each of the dates and in the principal amounts as set out in said schedule (subject to adjustment as herein provided), except for the principal amount of 2012A Bonds scheduled to mature on the date of maturity of the Term Bonds, which shall mature on such date. Bidders may specify one or more of such Term Bonds.

The Notice of Bond Sale shall be published as required by law, not less than seven days and not more than twenty-one days in advance of the date stated therein for the opening and consideration of purchase bids. In the Notice of Bond Sale and the Notice and Official Terms and Conditions of Bond Sale, hereinafter described, bidders shall be instructed, among other things, to offer a specified price in dollars and cents for the 2012A Bonds, to specify one or more interest rates of their own choosing in multiples of 1/8 or 1/20 of 1% and not more than one rate to be stipulated for a single maturity, to offer a price in dollars and cents for the entire issue of 2012A Bonds and not to offer less than 98.25% of par value.

Upon the occasion of the receipt of bids, and after examination and recommendation by the District's Financial Advisor, (a) the Chairman or the Secretary-Treasurer of the District is hereby authorized to, and he shall, establish the rates of interest on, the total amount and

principal maturities of, the mandatory sinking fund installments, if any, of and other necessary or appropriate details of the 2012A Bonds by completion and execution of the acceptance on the Official Bid Form of the successful bidder, if submitted, or other certificate or document establishing those terms and details, a copy of which document shall be filed in the official records of the District, provided that the net average interest rate on the 2012A Bonds shall not exceed 6.0% per annum; or (b) the Commission shall adopt a Resolution establishing the rates of interest on, the total amount and principal maturities of, the mandatory sinking fund installments, if any, of and other necessary or appropriate details of the 2012A Bonds.

A Notice of Bond Sale having been prepared in advance by Stoll Keenon Ogden PLLC, Bond Counsel, and having been examined and found to conform to the above conditions, said document is hereby approved and shall be signed by the Chairman, and its use in advertising the 2012A Bond sale is approved and authorized.

A Notice and Official Terms and Conditions of Bond Sale having also been prepared in advance, in order to give a more complete description of the 2012A Bonds and specific instructions (including conditions not recited herein) calculated to bring about uniformity in the bidding, and containing the Official Bid Form; and the document having been examined by the Commission, it is hereby approved and authorized and shall be executed by the Chairman and furnished to interested bidders who may request it.

In addition to the foregoing, on the recommendation of the District's Financial Advisor bids may be taken or submitted electronically (provided all electronic proposals shall be deemed to incorporate in substance the provisions of the Official Bid Form). Any bid transmitted electronically shall be submitted through BIDCOMP/PARITY® and no other provider of electronic bidding services will be accepted. Bidders submitting an electronic proposal must fulfill any requirements of the bidding service provider over and above the requirements of the District set forth in the Notice and Official Terms and Conditions of Bond Sale. Electronic bidding for the 2012A Bonds shall be made available to bidders solely as a courtesy by the District. The District shall assume no responsibility or liability for bids submitted through the electronic bidding service provider. Without limiting the generality of the foregoing disclaimers, the District does not assume responsibility for any communications or negotiations between bidders and the electronic bidding service provider, or for any failure of the provider to accurately or timely submit any electronic proposal. Any electronic proposal shall be deemed to incorporate all of the provisions of the Official Bid Form and the Notice and Official Terms and Conditions of Bond Sale. Each bidder shall be solely responsible for making necessary arrangements to access the electronic bidding service provider for purposes of submitting such bidder's bid in a timely manner and in compliance with the requirements of the District. The District shall have no duty or obligation to provide or assure such access to any bidder. The District shall not be responsible for proper operation of, or have any liability for, any delays or interruptions of, or any damages caused by, the provider's service. The District shall use the provider's service solely as a communication mechanism, and not as the District's agent, to conduct the electronic bidding for the 2012A Bonds. If any provision in the Notice and Official Terms and Conditions of Bond Sale (herein approved) conflicts with information provided by the electronic bidding service provider, the Notice and Official Terms and Conditions of Bond Sale shall control.

