

HARDIN COUNTY WATER DISTRICT No. 1
Radcliff, Kentucky

FINANCIAL STATEMENTS
December 31, 2014

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Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 60 Years

1400 Rogersville Road
Radcliff, KY. 40160

March 12, 2015

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

SUBJECT: 2014 Annual Report & Managements's Discussion and Analysis

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

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

Financial Performance & Highlights

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

For the year, gross plant assets increased by \$5,356,129. Total net assets (net position) increased by \$6,984,225 (+ 7.1% [percent changes in parentheses represent change from 2013]). Total revenues, including interest income, increased by \$310,278 or + 2.1% compared to 2013. Operating income before depreciation was \$5,276,650 (+ 0.5%) and net income after depreciation (gross of non-operating income and expenses) was \$2,051,283. This amount was 13.4% of total operating revenues. Total net assets at the end of the year were \$105,084,970 (+ 7.1%).

Cash used for capital construction was \$5,161,929 (- 15.7%), of which 86.2% was provided by government grants (both Kentucky and U.S. Government/Dept. of Defense). Principal payments to reduce bond debt were \$1,021,329 (+ 4.1%) and at year end the consolidated outstanding debt principal was \$8,958,517 (- 10.2%). Total working capital (unrestricted cash + investments) at year end increased by 19.4% to \$20,007,774. Of all reserves (cash + investments), 91% (+ 2%) were unrestricted and available as working capital for capital construction or operations. At the beginning of 2015 we also had total of \$8,783,828 of available state or federal grant funding for future capital construction projects. An additional \$9,992,559 will become available through ISDC (Initial System Deficiency Corrections) funding over the next two years as part of the Ft. Knox Water system, utility privatization funding.

Continued

Individual Fund Highlights:

County Water: Total operating expenses (excluding debt interest and depreciation) were 3.5% less than budgeted. Revenues were 3.9% more than budgeted. Net income after depreciation and interest expense decreased by 10.6% from 2013. Water sales increased by 2.4% and net assets increased by 2.9%. The bond coverage ratio was 2.97 (+ 7.2% from 2013) which is approximately 2.5 times the required 1.20.

Ft. Knox Water: 2014 was the second full year of operations and financial results for this fund. Total operating revenues were \$4,190,122 including interest income (+ 0.3%). Net income before depreciation was \$1,376,953 (- 28.3%) down due to increased operating expenses. Net income after depreciation and amortized expenses was \$1,096,430 (+ 6.7%) which is 26.1% of revenues. Net assets at year end were \$25,312,518 (+ 23.2%) and construction in progress was valued at \$2,116,369. Working capital and cash available for capital construction was \$13,004,091 (+ 33%).

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues decreased slightly by 2.2%. Total operating income, before depreciation expense was \$1,176,851 (- 11%). Total net assets increased by 3.8%. Total expended for construction was \$1,305,445 (- 61%) of which almost all was provided by contributed capital (direct grants) from the Government. At the beginning of 2015, the fund had a balance of \$2,917,325 (- 12%) available for construction projects and capital improvements. An additional \$1,665,373 is also available in direct Government funding for future capital construction projects.

Radcliff Sewer: Total revenues (including interest income) were \$3,729,454 (+ 8%) which was 5.4% below revenue estimates. Total operating expenses (excluding depreciation) were 1.7% less than budgeted. Total net assets increased 1.5% to \$23,525,611 and at year end we had construction in progress assets of \$1,634,778 (+ 2%). Of the \$903,755 expended for construction (- 21%), 71% was funded by state grants. At year end the total cash & investment reserve balance was \$3,022,699 (+ 3.5%) of which 88% was unrestricted and available for capital construction or operations. At year end a total of \$2,007,886 (- 24%) in state grants are available for future capital construction projects. The fund had net operating income before depreciation and debt interest of \$856,175 (+ 39%) with a net operating loss of \$203,735 (5.5% of revenues) after those expenses (and excluding loss on disposal of equipment), compared to a 2013 net operating loss of \$407,459 (- 50%).

On April 29, 2014, the Public Service Commission (PSC) issued an order (PSC Case No. 2013-00050) on the Radcliff Sewer Rate case which was originally filed ten months earlier on June 25, 2013. The order approved a Stipulation and Recommendation for Settlement motion which had been agreed between the District's Board and the Kentucky Office of the Attorney General. The order authorized a rate increase that was estimated to increase annual revenues by \$571,464 or 17%. Actual customer bills reflected the new rates with bills mailed after June 20, 2014.

The order also required the District to solicit competitive proposals for its contracted operating services, as well as prepare its own estimate for the District performing self operations of the system. On September 29, 2014, two proposals were received from Veolia Water North America (the current system operator) and Severn-Trent Services. Staff also completed its own internal operating cost estimate. The Board authorized a national consultant to compare the three options for the District to operate the Radcliff sewer system.

Continued

At the December 10, 2014 meeting the Board voted to authorize staff to begin self operations of the system and terminate the Veolia contract. The current contract provides for this termination without penalty, effective July 1, 2015. In the consultant analysis it is estimated that this change from contracted to self operations should produce an annual cash savings (using a 20 year, net present value comparison) of about \$275,000 or 17%, compared to the next lowest cost option (Severn-Trent). The contractor has been notified of the contract termination and staff is proceeding with all plans to begin operations of the system on July 1, 2015.

The Board also approved staff's recommendation to contract out the annual camera (CCTV) inspection and cleaning of 10% of the system each year, instead of doing this in-house with its own employees (or Veolia employees) and using District equipment. This change is estimated to save an additional \$46,000 per year or about 46% less than performing in-house and keeping the required equipment. The low bid contractor for this service also provided a bid to purchase three mobile pieces of equipment the District had owned for carrying out these services.

GASB 68 Implications:

As noted on page 16 of the audit report, new GASB rules for reporting unfunded pension liabilities will become effective in 2015 which will be reported in next year's 2015 audit report. The auditor has made a preliminary calculation of what our share of the Kentucky Retirement Systems (CERS) unfunded liability would be. The estimated amount to be added as a new liability on our balance sheet would be approximately \$3,953,000. This amount would increase the 2014 total liabilities by 37% and reduce total net position by 3.8%. This should not have any immediate negative affect on the District's operations or cash flow. It could, however, negatively affect our future credit rating for a future bond sale or loan which can increase our interest expense for future capital funding.

Operational Changes & Statistics

During 2014 a total of 1,680 MG (million gallons) of potable water was treated (+ 3.2%) and a total of 19.2 MG was purchased for resale (+ 84.6%). Total water delivered to the systems (County and Ft. Knox combined) was 1,701 MG (+ 3.8%). The maximum demand day was 7.484 MG (+ 21%) and occurred on 9-January. The average daily water demand for the year was 4.660 MG (+ 3.8%). A total of 49 new water services were installed, up 63% from 2013. Wholesale customers purchased 366.6 MG (+ 7%), which was equivalent to 22% of total water produced and purchased volume.


Continued

The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,432.1 MG (- 3.6%) which increased due to slightly less rainfall than during 2013. This resulted in an average daily flow of clean, recycled water into streams of 3.924 MG.


Final design is complete and we are in process of securing required permits, easements and other approvals for the new Louisville Water Company Interconnect Project. This connection will provide a reliable, high quality back-up reserve of potable water of up to 3.5 million gallons per day. The project is being funded by a \$4.5 million "BRAC" grant from the Kentucky Cabinet of Economic Development.

