

**HARDIN COUNTY WATER DISTRICT No. 1**  
**Radcliff, Kentucky**

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**FINANCIAL STATEMENTS**  
**December 31, 2016**

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## 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

### *Opinion*

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, 2016, 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.

## **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 3-5 and pension schedules on pages 19-20 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 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 comparison schedules 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 budgetary comparison schedules and the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Prior-Year Comparative Information*

We have previously audited the District's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated June 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2017, 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.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
June 15, 2017

# Hardin County Water District No. 1

*Serving Radcliff and Hardin County for Over 60 Years*

1400 Rogersville Road  
Radcliff, KY. 40160

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June 15, 2017

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

**SUBJECT: 2016 Annual Report & Managements' Discussion and Analysis**

This report is a joint effort of our staff and RFH, PLLC, Certified Public Accountants. This is the twelfth year we have retained this firm to complete our annual audit. After soliciting several other CPA auditing proposals in October, 2016, the Board decided to extend their engagement through the 2018 audit year. 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 Ms. Stephanie Strange (Accountant) for their work assisting the auditors in preparing this information. Mr. Kevin Fisher, CPA was the lead auditor for the firm and field staff to complete the audit.

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## ***Financial Performance & Highlights***

Consolidated Financial Performance: Our financial reports 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 \$8,356,014. Total net assets (net position) increased by \$11,336,728 (+10.4% [percent changes in parentheses represent change from 2015]). Total revenues, including interest income, increased by \$72,821 or + 0.47% compared to 2015. Operating income before depreciation was \$5,353,693 (+ 0.02%) and net income after depreciation (gross of non-operating income and expenses) was \$1,836,843. This amount was 11.9% of total operating revenues. Total net assets at the end of the year were \$120,465,157 (+ 10.4%).

Cash used for capital construction was \$7,186,936 (+ 41.2%), of which 52.1% was provided by government grants. At year end, consolidated outstanding debt principal was \$6,622,135 (- 16.3%). Total working capital (unrestricted cash + investments) at year end increased by 26.2% to \$28,728,944. Of all reserves (cash + investments), 95% (+ 26.2%) were unrestricted and available as working capital for capital construction or operations. At the beginning of 2017 we also had total of \$11,291,266 (+ 36.4%) of available state or federal grant funding for future capital construction projects. An additional \$399,702 will become available through ISDC (Initial System Deficiency Corrections) funding through January, 2017 as part of the Ft. Knox Water system, utility privatization funding.

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Individual Fund Highlights:

County Water: Total operating expenses (excluding debt interest and depreciation) were 0.77% less than budgeted. Revenues were 3.95% less than budgeted. Net income after depreciation and interest expense decreased by 42% from 2015. Water sales decreased by 0.90% and net assets increased by 20.2%. The bond coverage ratio was 2.85 (+ 0.35% from 2015) which is approximately 2.4 times the required 1.20.

Ft. Knox Water: 2016 was the fourth year of operations and financial results for this fund. Total operating revenues were \$4,192,113 including interest income (+ 0.22%). Net income before depreciation was \$1,154,367 (- 10.8%) down due to increased operating expenses. Net income after depreciation and amortized expenses was \$815,519 (- 17.5%) which is 19.8% of revenues. Net assets at year end were \$33,670,048 (+ 15.2%) and construction in progress was valued at \$584,633. Working capital and cash available for capital construction was \$19,302,293 (+ 25.7%).

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues increased slightly by 0.55%. Total operating income, before depreciation expense was \$1,165,993 (+ 5.0%). Total net assets increased by 5.2%. Total expended for construction was \$1,467,676 of which almost all was provided by contributed capital (direct grants) from the Government. At the beginning of 2017, the fund had a balance of \$3,510,119 (+ 18.9%) available for construction projects and capital improvements. An additional \$732,305 is also available in direct Government funding for future capital construction projects.

Radcliff Sewer: Total revenues (including interest income) were \$3,916,511 (+ 1.5%) which was 3.5% below revenue estimates. Total operating expenses (excluding depreciation) were 12.3% more than budgeted. Total net assets increased 1.8% to \$24,207,607 and at year end we had construction in progress assets of \$676,882 (- 70.0%). Of the \$918,221 expended for construction (- 19.3%), 56% was funded by state grants. At year end the total cash & investment reserve balance was \$4,427,055 (+ 35.3%) of which 92% was unrestricted and available for capital construction or operations. At year end a total of \$10,247,534 in state grants are available for future capital construction projects. The fund had net operating income before depreciation and debt interest of \$1,499,070 (+ 8.3%) with a net operating income of \$208,445 (5.3% of revenues).