In addition, in connection with the 2012A Bond sale the District has caused to be prepared a Preliminary Official Statement (the “Preliminary Official Statement”) setting forth relevant information concerning the proposed issuance of the 2012A Bonds, including, inter alia, financial data relating to the District. The Preliminary Official Statement and the use thereof by the District in offering and selling the 2012A Bonds is hereby expressly approved, the District, through certain of its officials and employees, having reviewed the Preliminary Official Statement and having found the factual statements and the data therein to be accurate. The Preliminary Official Statement shall be supplemented following sale of the 2012A Bonds, and the Chairman is authorized to approve and sign such supplemented or final Official Statement on behalf of the District, which is authorized for distribution in connection with the sale of the 2012A Bonds. The Preliminary Official Statement is in a form “deemed final” by the District for purposes of SEC Rule 15c2-12(b)(1) but, as aforesaid, is subject to supplementation and completion following sale of the 2012A Bonds. The Chairman or Secretary-Treasurer of the District is also hereby authorized and directed, on the recommendation of the Financial Advisor, to cause the Notice and Official Terms and Conditions of Bond Sale (including the Official Bid Form) and the Preliminary Official Statement and/or the final Official Statement to be posted on the Internet and through one or more nationally recognized municipal market information service providers. The electronic or physical distribution of the Notice and Official Terms and Conditions of Bond Sale (including the Official Bid Form) and the Preliminary Official Statement as herein provided is hereby ratified, authorized and approved. If any provision in the Notice and Official Terms and Conditions of Bond Sale, herein approved, conflicts with information provided by an electronic information service provider, the Notice and Official Terms and Conditions of Bond Sale as herein approved shall control.

The Chairman and the Secretary-Treasurer of the District, and each of them, are further authorized to make such modifications to documents, including without limitation the provisions of this Resolution that are not in conflict with other provisions hereof and are necessary or desirable in connection with any scheduling or rescheduling of the date of sale of the 2012A Bonds as provided in the first paragraph of this Section 22, and to enter into and to execute on behalf of the District any and all certificates, opinions, instruments and documents necessary or desirable, upon the advice of counsel, to effectuate the issuance of the 2012A Bonds.

Section 23. Resolution as Contract. The provisions of this Resolution shall constitute a contract between the District and the holders of the 2012A Bonds and any Additional Parity Bonds, and after the issuance of any of said bonds no material change, variation or alteration of any kind in the provisions of this Resolution shall be made in any manner without the consent of such holders and except as herein provided, until such time as all of such bonds issued hereunder and interest thereon have been paid or provided for in full by defeasance as provided in Section 21 hereof or as otherwise provided herein.

Section 24. Continuing Disclosure. Before the issuance of the 2012A Bonds, the District shall execute a Continuing Disclosure Certificate dated the date of issuance and delivery of the 2012A Bonds, which document, as originally executed and as it may be amended from time to time in accordance with the terms thereof, is hereinafter referred to as the “Continuing Disclosure Certificate.” The District hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Resolution, failure of the District to comply with the continuing

Disclosure Certificate shall not be considered an event of default under this Resolution; however, any holder of a 2012A Bond may take such action as may be necessary to obtain specific performance by court order to cause the District to comply with its obligations under this Section.

Section 25. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Resolution, is not a business day for the Paying Agent and Bond Registrar, such payment may be made or act performed or right exercised on the next succeeding business day with the same force and effect as if done on the date stipulated in this Resolution, and no interest shall accrue for the period after such stipulated date.

Section 26. Severability. If any section, paragraph, clause or provision of this Resolution shall be held to be invalid or ineffective for any reason, the remainder of this Resolution shall remain in full force and effect, it being expressly hereby found and declared that the remainder of this Resolution would have been adopted despite the invalidity of such section, paragraph, clause or provision.

Section 27. Miscellaneous Provisions.

(a) All resolutions or parts thereof in conflict herewith are, to the extent of such conflict, hereby repealed.

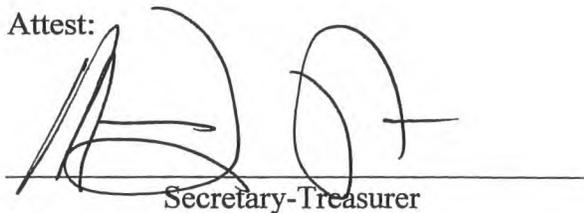
(b) This Resolution shall take effect immediately upon its adoption as provided by law.

(c) The captions or headings in this Resolution, and in the Table of Contents preceding this Resolution, are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Resolution.

ADOPTED BY THE COMMISSION OF HARDIN COUNTY WATER DISTRICT NO. 2 at a meeting held on the 21st day of August, 2012, on the same occasion signed by the Chairman, attested by the Secretary-Treasurer, and declared to be in full force and effect.