At present we have 25 construction projects in either preliminary or final design and construction. The next several years will see an increase in project design and construction as more Ft. Knox Water projects are designed and bid, and other water and sewer grant funds are expended on capital projects.

Sincerely,



Mr. Jim Bruce
General Manager



Mr. Scott Schmuck, CGFM
Finance & Accounting Manager



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Hardin County Water District No.1, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Hardin County Water District No.1, as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326

Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

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 1-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated March 4, 2015, on our consideration of the Hardin County Water District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering Hardin County Water District No. 1's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley, & Company, PLLC
March 4, 2015

HARDIN COUNTY WATER DISTRICT No. 1
STATEMENT OF NET POSITION
December 31, 2014

ASSETS	Water Total	Sewer Total	Storm Water	2014 Total	2013 Total
Current assets					
Cash and cash equivalents	\$ 9,799,704	\$ 4,867,389	\$ 731,281	\$ 15,398,374	\$ 15,981,459
Short-term certificates of deposit	4,609,400	-	-	4,609,400	775,371
Customer accounts receivable, net	510,082	702,103	79,632	1,291,817	999,215
Other accounts receivable	406,893	128,157	2,585	537,635	847,600
Interest receivable	11,504	-	-	11,504	1,593
Inventory - materials and supplies	260,019	12,373	-	272,392	264,639
Prepaid expenses	<u>108,211</u>	<u>52,217</u>	<u>408</u>	<u>160,836</u>	<u>118,489</u>
Total current assets	<u>15,705,813</u>	<u>5,762,239</u>	<u>813,906</u>	<u>22,281,958</u>	<u>18,988,366</u>
Non-current assets					
Restricted assets - reserve funds	1,642,317	341,264	-	1,983,581	1,981,736
Unamortized rate case expense	-	135,938	-	135,938	-
Unamortized acquisition costs	<u>-</u>	<u>183,902</u>	<u>-</u>	<u>183,902</u>	<u>193,002</u>
Total non-current assets	<u>1,642,317</u>	<u>661,104</u>	<u>-</u>	<u>2,303,421</u>	<u>2,174,738</u>
Property, plant and equipment					
Land and easements	273,045	9,544	-	282,589	282,589
Construction in progress	3,128,780	6,335,467	1,574,079	11,038,326	8,895,858
Plant and lines	48,785,324	116,170,513	3,448,941	168,404,778	165,477,328
Vehicles and equipment	<u>5,442,976</u>	<u>2,313,780</u>	<u>175,884</u>	<u>7,932,640</u>	<u>7,646,429</u>
Total	57,630,125	124,829,304	5,198,904	187,658,333	182,302,204
Less: accumulated depreciation	<u>(16,126,095)</u>	<u>(79,967,895)</u>	<u>(276,906)</u>	<u>(96,370,896)</u>	<u>(93,845,128)</u>
Total property, plant, and equipment	<u>41,504,030</u>	<u>44,861,409</u>	<u>4,921,998</u>	<u>91,287,437</u>	<u>88,457,076</u>
TOTAL ASSETS	<u>\$ 58,852,160</u>	<u>\$ 51,284,752</u>	<u>\$ 5,735,904</u>	<u>\$ 115,872,816</u>	<u>\$ 109,620,180</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 803,505	\$ 466,876	\$ 1,165	\$ 1,271,546	\$ 1,039,421
Due to other funds	62,012	(66,116)	4,104	-	-
Customers' deposits	177,913	150,559	-	328,472	307,977
Accrued expenses	42,186	35,545	54,554	132,285	82,809
Reserve for unclaimed funds - escheatment	6,790	-	-	6,790	6,345
Unearned rent revenue	16,396	-	-	16,396	3,855
Liabilities payable from restricted assets:					
Current portion of long-term debt	746,960	300,445	-	1,047,405	1,021,306
Accrued interest on long-term debt	<u>53,264</u>	<u>4,242</u>	<u>-</u>	<u>57,506</u>	<u>62,287</u>
Total current liabilities	<u>1,909,026</u>	<u>891,551</u>	<u>59,823</u>	<u>2,860,400</u>	<u>2,524,000</u>
Long-term liabilities					
Bonds and notes payable, net of unamortized discount	6,718,365	972,274	-	7,690,639	8,640,536
Other long-term debt	88,838	-	-	88,838	170,822
Compensated absences	<u>71,804</u>	<u>-</u>	<u>-</u>	<u>71,804</u>	<u>73,134</u>
Long-term liabilities, net	<u>6,879,007</u>	<u>972,274</u>	<u>-</u>	<u>7,851,281</u>	<u>8,884,492</u>
Other liabilities					
Customer advances for construction	<u>76,165</u>	<u>-</u>	<u>-</u>	<u>76,165</u>	<u>110,943</u>
Total liabilities	<u>8,864,198</u>	<u>1,863,825</u>	<u>59,823</u>	<u>10,787,846</u>	<u>11,519,435</u>
Net position					
Net investment in capital assets	33,896,603	43,584,448	4,921,998	82,403,049	78,562,125
Restricted	1,642,317	341,264	-	1,983,581	1,981,736
Unrestricted	<u>14,449,042</u>	<u>5,495,215</u>	<u>754,083</u>	<u>20,698,340</u>	<u>17,556,884</u>
Total net position	<u>49,987,962</u>	<u>49,420,927</u>	<u>5,676,081</u>	<u>105,084,970</u>	<u>98,100,745</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 58,852,160</u>	<u>\$ 51,284,752</u>	<u>\$ 5,735,904</u>	<u>\$ 115,872,816</u>	<u>\$ 109,620,180</u>

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

HARDIN COUNTY WATER DISTRICT No. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2014

	Water Total	Sewer Total	Storm Water	2014 Total	2013 Total
OPERATING REVENUE					
Metered water sales	\$ 6,750,757	\$ -	\$ -	\$ 6,750,757	\$ 6,727,526
Wholesale sales	733,106	-	-	733,106	668,951
Sewer billing contract revenue	33,932	-	-	33,932	29,916
Sewer service revenue	-	6,388,588	-	6,388,588	6,139,784
Stormwater service revenue	-	-	477,792	477,792	477,792
Penalties, service fees and reimbursements	677,431	251,801	5,111	934,343	990,866
	<u>8,195,226</u>	<u>6,640,389</u>	<u>482,903</u>	<u>15,318,518</u>	<u>15,034,835</u>
Total operating revenue					
OPERATING EXPENSES					
Treatment	837,924	-	-	837,924	835,617
Distribution	1,334,694	-	-	1,334,694	1,238,764
Customer service	265,876	542,070	-	807,946	885,042
General and administrative expenses	2,361,995	4,234,047	-	6,596,042	6,407,313
Purchased water	52,923	-	-	52,923	30,996
General maintenance	81,909	-	-	81,909	76,880
Source of supply	16,281	-	-	16,281	11,550
Stormwater	-	-	314,149	314,149	300,380
	<u>4,951,602</u>	<u>4,776,117</u>	<u>314,149</u>	<u>10,041,868</u>	<u>9,786,542</u>
Total operating expense					
Operating income before depreciation					
	3,243,624	1,864,272	168,754	5,276,650	5,248,293
Depreciation and amortization expense	<u>(1,413,272)</u>	<u>(1,729,479)</u>	<u>(82,616)</u>	<u>(3,225,367)</u>	<u>(3,190,635)</u>
OPERATING INCOME					
	1,830,352	134,793	86,138	2,051,283	2,057,658
Non-operating income (expenses)					
Interest income	72,597	23,734	2,337	98,668	72,073
Interest expense	(262,026)	(60,626)	-	(322,652)	(352,487)
(Loss) on disposal of equipment	<u>(53,045)</u>	<u>(238,579)</u>	<u>-</u>	<u>(291,624)</u>	<u>(87,250)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS					
	1,587,878	(140,678)	88,475	1,535,675	1,689,994
Capital Contributions					
Grants	150,765	638,263	-	789,028	575,522
Tap fees	30,937	1,050	-	31,987	25,656
Customer contributions	<u>3,696,526</u>	<u>814,845</u>	<u>116,164</u>	<u>4,627,535</u>	<u>10,205,225</u>
CHANGE IN NET POSITION					
	5,466,106	1,313,480	204,639	6,984,225	12,496,397
Net position, beginning of year	<u>44,521,856</u>	<u>48,107,447</u>	<u>5,471,442</u>	<u>98,100,745</u>	<u>85,604,348</u>
NET POSITION, END OF YEAR					
	<u>\$ 49,987,962</u>	<u>\$ 49,420,927</u>	<u>\$ 5,676,081</u>	<u>\$ 105,084,970</u>	<u>\$ 98,100,745</u>