GASB 68 Impact:

The new GASB rule for reporting pension liability has now been fully incorporated into the 2016 Audit report and financial statements. A full explanation and calculations are explained with Note 8, shown on pages 15 ~ 18. The impact to the District's net position as a result of the current year change in net pension liability was a decrease of \$683,546. The estimate used for this audit required a calculation provided by the Kentucky Retirement Systems (CERS), which was not provided until mid June, causing this final audit report to be available much later than normal.

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***Operational Changes & Statistics***

During 2016 a total of 1,679 MG (million gallons) of potable water was treated (- 0.65%) and a total of 7.04 MG was purchased for resale (- 73%). Total water delivered to customers (County and Ft. Knox combined) was 1,460 MG (- 2.4%). The maximum demand day was 7.248 MG (- 16.1%) and occurred on 28-December. The average daily water demand for the year was 4.600 MG (- 0.6%). A total of 73



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new water services were installed, up 109% from 2015, which is a reflection of the increase in new construction in Radcliff and Hardin County since 2015. Wholesale customers purchased 341.5 MG (-6.4%), which was equivalent to 20.3% of total water produced and purchased volume.


The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,311 MG (-13.0%). This resulted in an average daily flow of clean, recycled water into streams of 3.592 MG. The maximum day treated was 12.586 MG and occurred on 28-April.


In February, 2016 an application was filed with Rural Development / RUS for a loan to construct an extension of a 16 inch transmission main. This \$1.3 million project allows the District to increase its sales to Meade County Water District, possibly providing them up to 100% of their water needs. The application included a water rate increase (retail and wholesale) of 18% required to meet the new debt service payment, as well as other operating cost increases since 2007 when the last general rate increase was approved. These new rates went into affect in June, 2017 and should generate an estimated \$500,000 more annual revenues to the County Water fund.

In October 2016, the District also completed a refunding of its 2005 Series Water Refunding Bonds. This refunding was made through a new bond sale of the 2016 Series Water Refunding Bonds. The interest rate on the new bonds was 1.6% compared to 4.125% on the old bonds. This allowed the District to save \$458,000 in present value compared to the old outstanding debt service. The annual debt service payments also dropped by 10.5%. Along with this transaction, Moody's Investor Services upgraded the District's bond rating to Aa3. Part of this improvement was due to the addition of the Radcliff Sewer revenues, which were able to be pledged as back-up security and coverage to the County Water bonds and debt service.

At present we have 27 construction projects in either preliminary or final design and construction. The next several years we expect to see a significant increase in project design and construction as more projects for all utilities are designed and bid, and we expend up to \$24.8 million of current grants approved for water and sewer capital projects.