Chairman of the Commission

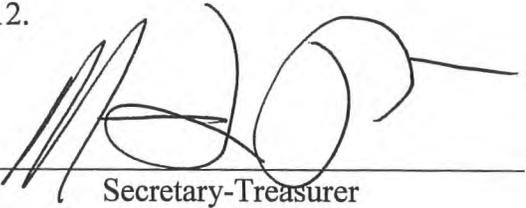
Attest:


Secretary-Treasurer

CERTIFICATION

The undersigned, Secretary-Treasurer of the Commission of Hardin County Water District No. 2, hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission of the District at a properly convened meeting of the Commission of the District held on the 21st day of August, 2012, signed by the Chairman and attested by me as Secretary-Treasurer, all as shown by the official records of said District in my custody and under my control.

WITNESS my hand this August 21st, 2012.


Secretary-Treasurer

**City of Elizabethtown Assets
Water Treatment Plants & Tanks**

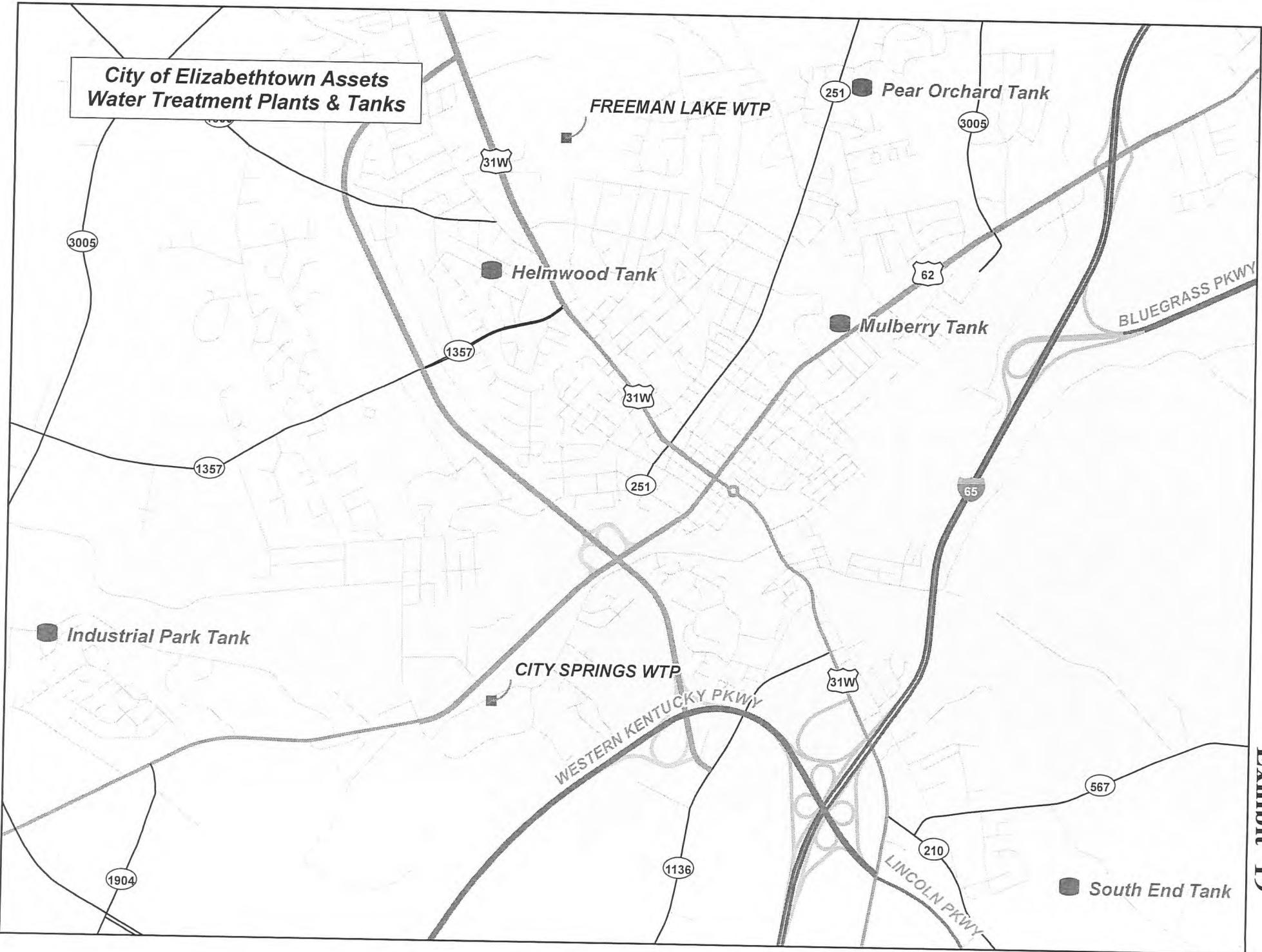


Exhibit 19

ORDINANCE NO. 07 - 2014

**AN ORDINANCE OF THE CITY OF ELIZABETHTOWN, KENTUCKY
AMENDING PREVIOUS ORDINANCES FIXING WATER AND SEWER RATES**

WHEREAS, the City of Elizabethtown in Hardin County, Kentucky, owns and operates a municipal waterworks and sanitary sewer system, and said City presently has outstanding Kentucky Infrastructure Authority loans payable from the income and revenues of said system, and

WHEREAS, it is deemed necessary and desirable and for the best interest of the City that certain rates and charges for the services provided by said waterworks and sanitary sewer system be increased in order to adequately provide for the proper operation of said system, including additions, extensions, and improvements thereto, and to meet the City's obligations for outstanding Kentucky Infrastructure Authority loans payable from the revenues of said system;

NOW, THEREFORE, THE CITY OF ELIZABETHTOWN, KENTUCKY DOES ORDAIN AS FOLLOWS:

Section 1. PREVIOUS RATE ORDINANCES AMENDED.

All previous Rate Ordinances of the City fixing the respective water and sewer rates applicable to water and sewer services furnished by the municipal waterworks and sanitary sewer system of the City are hereby amended so as to increase the applicable water and sewer rates for services rendered by the municipal waterworks and sanitary sewer system of the City.