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

HARDIN COUNTY WATER DISTRICT No. 1
STATEMENT OF CASH FLOWS
for the year ended December 31, 2014

	<u>Water</u> Total	<u>Sewer</u> Total	<u>Storm</u> Water	2014 Total	2013 Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 8,422,052	\$ 6,447,730	\$ 480,007	\$ 15,349,789	\$ 16,184,891
Payments to suppliers	(2,897,877)	(4,885,011)	(300,908)	(8,083,796)	(8,209,746)
Payments for employee services and benefits	<u>(1,872,295)</u>	<u>-</u>	<u>-</u>	<u>(1,872,295)</u>	<u>(1,788,102)</u>
Net cash provided by operating activities	<u>3,651,880</u>	<u>1,562,719</u>	<u>179,099</u>	<u>5,393,698</u>	<u>6,187,043</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on long-term debt	(731,983)	(289,346)	-	(1,021,329)	(980,639)
Interest paid on long-term debt	(265,842)	(61,589)	-	(327,431)	(285,200)
Contributions in aid of construction	3,661,718	639,313	-	4,301,031	7,316,859
Grants	150,765	-	-	150,765	54,109
Proceeds from sale of equipment	5,949	11,948	-	17,897	-
Rate case expense	-	(153,892)	-	(153,892)	-
Acquisition and construction of capital assets	(2,952,729)	(1,915,455)	(293,745)	(5,161,929)	(6,123,858)
Cash (paid) under advance construction contract	<u>(34,778)</u>	<u>-</u>	<u>-</u>	<u>(34,778)</u>	<u>(2,221)</u>
Net cash (used in) capital and related financing activities	<u>(166,900)</u>	<u>(1,769,021)</u>	<u>(293,745)</u>	<u>(2,229,666)</u>	<u>(20,950)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	54,049	23,734	2,337	80,120	72,354
Redemption of investments	8,637	-	-	8,637	603,779
Purchase of investments	<u>(3,834,811)</u>	<u>(1,063)</u>	<u>-</u>	<u>(3,835,874)</u>	<u>(620,328)</u>
Net cash provided by (used in) investing activities	<u>(3,772,125)</u>	<u>22,671</u>	<u>2,337</u>	<u>(3,747,117)</u>	<u>55,805</u>
NET INCREASE (DECREASE) IN CASH	(287,145)	(183,631)	(112,309)	(583,085)	6,221,898
Cash and cash equivalents, beginning of year	<u>10,086,849</u>	<u>5,051,020</u>	<u>843,590</u>	<u>15,981,459</u>	<u>9,759,561</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,799,704</u>	<u>\$ 4,867,389</u>	<u>\$ 731,281</u>	<u>\$ 15,398,374</u>	<u>\$ 15,981,459</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 1,830,352	\$ 134,793	\$ 86,138	\$ 2,051,283	\$ 2,057,658
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization expense	1,413,272	1,729,479	82,616	3,225,367	3,190,635
Change in assets and liabilities:					
Accounts receivable	60,225	(38,209)	(4,653)	17,363	1,161,937
Prepaid expenses	(28,353)	(13,686)	(308)	(42,347)	118,000
Due from other funds	142,539	(109,393)	-	33,146	(119,481)
Inventory	(7,753)	-	-	(7,753)	69,488
Accounts payable	228,989	(120,681)	13,549	121,857	(268,897)
Unearned revenue	12,541	-	-	12,541	-
Accrued expenses	(15,073)	10,846	-	(4,227)	(48,842)
Compensated absences	1,053	-	-	1,053	-
Due to other funds	10,153	(45,057)	1,757	(33,147)	11,214
Other payables	<u>3,935</u>	<u>14,627</u>	<u>-</u>	<u>18,562</u>	<u>15,331</u>
Net cash provided by operating activities	<u>\$ 3,651,880</u>	<u>\$ 1,562,719</u>	<u>\$ 179,099</u>	<u>\$ 5,393,698</u>	<u>\$ 6,187,043</u>
Schedule of non-cash capital and financing activities:					
Contributed water mains from developers	<u>\$ 65,745</u>	<u>\$ 814,845</u>	<u>\$ 2,884,361</u>	<u>\$ 3,764,951</u>	<u>\$ 4,491,273</u>
Construction in process included in accounts payable	<u>\$ 162,022</u>	<u>\$ 1,950</u>	<u>\$ -</u>	<u>\$ 163,972</u>	<u>\$ 81,206</u>
Loss on disposal of assets allocated to (from) other funds	<u>\$ 37,540</u>	<u>\$ (37,540)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Reporting Entity

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

Basis of Accounting

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

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

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

Fund Accounting

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

Accounts Receivable

The County Water Fund's accounts receivable is net of an allowance for uncollectible accounts of \$2,193 at December 31, 2014. The allowance is increased by charges to bad debts and decreased by write-offs. Management's periodic evaluation of the adequacy of the allowance is based on the District's aged accounts receivable balances. The Ft. Knox Water fund, both sewer funds and the stormwater fund do not carry an allowance for doubtful accounts based upon historical experience.

Interfund Transfers

The asset "due from other funds" and the liability "due to other funds" represent amounts transferred between the funds owed for personnel and other operating and non-operating expenses. The "due to" and "due from" are offset in the statement of net position.

Inventory

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

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

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

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

Investments

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

Property and Equipment

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

Amortization

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Investments classified as restricted assets are not included as a cash and cash equivalent. Short-term certificates of deposit mature during the upcoming year, but do not meet the definition of a cash equivalent and therefore, are not classified as such.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Management's Review of Subsequent events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 4, 2015, which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2014, have not been evaluated by the District.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

2. CASH AND INVESTMENTS

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

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 the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The majority of the District's deposits and investments at December 31, 2014, were covered by federal depository insurance, by collateral held by the custodial banks in the District's name, or invested in money market and government backed securities. At December 31, 2014, the District had \$22,133,409 in the bank, of which \$4,359,400 was uncollateralized.