Sincerely,

  
\_\_\_\_\_  
Mr. Jim Bruce  
General Manager

  
\_\_\_\_\_  
Mr. Scott Schmuck, CGFM  
Finance & Accounting Manager

**HARDIN COUNTY WATER DISTRICT No. 1**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

	Water Total	Sewer Total	Storm Water	Total	2015 Totals
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 17,190,667	\$ 7,244,754	\$ 350,287	\$ 24,785,708	\$ 18,858,249
Short-term certificates of deposit	3,274,087	-	-	3,274,087	3,239,065
Customer accounts receivable, net	519,234	1,179,276	159,262	1,857,772	1,549,010
Other accounts receivable	1,864,594	97,931	578,176	2,540,701	1,179,999
Interest receivable	11,771	-	-	11,771	9,513
Inventory - materials and supplies	265,626	1,232	-	266,858	392,345
Prepaid expenses	94,092	48,119	150	142,361	137,113
Total current assets	<u>23,220,071</u>	<u>8,571,312</u>	<u>1,087,875</u>	<u>32,879,258</u>	<u>25,365,294</u>
Non-current assets					
Long-term certificates of deposits	669,149	-	-	669,149	662,635
Restricted assets - reserve funds	1,330,633	342,132	-	1,672,765	1,985,529
Unamortized rate case expense	-	74,381	-	74,381	105,159
Unamortized acquisition costs	-	165,701	-	165,701	174,802
Total non-current assets	<u>1,999,782</u>	<u>582,214</u>	<u>-</u>	<u>2,581,996</u>	<u>2,928,125</u>
Property, plant and equipment					
Land and easements	273,045	9,544	-	282,589	282,589
Construction in progress	7,054,055	1,889,039	770,857	9,713,951	13,276,577
Plant and lines	54,059,015	123,990,991	5,224,878	183,274,884	171,937,116
Vehicles and equipment	5,914,737	2,313,322	118,415	8,346,474	7,765,602
Total	67,300,852	128,202,896	6,114,150	201,617,898	193,261,884
Less: accumulated depreciation	<u>(18,862,530)</u>	<u>(83,312,973)</u>	<u>(412,551)</u>	<u>(102,588,054)</u>	<u>(99,380,281)</u>
Total property, plant, and equipment	<u>48,438,322</u>	<u>44,889,923</u>	<u>5,701,599</u>	<u>99,029,844</u>	<u>93,881,603</u>
Total assets	<u>73,658,175</u>	<u>54,043,449</u>	<u>6,789,474</u>	<u>134,491,098</u>	<u>122,175,022</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows - pension	1,159,959	526,634	-	1,686,593	613,732
Total assets and deferred outflows of resources	<u>\$ 74,818,134</u>	<u>\$ 54,570,083</u>	<u>\$ 6,789,474</u>	<u>\$ 136,177,691</u>	<u>\$ 122,788,754</u>
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities					
Accounts payable	\$ 1,930,528	\$ 444,881	\$ 4,900	\$ 2,380,309	\$ 1,265,518
Due to (from) other funds	118,653	(147,222)	28,569	-	-
Customers' deposits	188,209	174,116	-	362,325	349,146
Accrued expenses	59,915	26,179	736	86,830	128,358
Reserve for unclaimed funds - escheatment	8,272	-	-	8,272	9,860
Unearned rent revenue	40,736	-	-	40,736	20,736
Line of credit	585,119	-	-	585,119	-
Liabilities payable from restricted assets:					
Current portion of long-term debt	751,832	323,938	-	1,075,770	1,073,954
Accrued interest on long-term debt	5,899	2,201	-	8,100	52,535
Total current liabilities	<u>3,689,163</u>	<u>824,093</u>	<u>34,205</u>	<u>4,547,461</u>	<u>2,900,107</u>
Long-term liabilities					
Bonds and notes payable	5,210,000	336,365	-	5,546,365	6,830,303
Other long-term debt	-	-	-	-	6,832
Net pension liability	3,805,746	1,727,849	-	5,533,595	3,775,211
Compensated absences	75,330	6,794	-	82,124	79,665
Long-term liabilities, net	<u>9,091,076</u>	<u>2,071,008</u>	<u>-</u>	<u>11,162,084</u>	<u>10,692,011</u>
Other liabilities					
Customer advances for construction	-	-	-	-	63,241
Total liabilities	<u>12,780,239</u>	<u>2,895,101</u>	<u>34,205</u>	<u>15,709,545</u>	<u>13,655,359</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows - pension	2,056	933	-	2,989	4,966
Net position					
Net investment in capital assets	41,885,472	44,227,419	5,701,599	91,814,490	86,034,066
Restricted	1,330,633	342,132	-	1,672,765	1,985,529
Unrestricted	<u>18,819,734</u>	<u>7,104,498</u>	<u>1,053,670</u>	<u>26,977,902</u>	<u>21,108,834</u>
Total net position	<u>62,035,839</u>	<u>51,674,049</u>	<u>6,755,269</u>	<u>120,465,157</u>	<u>109,128,429</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 74,818,134</u>	<u>\$ 54,570,083</u>	<u>\$ 6,789,474</u>	<u>\$ 136,177,691</u>	<u>\$ 122,788,754</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, 2016**