Section 2. MONTHLY WATER AND SEWER RATES.

The rates and charges to residents and users of the existing municipal waterworks and sanitary sewer system of the City of Elizabethtown are hereby fixed and established on a monthly basis as follows:

A. MONTHLY WATER RATES – FOR BILLS RENDERED AFTER NOVEMBER 1, 2014

<u>Number of Gallons of Water per Month</u>	<u>Monthly Water Charge</u>
First 2,000 gallons	\$12.80 Minimum Bill
Next 3,000 gallons	\$4.85/1,000 gallons
Next 5,000 gallons	\$4.65/1,000 gallons
Next 490,000 gallons	\$4.40/1,000 gallons
Over 500,000 gallons	\$2.60/1,000 gallons

B. MONTHLY WATER RATES – FOR BILLS RENDERED AFTER JULY 1, 2015

<u>Number of Gallons of Water per Month</u>	<u>Monthly Water Charge</u>
First 2,000 gallons	\$14.70 Minimum Bill
Next 3,000 gallons	\$4.95/1,000 gallons
Next 5,000 gallons	\$4.85/1,000 gallons
Next 490,000 gallons	\$4.65/1,000 gallons
Over 500,000 gallons	\$2.70/1,000 gallons

C. MONTHLY WATER RATES – FOR BILLS RENDERED AFTER JULY 1, 2016

<u>Number of Gallons of Water per Month</u>	<u>Monthly Water Charge</u>
First 2,000 gallons	\$16.60 Minimum Bill
Next 3,000 gallons	\$5.05/1,000 gallons
Next 5,000 gallons	\$5.05/1,000 gallons
Next 490,000 gallons	\$4.90/1,000 gallons
Over 500,000 gallons	\$2.80/1,000 gallons

D. MONTHLY WATER RATES – FOR BILLS RENDERED AFTER JULY 1, 2017

<u>Number of Gallons of Water per Month</u>	<u>Monthly Water Charge</u>
First 2,000 gallons	\$18.50 Minimum Bill
Next 3,000 gallons	\$5.15/1,000 gallons
Next 5,000 gallons	\$5.15/1,000 gallons
Next 490,000 gallons	\$5.15/1,000 gallons
Over 500,000 gallons	\$2.90/1,000 gallons

E. MONTHLY SEWER RATES – FOR BILLS RENDERED AFTER JULY 1, 2013 REAFFIRMED

The rates or charges for sewer service shall be based upon the quantity of water supplied in each month to the respective premises as follows:

Number of Gallons
of Sewer Per Month
First 2,000 gallons
Over 2,000 gallons

Monthly Sewer Charge
\$10.00 **Minimum Bill**
\$4.40/1,000 gallons

- F. Sewer charges shall be paid for all structures served by any water service if sewer service is available to the property.