The following is a detail of the District's cash deposit coverage at December 31, 2014:

FDIC insured (or equivalent)	\$ 753,081
Collateralized by securities held by the bank in the District's name	15,471,644
Money market funds – restricted investment	1,549,284
Uncollateralized deposits in the District's name	<u>4,359,400</u>
Total cash in banks	<u>\$ 22,133,409</u>

Cash and investments are classified as follows as of December 31, 2014:

Unrestricted:	
Cash and cash equivalents:	
Revenue fund	\$ 828,416
Other	<u>14,569,958</u>
	15,398,374
Short-term investments:	
Certificates of deposit	<u>4,609,400</u>
Total unrestricted	<u>20,007,774</u>
Restricted:	
Long-term investments:	
1997 KIA Debt service reserve	341,264
2002 B&I redemption fund – FMV	93,333
2005 B&I redemption fund – FMV	202,042
2005 Debt service reserve – FMV	593,849
Depreciation fund – FMV	<u>753,093</u>
Total restricted	<u>1,983,581</u>
Total reported cash and investments	<u>\$ 21,991,355</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

2. CASH AND INVESTMENTS (CONTINUED)

The District's investment pool account had the following credit risk structure as of December 31, 2014:

Investment Type	Credit Rating (1)	Fair Value
Money Market Fund:		
Fidelity Institutional MMF	AAA	1,594,284
(1) Per Moody's		

3. CAPITAL ASSETS

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

	Balance Jan 1, 2014	Additions	Retirements	Balance Dec. 31, 2014
Capital assets not depreciated:				
Land and easements	\$ 282,589	\$ -	\$ -	\$ 282,589
Construction in process	8,895,858	5,639,214	3,496,746	11,038,326
Capital assets that are depreciated:				
Plant and lines	165,477,328	3,773,140	845,690	168,404,778
Vehicles and equipment	<u>7,646,429</u>	<u>407,047</u>	<u>120,836</u>	<u>7,932,640</u>
Total plant and equipment	182,302,204	9,819,401	4,463,272	187,658,333
Less: accumulated depreciation	<u>93,845,128</u>	<u>3,182,766</u>	<u>656,998</u>	<u>96,370,896</u>
Plant and equipment, net	<u>\$ 88,457,076</u>	<u>\$ 6,636,635</u>	<u>\$ 3,806,274</u>	<u>\$ 91,287,437</u>

Depreciation expense for all combined funds totaled \$3,182,766 for the year ended December 31, 2014.

4. LONG-TERM LIABILITIES

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

Bonds payable of the County water and Radcliff sewer funds consists of the following at December 31, 2014:

2005 Revenue Bonds, various semi-annual principal and interest payments at 4.125% through September 1, 2025, secured by the revenues of the District.	\$ 5,165,000
2002 Revenue Bonds, various semi-annual principal payments with monthly interest payments at a variable rate which is to be the lowest interest rate on the determination date at which the bonds can be remarketed at par for the interest rate period through September 1, 2022, secured by a letter of credit issued from Cecilian Bank.	2,350,000
1997 KIA Wastewater Revolving Loan, various semi-annual principal and interest payments at a rate of interest of 3.8% through December 1, 2018, secured by the revenues of the District.	1,272,719
2012 agreement with Louisville Water, reimbursement of costs associated with the acquisition of the Fort Knox water system, 60 monthly payments of \$6,830, bearing no interest, maturing January 2017.	<u>170,798</u>
Total debt	8,958,517
Less: current portion	<u>1,047,405</u>
Total long-term debt	<u>\$ 7,911,112</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

4. LONG-TERM LIABILITIES (CONTINUED)

Debt maturities for the County water fund are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 665,000	\$ 312,489	\$ 977,489
2016	680,000	284,263	964,263
2017	705,000	254,796	959,796
2018	730,000	224,288	954,288
2019	745,000	193,051	938,051
2020-2024	3,420,000	498,468	3,918,468
2025	<u>570,000</u>	<u>23,513</u>	<u>593,513</u>
	<u>\$ 7,515,000</u>	<u>\$ 1,790,868</u>	<u>\$ 9,305,868</u>

Debt maturities for the Radcliff sewer fund are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 300,445	\$ 47,933	\$ 348,378
2016	311,970	35,800	347,770
2017	323,938	23,203	347,141
2018	<u>336,366</u>	<u>10,123</u>	<u>346,489</u>
	<u>\$ 1,272,719</u>	<u>\$ 117,059</u>	<u>\$ 1,389,778</u>

Debt maturities for the Fort Knox water fund are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 81,983	\$ -	\$ 81,983
2016	81,983	-	81,983
2017	<u>6,832</u>	<u>-</u>	<u>6,832</u>
Total other debt maturities	<u>\$ 170,798</u>	<u>\$ -</u>	<u>\$ 170,798</u>
Total bond and related debt maturities	<u>\$ 8,958,517</u>	<u>\$ 1,934,176</u>	<u>\$ 10,892,693</u>

Changes in long-term liabilities are as follows:

	Balance Jan 1, 2014	Additions	Payments	Balance Dec. 31, 2014	Due within one year
Long-term debt	\$ 9,979,847	\$ -	\$ (1,021,330)	\$ 8,958,517	\$ 1,047,405
Bond amortization	(147,183)	-	15,548	(131,635)	-
Compensated absences	<u>73,134</u>	<u>-</u>	<u>(1,330)</u>	<u>71,804</u>	<u>-</u>
Net long-term liabilities	<u>\$ 9,905,798</u>	<u>\$ -</u>	<u>\$ (1,007,112)</u>	<u>\$ 8,898,686</u>	<u>\$ 1,047,405</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

5. COMPLIANCE WITH BOND INDENTURE

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

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

Bond Reserve Fund - This fund shall receive, on a monthly basis, within five years of the issue date, an amount equal to the average annual principal and interest requirements on the 2005 issue outstanding. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. At December 31, 2014, the District had reserves of \$593,849 invested with the bond custodian. At December 31, 2014, the reserve is fully funded.

Depreciation Fund - This fund receives \$8,500 monthly after the above transfers have been made until the total sum of \$750,000 has been established and maintained. This fund also receives the proceeds from the sale of any property and equipment. This fund may be used to purchase new or replacement property and equipment. Monies from this account are held by the bond custodian. At December 31, 2014, the District was fully funded with a balance of \$753,093.

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

Wastewater Revolving Loan Reserve – This loan requires the District to fund a reserve account in the amount of \$310,000. At December 31, 2014, the District funded this reserve in the amount of \$341,264.

2002 Adjustable Revenue Bonds – The District filed Supplement No.1 to Trust Indenture dated April 1, 2010. This supplement allows for a letter of credit to be issued by Cecilian Bank via a wrap around letter of credit from the Federal Home Loan Bank of Cincinnati as collateral for the original bond issue. As a result, the District is no longer required to fulfill the debt service reserve and depreciation fund requirements with The Bank of New York Mellon Trust Company; however, the District continues to carry \$93,333 in an account for this bond issue.

The bond ordinance calls for “net annual revenues” to exceed the maximum annual debt requirements of fixed rate bonds by 1.20 for the Water Fund. For the year ended December 31, 2014, the water fund ratio was 2.97.

6. LINE OF CREDIT

The District maintains a \$2,500,000 line of credit that is designated for use in various construction projects, if needed. There was no activity on the line of credit during 2014. As of December 31, 2014, the prime interest rate on the line of credit is 3.25%.