	Water Total	Sewer Total	Storm Water	Total	2015 Totals
<b>OPERATING REVENUE</b>					
Metered water sales	\$ 6,679,101	\$ -	\$ -	\$ 6,679,101	\$ 6,669,837
Wholesale sales	682,904	-	-	682,904	729,876
Sewer billing contract revenue	42,279	-	-	42,279	37,958
Sewer service revenue	-	6,566,433	-	6,566,433	6,532,453
Stormwater service revenue	-	-	477,792	477,792	477,792
Penalties, service fees and reimbursements	664,477	252,197	31,035	947,709	899,173
	<u>8,068,761</u>	<u>6,818,630</u>	<u>508,827</u>	<u>15,396,218</u>	<u>15,347,089</u>
<b>OPERATING EXPENSES</b>					
Treatment	977,320	697,845	-	1,675,165	937,677
Distribution	1,504,122	923,764	-	2,427,886	1,298,324
Customer service	304,398	592,125	-	896,523	863,401
General and administrative expenses	2,487,749	2,121,759	-	4,609,508	6,414,691
Purchased water	20,955	-	-	20,955	75,743
General maintenance	70,464	6,769	-	77,233	73,301
Source of supply	15,123	-	-	15,123	8,598
Stormwater	-	-	320,132	320,132	322,921
	<u>5,380,131</u>	<u>4,342,262</u>	<u>320,132</u>	<u>10,042,525</u>	<u>9,994,656</u>
<b>Operating income before depreciation</b>	2,688,630	2,476,368	188,695	5,353,693	5,352,433
Depreciation and amortization expense	(1,482,985)	(1,946,607)	(87,258)	(3,516,850)	(3,425,475)
<b>OPERATING INCOME</b>	1,205,645	529,761	101,437	1,836,843	1,926,958
Non-operating income (expenses)					
Interest income	88,108	24,834	1,926	114,868	91,176
Interest expense	(234,508)	(38,206)	-	(272,714)	(292,018)
Cost of bond issuance	(68,666)	-	-	(68,666)	-
Transfers in (out)	45	(12,054)	12,009	-	-
(Loss) on disposal of equipment	(29,107)	(94,220)	-	(123,327)	(51,403)
	<u>961,517</u>	<u>410,115</u>	<u>115,372</u>	<u>1,487,004</u>	<u>1,674,713</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>					
Capital contributions					
Grants	4,507,657	214,236	-	4,721,893	1,065,164
Tap fees	54,564	-	-	54,564	32,877
Customer contributions	3,700,035	656,499	716,733	5,073,267	4,420,955
	<u>9,223,773</u>	<u>1,280,850</u>	<u>832,105</u>	<u>11,336,728</u>	<u>7,193,709</u>
<b>CHANGE IN NET POSITION</b>	9,223,773	1,280,850	832,105	11,336,728	7,193,709
Net position, beginning of year, as restated	52,812,066	50,393,199	5,923,164	109,128,429	101,934,720
<b>NET POSITION, END OF YEAR</b>	<u>\$ 62,035,839</u>	<u>\$ 51,674,049</u>	<u>\$ 6,755,269</u>	<u>\$ 120,465,157</u>	<u>\$ 109,128,429</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, 2016