Section 3. RATES UNIFORM; SURCHARGES FOR EXTRA STRENGTH SEWER WASTE.

A. UNIFORM RATES

The schedule of rates herein prescribed for both monthly water and sewer service shall be uniformly charged to all customers of the waterworks and sanitary sewer systems.

B. SURCHARGE FOR EXTRA STRENGTH WASTES

The City may allow for the treatment of extra strength wastes, the constituents, requirements and charges of such shall be as provided by the Sewer Use Ordinance. The surcharges for extra strength wastes are as follows:

NH3-N	\$0.70/pound over	30	mg/l monthly average
BOD	\$0.34/pound over	250	mg/l monthly average
COD	\$0.03/pound over	1000	mg/l monthly average
TSS	\$0.14/pound over	250	mg/l monthly average

Section 4. TAPPING OR CONNECTION FEES. (WATER)

Tapping or connection fees, not including material costs, for water services shall be as follows:

<u>Size of Service</u>	<u>Fee</u>
¾"	\$150.00
1"	\$150.00
1 ½"	\$150.00
2"	\$150.00
3"	\$300.00
4"	\$300.00
6"	\$300.00
8"	\$300.00

Section 5. TAPPING OR CONNECTION FEE. (SEWER)

Tapping or connection fees for sewer service shall be \$300.00.

Section 6. STANDBY FIRE PROTECTION TAPS.

There shall be charged a yearly rate for standby fire protection taps located outside the City limits as follows:

<u>Size of Service</u>	<u>Cost per year</u>
4" Tap	\$250.00
6" Tap	\$500.00
8" Tap	\$1,000.00
12" Tap	\$1,500.00

Section 7. PRIVATE FIRE HYDRANTS OUTSIDE CITY.

It is hereby levied a charge of \$100.00 per year on all private fire hydrants located on private property outside the City limits.

Section 8. DEPOSIT REQUIRED.

Deposit for service shall be required of customers at the rate of \$30.00 for residents and \$60.00 for commercial and industrial users.

Section 9. SPECIAL CONTRACTS.

The City reserves the right to enter into separate contracts with specific users of sanitary sewer services including collection or treatment services and to provide for said contracts by municipal order.

Section 10. FINANCIAL RECORDS

Subsection 1: The revenues collected, as a result of the user charges levied, shall be deposited in a separate non-lapsing fund known as the Operation, Maintenance and Replacement Fund.

Subsection 2: Fiscal year-end balances in the operation, maintenance, and replacement fund shall be used for no other purposes than those designated Monies which have been transferred from other sources to meet temporary shortages in the operation, maintenance and replacement fund shall be returned to their respective accounts upon appropriate adjustment of the user charge rates for operation, maintenance and replacement. The user charge rate shall be adjusted such that the transferred monies will be returned to their respective accounts within six months of the fiscal year in which the monies were borrowed.

Subsection 3: The City shall maintain financial records to accurately account for revenues generated by the water and wastewater treatment systems and expenditures for operation and maintenance of the system, including normal replacement costs.

Subsection 4. The City shall review not less often than annually the sewage contribution of users, the total cost of operation and maintenance of the sewage works, debt services obligations, and sewer service charges. Based on such review, the City shall revise, when necessary, the schedule of sewer service charges to accomplish the following:

- 1) Maintain an equitable distribution of operations and maintenance cost among users of the treatment system, and
- 2) Generate sufficient revenues to offset costs associated with the proper operation and maintenance of the sewage system and to meet debt service requirements of all outstanding Revenue Bond Issues and the Kentucky Infrastructure Authority.

Subsection 5: Each user shall be notified, at least annually, in conjunction with a regular bill, of the rate and that portion of the total charge which is attributable to operation and maintenance of the Sewage System.

Section 11. BILLING PROCEDURES

Users shall be billed monthly. Payments are due within ten (10) days after the bills are rendered. Any payment not received on their due date shall be delinquent. When any bill is more than thirty (30) days in default water and/or sewer service to such premise may be discontinued until such bill plus an applicable service charges are paid.