7. OTHER LIABILITIES

The water fund’s other liabilities in the amount of \$76,165 at December 31, 2014, represent customers’ advances for construction and extension of water mains beyond limits now provided by the District. These advances will be repaid in accordance with the terms of the agreements. The terms call for a portion of the revenue from these waterlines to be refunded to customers.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

8. RISK MANAGEMENT

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

9. RETIREMENT PLAN

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

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

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

Contributions – For the year ended December 31, 2014, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 6.00% for employees hired after September 1, 2008. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Participating employers contributed 18.89% of each non-hazardous employee's wages from January 1, 2014 through June 30 and 17.67% from July 1 through December 31, 2014, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

Required Year	Contribution	Percentage Contributed
2014	\$ 489,692	100%
2013	\$ 483,790	100%
2012	\$ 454,042	100%

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

10. GASB 68

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plans in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The District is currently evaluating the effects of this statement on its financial statements. The District's potential unfunded liability, based on June 30, 2014 plan financial statements, is estimated to be \$3,953,000. The actual liability for December 31, 2015, could be considerably different due to changes in system assumptions and liabilities.

11. SUBSEQUENT EVENT

The District was assessed \$74,265 during January 2015 by the State of Kentucky for sales tax owed for 2010 through 2014. This amount includes \$59,846 for tax, \$9,313 for interest and \$5,106 for penalties. Interest on the unpaid tax will continue to accrue daily. The sales tax was assessed by the State on water franchise fees, sewer franchise fees and storm water fees which are collected by the District and remitted to the City of Radcliff. The District believes that these collections are not subject to sales tax and intends to protest the assessment. The actual liability related to the sales tax assessment could be considerably different than \$74,265 based on the outcome of this protest.

**SUPPLEMENTARY INFORMATION
BUDGETARY SCHEDULES**

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
COUNTY WATER FUND
for the year ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 2,859,600	\$ 2,859,600	\$ 2,973,256	\$ 113,656
Wholesale sales	688,000	688,000	733,106	45,106
Sewer billing contract revenue	33,891	33,891	33,932	41
Penalties, service fees and reimbursements	<u>334,925</u>	<u>334,925</u>	<u>328,506</u>	<u>(6,419)</u>
Total operating revenue	<u>3,916,416</u>	<u>3,916,416</u>	<u>4,068,800</u>	<u>152,384</u>
OPERATING EXPENSES				
Treatment	816,381	816,381	837,924	21,543
Transmission and Distribution	670,683	670,683	691,602	20,919
Customer service	260,291	260,291	265,876	5,585
General & administrative expenses	304,136	304,136	255,614	(48,522)
Purchased water	132,000	132,000	52,923	(79,077)
General maintenance	79,120	79,120	81,909	2,789
Source of supply	<u>19,700</u>	<u>19,700</u>	<u>16,281</u>	<u>(3,419)</u>
Total operating expense	<u>2,282,311</u>	<u>2,282,311</u>	<u>2,202,129</u>	<u>(80,182)</u>
Operating income before depreciation	1,634,105	1,634,105	1,866,671	232,566
Depreciation and amortization expense	<u>(1,061,029)</u>	<u>(1,061,029)</u>	<u>(1,071,192)</u>	<u>(10,163)</u>
OPERATING INCOME	573,076	573,076	795,479	222,403
Non-operating income (expenses)				
Interest income	10,100	10,100	8,901	(1,199)
Interest expense	(262,500)	(262,500)	(262,026)	474
Loss on sale of equipment	<u>-</u>	<u>-</u>	<u>(50,906)</u>	<u>(50,906)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	320,676	320,676	491,448	170,772
Grants	2,398,000	2,398,000	150,765	(2,247,235)
Tap Fees	17,500	17,500	27,380	9,880
Customer Contribution	<u>-</u>	<u>-</u>	<u>34,778</u>	<u>34,778</u>
CHANGE IN NET POSITION	<u>\$ 2,736,176</u>	<u>\$ 2,736,176</u>	<u>\$ 704,371</u>	<u>\$ (2,031,805)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX WATER FUND
for the year ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 3,777,500	\$ 3,777,500	\$ 3,777,501	\$ 1
Penalties, service fees and reimbursements	<u>341,000</u>	<u>341,000</u>	<u>348,925</u>	<u>7,925</u>
Total operating revenue	<u>4,118,500</u>	<u>4,118,500</u>	<u>4,126,426</u>	<u>7,926</u>
OPERATING EXPENSES				
Transmission and Distribution	694,626	694,626	643,092	(51,534)
General & administrative expenses	<u>2,215,532</u>	<u>2,215,532</u>	<u>2,106,381</u>	<u>(109,151)</u>
Total operating expense	<u>2,910,158</u>	<u>2,910,158</u>	<u>2,749,473</u>	<u>(160,685)</u>
Operating income before depreciation	1,208,342	1,208,342	1,376,953	168,611
Depreciation and amortization expense	<u>(329,800)</u>	<u>(329,800)</u>	<u>(342,080)</u>	<u>(12,280)</u>
OPERATING INCOME	878,542	878,542	1,034,873	156,331
Non-operating income (expenses)				
Interest income	34,400	34,400	63,696	29,296
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(2,139)</u>	<u>(2,139)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	912,942	912,942	1,096,430	183,488
Tap Fees	-	-	3,557	3,557
Customer Contribution	<u>3,632,000</u>	<u>3,632,000</u>	<u>3,661,748</u>	<u>29,748</u>
CHANGE IN NET POSITION	<u>\$ 4,544,942</u>	<u>\$ 4,544,942</u>	<u>\$ 4,761,735</u>	<u>\$ 216,793</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX SEWER FUND
for the year ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 2,894,227	\$ 2,894,227	\$ 2,893,931	\$ (296)
Penalties, service fees and reimbursements	<u>60,200</u>	<u>60,200</u>	<u>26,346</u>	<u>(33,854)</u>
Total operating revenue	<u>2,954,427</u>	<u>2,954,427</u>	<u>2,920,277</u>	<u>(34,150)</u>
OPERATING EXPENSES				
Professional services	19,352	19,352	19,815	463
Contractual obligations	1,844,286	1,844,286	1,814,627	(29,659)
Allocated expense	(44,412)	(44,412)	(44,991)	(579)
Insurance	20,700	20,700	20,737	37
Customer service	110,096	110,096	89,635	(20,461)
Other	<u>11,300</u>	<u>11,300</u>	<u>12,357</u>	<u>1,057</u>
Total operating expense	<u>1,961,322</u>	<u>1,961,322</u>	<u>1,912,180</u>	<u>(49,142)</u>
Operating income before depreciation	993,105	993,105	1,008,097	14,992
Depreciation and amortization expense	<u>(698,200)</u>	<u>(698,200)</u>	<u>(719,932)</u>	<u>(21,732)</u>
OPERATING INCOME	294,905	294,905	288,165	(6,740)
Non-operating income (expenses)				
Interest income	15,100	15,100	14,392	(708)
Interest expense	(900)	(900)	(921)	(21)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(157,845)</u>	<u>(157,845)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	309,105	309,105	143,791	(165,314)
Customer contributions	<u>1,308,700</u>	<u>1,308,700</u>	<u>814,845</u>	<u>(493,855)</u>
CHANGE IN NET POSITION	<u>\$ 1,617,805</u>	<u>\$ 1,617,805</u>	<u>\$ 958,636</u>	<u>\$ (659,169)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
RADCLIFF SEWER FUND
for the year ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 3,730,700	\$ 3,730,700	\$ 3,494,657	\$ (236,043)
Penalties, service fees and reimbursements	<u>193,555</u>	<u>193,555</u>	<u>225,455</u>	<u>31,900</u>
Total operating revenue	<u>3,924,255</u>	<u>3,924,255</u>	<u>3,720,112</u>	<u>(204,143)</u>
OPERATING EXPENSES				
Professional services	13,173	13,173	11,052	(2,121)
Contractual obligations	2,268,400	2,268,400	2,227,058	(41,342)
Allocated expense	(57,326)	(57,326)	(57,326)	-
Insurance	25,900	25,900	25,923	23
Customer service	549,007	549,007	452,435	(96,572)
Sewer administration	-	-	80,989	80,989
Sewer commission	-	-	14,929	14,929
System maintenance	<u>114,255</u>	<u>114,255</u>	<u>108,877</u>	<u>(5,378)</u>
Total operating expense	<u>2,913,409</u>	<u>2,913,409</u>	<u>2,863,937</u>	<u>(49,472)</u>
Operating income before depreciation	1,010,846	1,010,846	856,175	(154,671)
Depreciation and amortization expense	<u>(1,095,200)</u>	<u>(1,095,200)</u>	<u>(1,009,547)</u>	<u>85,653</u>
OPERATING INCOME (LOSS)	(84,354)	(84,354)	(153,372)	(69,018)
Non-operating income (expenses)				
Interest income	16,159	16,159	9,342	(6,817)
Interest expense	(59,800)	(59,800)	(59,705)	95
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(80,734)</u>	<u>(80,734)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(127,995)	(127,995)	(284,469)	(156,474)
Customer contributions	2,800,000	2,800,000	638,263	(2,161,737)
Tap fees	<u>3,000</u>	<u>3,000</u>	<u>1,050</u>	<u>(1,950)</u>
CHANGE IN NET POSITION	<u>\$ 2,675,005</u>	<u>\$ 2,675,005</u>	<u>\$ 354,844</u>	<u>\$ (2,320,161)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
STORMWATER FUND
for the year ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Stormwater revenue	\$ 477,800	\$ 477,800	\$ 477,792	\$ (8)
Penalties, service fees and reimbursements	<u>31,000</u>	<u>31,000</u>	<u>5,111</u>	<u>(25,889)</u>
Total operating revenue	<u>508,800</u>	<u>508,800</u>	<u>482,903</u>	<u>(25,897)</u>
OPERATING EXPENSES				
Professional services	3,639	3,639	2,857	(782)
Contractual obligations	291,674	291,674	284,311	(7,363)
Allocated expense	(18,797)	(18,797)	(18,797)	-
Insurance	1,100	1,100	1,086	(14)
Customer service	725	725	744	19
Other	<u>56,139</u>	<u>56,139</u>	<u>43,948</u>	<u>(12,191)</u>
Total operating expense	<u>334,480</u>	<u>334,480</u>	<u>314,149</u>	<u>(20,331)</u>
Operating income before depreciation	174,320	174,320	168,754	(5,566)
Depreciation and amortization expense	<u>(78,500)</u>	<u>(78,500)</u>	<u>(82,616)</u>	<u>(4,116)</u>
OPERATING INCOME	95,820	95,820	86,138	(9,682)
Non-operating income (expenses)				
Interest income	<u>2,800</u>	<u>2,800</u>	<u>2,337</u>	<u>(463)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	98,620	98,620	88,475	(10,145)
Customer contributions	<u>673,800</u>	<u>673,800</u>	<u>116,164</u>	<u>(557,636)</u>
CHANGE IN NET POSITION	<u>\$ 772,420</u>	<u>\$ 772,420</u>	<u>\$ 204,639</u>	<u>\$ (567,781)</u>

COMBINING FUND STATEMENTS

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF NET POSITION
December 31, 2014

	County Water	Ft. Knox Water	2014 Total	2013 Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 622,910	\$ 9,176,794	\$ 9,799,704	\$ 10,086,849
Short-term certificates of deposit	782,103	3,827,297	4,609,400	775,371
Customer accounts receivable, net	263,910	246,172	510,082	513,453
Other accounts receivable	7,191	399,702	406,893	463,747
Interest receivable	1,857	9,647	11,504	1,593
Due from other funds	-	-	-	105,234
Inventory - materials and supplies	185,001	75,018	260,019	252,266
Prepaid expenses	84,133	24,078	108,211	79,858
Total current assets	<u>1,947,105</u>	<u>13,758,708</u>	<u>15,705,813</u>	<u>12,278,371</u>
Other assets				
Restricted funds	<u>1,642,317</u>	<u>-</u>	<u>1,642,317</u>	<u>1,641,535</u>
Property, plant and equipment				
Land and easements	273,045	-	273,045	273,045
Construction in progress	1,012,411	2,116,369	3,128,780	1,604,929
Plant and lines	38,757,475	10,027,849	48,785,324	47,531,368
Vehicles and equipment	3,985,528	1,457,448	5,442,976	5,244,578
Total	44,028,459	13,601,666	57,630,125	54,653,920
Less: accumulated depreciation	<u>(14,923,289)</u>	<u>(1,202,806)</u>	<u>(16,126,095)</u>	<u>(14,836,122)</u>
Total property, plant, and equipment	<u>29,105,170</u>	<u>12,398,860</u>	<u>41,504,030</u>	<u>39,817,798</u>
TOTAL ASSETS	<u>\$ 32,694,592</u>	<u>\$ 26,157,568</u>	<u>\$ 58,852,160</u>	<u>\$ 53,737,704</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 202,384	\$ 601,121	\$ 803,505	\$ 412,494
Due to other funds	11,286	50,726	62,012	52,094
Customers' deposits	177,913	-	177,913	172,045
Accrued expenses	31,516	10,670	42,186	57,259
Reserve for unclaimed funds - escheatment	6,790	-	6,790	6,345
Unearned rent revenue	16,396	-	16,396	3,855
Liabilities payable from restricted assets:				
Current portion of long-term debt	665,000	81,960	746,960	731,960
Accrued interest on long-term debt	53,264	-	53,264	57,080
Total current liabilities	<u>1,164,549</u>	<u>744,477</u>	<u>1,909,026</u>	<u>1,493,132</u>
Long-term liabilities				
Bonds payable	6,850,000	-	6,850,000	7,515,000
Other long-term debt	-	88,838	88,838	170,822
Less: unamortized discount	(131,635)	-	(131,635)	(147,183)
Compensated absences	60,069	11,735	71,804	73,134
Total long-term liabilities	<u>6,778,434</u>	<u>100,573</u>	<u>6,879,007</u>	<u>7,611,773</u>
Other liabilities				
Customer advances for construction	<u>76,165</u>	<u>-</u>	<u>76,165</u>	<u>110,943</u>
Total liabilities	<u>8,019,148</u>	<u>845,050</u>	<u>8,864,198</u>	<u>9,215,848</u>
Net position				
Net investment in capital assets	21,668,541	12,228,062	33,896,603	31,490,119
Restricted	1,642,317	-	1,642,317	1,641,535
Unrestricted	1,364,586	13,084,456	14,449,042	11,390,202
Total net position	<u>24,675,444</u>	<u>25,312,518</u>	<u>49,987,962</u>	<u>44,521,856</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 32,694,592</u>	<u>\$ 26,157,568</u>	<u>\$ 58,852,160</u>	<u>\$ 53,737,704</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2014