Section 12. ALL OTHER EXISTING PROVISIONS REAFFIRMED.

All existing provisions as to reading of meters, rendition of bills and payments, collection and disconnection charges and related provision of existing ordinances are hereby reaffirmed, re-enacted and readopted, except to the extent that same may be inconsistent herewith.

Section 13. RATES SUBJECT TO FUTURE REVISIONS.

That said rates shall be revised from time to time as necessary to meet the requirements or any Ordinances authorizing the issuance of Bonds or Loans constituting an encumbrance against said waterworks and sanitary sewer system, or for such other reasons as may be deemed necessary.

Section 14. ORDINANCE EFFECTIVE DATE.

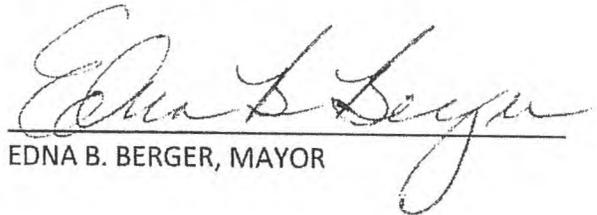
This Ordinance shall become effective forthwith upon its passage, approval and publication as provided by law and the rates hereinabove provided shall be for all billings rendered after the dates hereinabove set out.

Section 15. IN EVENT PARTS OF ORDINANCE DECLARED UNCONSTITUTIONAL OR UNENFORCEABLE.

In the event a part or parts of this Ordinance are declared unconstitutional or unenforceable, then the same shall not affect the enforceability of the remaining portions of this Ordinance.

READ first time this the 3rd day of February, 2014.

READ, ADOPTED AND APPROVED this the 18th day of February, 2014.


EDNA B. BERGER, MAYOR

ATTESTED TO:


MARY CHAUDOIN, CITY CLERK

P.S.C. Ky. Adoption Notice No. 1

ADOPTION NOTICE

The undersigned Hardin County Water District No. 2
(Name of Utility System)

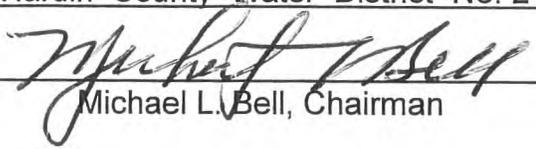
of Hardin and LaRue Counties, Kentucky hereby adopts, ratifies, and makes its own, in every respect as if the same had been originally filed and posted by it, all tariffs and supplements containing rates, rules and regulations for furnishing water service in the Elizabethtown Service Area
(Nature of Service)

in the Commonwealth of Kentucky. The Elizabethtown Water Tariff has not previously been filed with the Public Service Commission of Kentucky by the City of Elizabethtown of Elizabethtown, Kentucky but is attached hereto as **Exhibit**

A. The Elizabethtown Water Tariff is currently in effect and will still be in effect on the 1st day of November, 2014, the date on which the public service business of the said City of Elizabethtown
(Name of Predecessor)

will be taken over by the Hardin County Water District No. 2.

This notice is issued on the 14th day of August, 2014, in conformity with 807 KAR 5:011, Section 11, of the Regulations for the filing of Tariffs of Public Utilities with the Public Service Commission of Kentucky.

Hardin County Water District No. 2
By 
Michael L. Bell, Chairman

Authorized by Ky. P.S.C. Order No. _____

EXHIBIT A

CITY OF ELIZABETHTOWN WATER TARIFF

Usage (Gallons)	Effective 11-1-14	Effective 7-1-15	Effective 7-1-16	Effective 7-1-17
First 2,000	\$ 12.80	\$ 14.70	\$ 16.60	\$ 18.50
Next 3,000	\$ 4.85	\$ 4.95	\$ 5.05	\$ 5.15
Next 5,000	\$ 4.65	\$ 4.85	\$ 5.05	\$ 5.15
Next 490,000	\$ 4.40	\$ 4.65	\$ 4.90	\$ 5.15
Over 500,000	\$ 2.60	\$ 2.70	\$ 2.80	\$ 2.90

NOTES:

1. The above rates are applicable for water service rendered in the Elizabethtown Service Area.
2. The above rates are for water bills rendered after the dates shown above.
3. The Water Rate Tariff Schedule shown above is contained in City of Elizabethtown Ordinance No. 07-2014 enacted on February 18, 2014.