	County Water	Fort Knox Water	2014 Total	2013 Total
OPERATING REVENUE				
Metered water sales	\$ 2,973,256	\$ 3,777,501	\$ 6,750,757	\$ 6,727,526
Wholesale sales	733,106	-	733,106	668,951
Sewer billing contract revenue	33,932	-	33,932	29,916
Penalties, service fees and reimbursements	<u>328,506</u>	<u>348,925</u>	<u>677,431</u>	<u>696,794</u>
Total operating revenue	<u>4,068,800</u>	<u>4,126,426</u>	<u>8,195,226</u>	<u>8,123,187</u>
OPERATING EXPENSES				
Treatment	837,924	-	837,924	835,617
Distribution	691,602	643,092	1,334,694	1,238,764
Customer service	265,876	-	265,876	261,519
General and administrative expenses	255,614	2,106,381	2,361,995	2,356,818
Purchased water	52,923	-	52,923	30,996
General maintenance	81,909	-	81,909	76,880
Source of supply	<u>16,281</u>	<u>-</u>	<u>16,281</u>	<u>11,550</u>
Total operating expense	<u>2,202,129</u>	<u>2,749,473</u>	<u>4,951,602</u>	<u>4,812,144</u>
Operating income before depreciation	1,866,671	1,376,953	3,243,624	3,311,043
Depreciation and amortization expense	<u>(1,071,192)</u>	<u>(342,080)</u>	<u>(1,413,272)</u>	<u>(1,463,719)</u>
OPERATING INCOME	795,479	1,034,873	1,830,352	1,847,324
Non-operating income (expenses)				
Interest income	8,901	63,696	72,597	39,109
Interest expense	(262,026)	-	(262,026)	(280,593)
(Loss) on sale of equipment	<u>(50,906)</u>	<u>(2,139)</u>	<u>(53,045)</u>	<u>(28,695)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	491,448	1,096,430	1,587,878	1,577,145
Capital Contributions				
Grants	150,765	-	150,765	54,109
Tap fees	27,380	3,557	30,937	24,906
Customer contributions	<u>34,778</u>	<u>3,661,748</u>	<u>3,696,526</u>	<u>5,016,004</u>
CHANGE IN NET POSITION	704,371	4,761,735	5,466,106	6,672,164
Net position, beginning of year	<u>23,971,073</u>	<u>20,550,783</u>	<u>44,521,856</u>	<u>37,849,692</u>
NET POSITION, END OF YEAR	<u>\$ 24,675,444</u>	<u>\$ 25,312,518</u>	<u>\$ 49,987,962</u>	<u>\$ 44,521,856</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF CASH FLOWS
for the year ended December 31, 2014

	County Water	Ft. Knox Water	2014 Total	2013 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 4,293,978	\$ 4,128,074	\$ 8,422,052	\$ 8,750,160
Payments to suppliers	(993,229)	(1,904,648)	(2,897,877)	(3,044,948)
Payments for employee services and benefits	(1,276,858)	(595,437)	(1,872,295)	(1,788,102)
Net cash provided by operating activities	<u>2,023,891</u>	<u>1,627,989</u>	<u>3,651,880</u>	<u>3,917,110</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	(650,000)	(81,983)	(731,983)	(701,983)
Interest paid on long-term debt	(265,842)	-	(265,842)	(284,305)
Contributions in aid of construction	27,380	3,634,338	3,661,718	4,294,503
Grants	150,765	-	150,765	54,109
Proceeds from sale of equipment	5,949	-	5,949	-
Acquisition and construction of capital assets	(949,888)	(2,002,841)	(2,952,729)	(1,658,735)
Cash (paid) under advance construction contract	(34,778)	-	(34,778)	(2,221)
Net cash provided by (used in) capital and related financing activities	<u>(1,716,414)</u>	<u>1,549,514</u>	<u>(166,900)</u>	<u>1,701,368</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	-	54,049	54,049	39,390
Redemption of investments	8,637	-	8,637	603,779
Purchase of investments	(7,514)	(3,827,297)	(3,834,811)	(618,850)
Net cash provided by (used in) investing activities	<u>1,123</u>	<u>(3,773,248)</u>	<u>(3,772,125)</u>	<u>24,319</u>
NET INCREASE (DECREASE) IN CASH	308,600	(595,745)	(287,145)	5,642,797
Cash and cash equivalents, beginning of year	314,310	9,772,539	10,086,849	4,444,052
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 622,910</u>	<u>\$ 9,176,794</u>	<u>\$ 9,799,704</u>	<u>\$ 10,086,849</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 795,479	\$ 1,034,873	\$ 1,830,352	\$ 1,847,324
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	1,071,192	342,080	1,413,272	1,463,719
Change in assets and liabilities:				
Accounts receivable	58,577	1,648	60,225	761,106
Prepaid expenses	(12,023)	(16,330)	(28,353)	(10,058)
Due from other funds	142,539	-	142,539	(134,133)
Inventory	13,247	(21,000)	(7,753)	69,488
Accounts payable	(72,925)	301,914	228,989	(59,431)
Unearned revenue	12,541	-	12,541	-
Accrued expenses	(3,628)	(11,445)	(15,073)	(41,640)
Compensated absences	1,053	-	1,053	-
Due to other funds	11,521	(1,368)	10,153	11,882
Other payables	6,318	(2,383)	3,935	8,853
Net cash provided by operating activities	<u>\$ 2,023,891</u>	<u>\$ 1,627,989</u>	<u>\$ 3,651,880</u>	<u>\$ 3,917,110</u>
Schedule of non-cash capital and financing activities:				
Non-cash capital contributions	\$ 34,778	\$ 30,967	\$ 65,745	\$ 746,407
Construction in process included in accounts payable	\$ 38,352	\$ 123,670	\$ 162,022	\$ 12,494
Loss on disposal of assets allocated to other funds	\$ 37,540	\$ -	\$ 37,540	\$ -

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF NET POSITION
December 31, 2014

ASSETS	Ft. Knox Sewer	Radcliff Sewer	2014 Total	2013 Total
Current assets				
Cash and cash equivalents	\$ 2,185,954	\$ 2,681,435	\$ 4,867,389	\$ 5,051,020
Customer accounts receivable, net	471,918	230,185	702,103	445,946
Grant receivable	124,580	3,577	128,157	346,105
Due from other funds	-	71,865	71,865	-
Inventory	12,373	-	12,373	12,373
Prepaid expenses	<u>8,642</u>	<u>43,575</u>	<u>52,217</u>	<u>38,531</u>
Total current assets	<u>2,803,467</u>	<u>3,030,637</u>	<u>5,834,104</u>	<u>5,893,975</u>
Other assets				
Restricted assets - reserve funds	-	341,264	341,264	340,201
Unamortized rate case expense	-	135,938	135,938	-
Unamortized Radcliff acquisition costs, net	<u>-</u>	<u>183,902</u>	<u>183,902</u>	<u>193,002</u>
Total other assets	<u>-</u>	<u>661,104</u>	<u>661,104</u>	<u>533,203</u>
Property, plant and equipment				
Land and easements	-	9,544	9,544	9,544
Construction in progress	4,700,689	1,634,778	6,335,467	5,770,726
Plant and lines	80,990,166	35,180,347	116,170,513	114,837,911
Vehicles and equipment	<u>1,160,523</u>	<u>1,153,257</u>	<u>2,313,780</u>	<u>2,241,108</u>
Total	86,851,378	37,977,926	124,829,304	122,859,289
Less: accumulated depreciation	<u>(63,480,698)</u>	<u>(16,487,197)</u>	<u>(79,967,895)</u>	<u>(78,814,716)</u>
Total property, plant, and equipment	<u>23,370,680</u>	<u>21,490,729</u>	<u>44,861,409</u>	<u>44,044,573</u>
TOTAL ASSETS	<u>\$ 26,174,147</u>	<u>\$ 25,182,470</u>	<u>\$ 51,356,617</u>	<u>\$ 50,471,751</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 268,288	\$ 198,588	\$ 466,876	\$ 585,607
Due to other funds	5,561	188	5,749	50,794
Customers' deposits	-	150,559	150,559	135,932
Accrued expenses	4,982	30,563	35,545	24,699
Liabilities payable from restricted assets:				
Current portion of long-term debt	-	300,445	300,445	289,346
Accrued interest on long-term debt	<u>-</u>	<u>4,242</u>	<u>4,242</u>	<u>5,207</u>
Total current liabilities	<u>278,831</u>	<u>684,585</u>	<u>963,416</u>	<u>1,091,585</u>
Long-term liabilities				
Bonds payable	<u>-</u>	<u>972,274</u>	<u>972,274</u>	<u>1,272,719</u>
Total liabilities	<u>278,831</u>	<u>1,656,859</u>	<u>1,935,690</u>	<u>2,364,304</u>
Net position				
Net investment in capital assets	23,370,680	20,213,768	43,584,448	42,477,301
Restricted	-	341,264	341,264	340,201
Unrestricted	<u>2,524,636</u>	<u>2,970,579</u>	<u>5,495,215</u>	<u>5,289,945</u>
Total net position	<u>25,895,316</u>	<u>23,525,611</u>	<u>49,420,927</u>	<u>48,107,447</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 26,174,147</u>	<u>\$ 25,182,470</u>	<u>\$ 51,356,617</u>	<u>\$ 50,471,751</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2014

	Ft. Knox Sewer	Radcliff Sewer	2014 Total	2013 Total
OPERATING REVENUE				
Sewer service revenue	\$ 2,893,931	\$ 3,494,657	\$ 6,388,588	\$ 6,139,784
Penalties, service fees and reimbursements	<u>26,346</u>	<u>225,455</u>	<u>251,801</u>	<u>250,994</u>
Total operating revenue	<u>2,920,277</u>	<u>3,720,112</u>	<u>6,640,389</u>	<u>6,390,778</u>
OPERATING EXPENSES				
Customer service	89,635	452,435	542,070	623,523
Sewer operations	<u>1,822,545</u>	<u>2,411,502</u>	<u>4,234,047</u>	<u>4,050,495</u>
Total operating expense	<u>1,912,180</u>	<u>2,863,937</u>	<u>4,776,117</u>	<u>4,674,018</u>
Operating income before depreciation	1,008,097	856,175	1,864,272	1,716,760
Depreciation and amortization expense	<u>(719,932)</u>	<u>(1,009,547)</u>	<u>(1,729,479)</u>	<u>(1,663,761)</u>
OPERATING INCOME (LOSS)	288,165	(153,372)	134,793	52,999
Non-operating income (expenses)				
Interest income	14,392	9,342	23,734	29,947
Interest expense	(921)	(59,705)	(60,626)	(71,894)
(Loss) on sale of equipment	<u>(157,845)</u>	<u>(80,734)</u>	<u>(238,579)</u>	<u>(58,555)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	143,791	(284,469)	(140,678)	(47,503)
Capital Contributions				
Grants	-	638,263	638,263	521,413
Tap fees	-	1,050	1,050	750
Customer contributions	<u>814,845</u>	<u>-</u>	<u>814,845</u>	<u>2,304,860</u>
CHANGE IN NET POSITION	958,636	354,844	1,313,480	2,779,520
Net position, beginning of year	<u>24,936,680</u>	<u>23,170,767</u>	<u>48,107,447</u>	<u>45,327,927</u>
NET POSITION, END OF YEAR	<u>\$ 25,895,316</u>	<u>\$ 23,525,611</u>	<u>\$ 49,420,927</u>	<u>\$ 48,107,447</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED SEWER STATEMENT OF CASH FLOWS
for the year ended December 31, 2014

	Ft. Knox Sewer	Radcliff Sewer	2014 Total	2013 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 2,621,171	\$ 3,826,559	\$ 6,447,730	\$ 6,871,844
Payments to suppliers	<u>(1,915,010)</u>	<u>(2,970,001)</u>	<u>(4,885,011)</u>	<u>(4,892,968)</u>
Net cash provided by operating activities	<u>706,161</u>	<u>856,558</u>	<u>1,562,719</u>	<u>1,978,876</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	-	(289,346)	(289,346)	(278,656)
Interest paid on long-term debt	(919)	(60,670)	(61,589)	(895)
Contributions in aid of construction	-	639,313	639,313	1,966,518
Proceeds from sale of equipment	6,599	5,349	11,948	-
Deferred rate case expenses	-	(153,892)	(153,892)	-
Acquisition and construction of capital assets	<u>(1,011,700)</u>	<u>(903,755)</u>	<u>(1,915,455)</u>	<u>(3,255,529)</u>
Net cash (used in) capital and related financing activities	<u>(1,006,020)</u>	<u>(763,001)</u>	<u>(1,769,021)</u>	<u>(1,568,562)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	14,392	9,342	23,734	29,947
Redemption of investments	-	-	-	-
Purchase of investments	<u>-</u>	<u>(1,063)</u>	<u>(1,063)</u>	<u>(1,478)</u>
Net cash provided by investing activities	<u>14,392</u>	<u>8,279</u>	<u>22,671</u>	<u>28,469</u>
NET INCREASE (DECREASE) IN CASH	(285,467)	101,836	(183,631)	438,783
Cash and cash equivalents, beginning of year	<u>2,471,421</u>	<u>2,579,599</u>	<u>5,051,020</u>	<u>4,612,237</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,185,954</u>	<u>\$ 2,681,435</u>	<u>\$ 4,867,389</u>	<u>\$ 5,051,020</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 288,165	\$ (153,372)	\$ 134,793	\$ 52,999
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	719,932	1,009,547	1,729,479	1,663,761
Change in assets and liabilities:				
Accounts receivable	(301,524)	263,315	(38,209)	360,380
Prepaid expenses	(5,946)	(7,740)	(13,686)	127,888
Due from other funds	-	(109,393)	(109,393)	14,652
Accounts payable	3,301	(123,982)	(120,681)	(237,846)
Accrued expenses	(185)	11,031	10,846	(7,202)
Due to other funds	2,418	(47,475)	(45,057)	(2,234)
Other payables	<u>-</u>	<u>14,627</u>	<u>14,627</u>	<u>6,478</u>
Net cash provided by operating activities	<u>\$ 706,161</u>	<u>\$ 856,558</u>	<u>\$ 1,562,719</u>	<u>\$ 1,978,876</u>
Schedule of non-cash capital and financing activities:				
Non-cash capital contributions	<u>\$ 814,845</u>	<u>\$ -</u>	<u>\$ 814,845</u>	<u>\$ 860,505</u>
Construction in process included in accounts payable	<u>\$ -</u>	<u>\$ 1,950</u>	<u>\$ 1,950</u>	<u>\$ 33,547</u>
Loss on disposal of assets allocated from other funds	<u>\$ 12</u>	<u>\$ 37,528</u>	<u>\$ 37,540</u>	<u>\$ -</u>



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**HARDIN COUNTY WATER DISTRICT No. 1
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Hardin County Water District No. 1, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Hardin County Water District No. 1's financial statements, and have issued our report thereon dated March 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hardin County Water District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hardin County Water District No.1's internal control. Accordingly, we do not express an opinion on the effectiveness of Hardin County Water District No. 1's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326

Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

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**HARDIN COUNTY WATER DISTRICT No. 1
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
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(CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin County Water District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
March 4, 2015