	<u>Water Total</u>	<u>Sewer Total</u>	<u>Storm Water</u>	<u>Total</u>	<u>2015 Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 8,080,442	\$ 6,556,977	\$ 469,011	\$ 15,106,430	\$ 14,424,672
Payments to suppliers	(3,479,026)	(3,035,997)	(320,132)	(6,835,155)	(7,593,501)
Payments for employee services and benefits	<u>(2,035,559)</u>	<u>(949,185)</u>	<u>-</u>	<u>(2,984,744)</u>	<u>(2,646,501)</u>
<b>Net cash provided by operating activities</b>	<u>2,565,857</u>	<u>2,571,795</u>	<u>148,879</u>	<u>5,286,531</u>	<u>4,184,670</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Transfers (to) from other funds	<u>(105,584)</u>	<u>44,498</u>	<u>61,086</u>	<u>-</u>	<u>-</u>
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>(105,584)</u>	<u>44,498</u>	<u>61,086</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal paid on long-term debt	(5,141,983)	(311,971)	-	(5,453,954)	(1,047,428)
Proceeds from issuance of debt	4,165,000	-	-	4,165,000	-
Line of credit proceeds, net of payments	585,119	-	-	585,119	-
Interest paid on long-term debt	(277,903)	(39,246)	-	(317,149)	(296,987)
Contributions in aid of construction	3,686,533	865,957	191,132	4,743,622	3,664,846
Grants	3,234,892	511,533	-	3,746,425	1,065,164
Proceeds from sale of equipment	9,069	29,135	-	38,204	192,590
Acquisition and construction of capital assets	(4,801,039)	(1,634,901)	(750,996)	(7,186,936)	(5,088,973)
Cash (paid) under advance construction contract	<u>(63,241)</u>	<u>-</u>	<u>-</u>	<u>(63,241)</u>	<u>(12,924)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>1,396,447</u>	<u>(579,493)</u>	<u>(559,864)</u>	<u>257,090</u>	<u>(1,523,712)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income	85,850	24,834	1,926	112,610	93,167
Redemption of investments	1,550,453	-	-	1,550,453	715,491
Purchase of investments	<u>(1,278,836)</u>	<u>(389)</u>	<u>-</u>	<u>(1,279,225)</u>	<u>(9,741)</u>
<b>Net cash provided by investing activities</b>	<u>357,467</u>	<u>24,445</u>	<u>1,926</u>	<u>383,838</u>	<u>798,917</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	4,214,187	2,061,245	(347,973)	5,927,459	3,459,875
Cash and cash equivalents, beginning of year	<u>12,976,480</u>	<u>5,183,509</u>	<u>698,260</u>	<u>18,858,249</u>	<u>15,398,374</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 17,190,667</u>	<u>\$ 7,244,754</u>	<u>\$ 350,287</u>	<u>\$ 24,785,708</u>	<u>\$ 18,858,249</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income	\$ 1,205,645	\$ 529,761	\$ 101,437	\$ 1,836,843	\$ 1,926,958
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization expense	1,482,985	1,946,607	87,258	3,516,850	3,425,475
Net change in pension liability	245,228	438,318	-	683,546	132,283
Change in assets and liabilities:					
Accounts receivable	(8,319)	(261,653)	(39,816)	(309,788)	(899,553)
Prepaid expenses	(4,275)	(972)	-	(5,247)	23,723
Due from other funds	-	-	-	-	(33,650)
Inventory	125,274	213	-	125,487	(119,953)
Accounts payable	(488,270)	(65,413)	-	(553,683)	(390,097)
Unearned revenue	20,000	-	-	20,000	4,340
Accrued expenses	(13,308)	(28,220)	-	(41,528)	49,891
Compensated absences	1,484	-	-	1,484	(2,063)
Due to other funds	-	-	-	-	33,649
Other payables	<u>(587)</u>	<u>13,154</u>	<u>-</u>	<u>12,567</u>	<u>33,667</u>
<b>Net cash provided by operating activities</b>	<u>\$ 2,565,857</u>	<u>\$ 2,571,795</u>	<u>\$ 148,879</u>	<u>\$ 5,286,531</u>	<u>\$ 4,184,670</u>
<b>Schedule of non-cash capital and financing activities:</b>					
Non-cash capital contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 788,986</u>
Capital asset additions included in accounts payable	<u>\$ 1,591,349</u>	<u>\$ 72,225</u>	<u>\$ 4,900</u>	<u>\$ 1,668,474</u>	<u>\$ 330,251</u>
Loss on disposal of assets allocated to (from) other funds	<u>\$ 26,134</u>	<u>\$ (24,051)</u>	<u>\$ -</u>	<u>\$ 2,083</u>	<u>\$ 3,465</u>

The accompanying notes are an integral part of the financial statements

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**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 also provides water, sanitary and storm water services to the Fort Knox Army Post adjacent to Radcliff. The District is regulated by the Kentucky Public Service Commission.

**Reporting Entity**

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 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.

**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, 2016. 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.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**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 chemicals. 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, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restricted Assets**

The water and sewer funds' restricted assets consist of certificates of deposit and non-interest-bearing accounts.

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. As of December 31, 2016, all investments of the District were in certificates of deposit and were valued at cost.

**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 sewer fund's City of Radcliff sewer acquisition costs are being amortized using the straight-line method over a period of twenty-five years. The sewer fund is amortizing costs incurred for a rate case during 2014 over a period of 5 years. The costs are being amortized in the Radcliff Sewer Fund.

**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 June 15, 2017, 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, 2016, have not been evaluated by the District.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**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, larger amounts in such institutions providing such banks pledge as security obligations of the United States Government or its agencies, and certificates of deposit issued by a bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.

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, 2016, 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, 2016, the District had \$30,660,220 in banks, of which \$3,693,236 was uncollateralized. The entire uncollateralized balance consisted of certificates of deposit held at a single financial institution which is rated in one of the three highest categories by a nationally recognized rating agency.

The following is a detail of the District's cash deposit coverage at December 31, 2016:

FDIC insured (or equivalent)	\$ 753,086
Collateralized by securities held by the bank in the District's name	26,213,898
Uncollateralized certificates of deposit	<u>3,693,236</u>
Total cash and investments in banks	<u>\$ 30,660,220</u>

Cash and investments are classified as follows as of December 31, 2016:

Unrestricted:	
Cash and cash equivalents:	
Revenue fund	\$ 24,063,053
Other	<u>722,655</u>
	24,785,708
Short-term investments:	
Certificates of deposit	3,274,087
Long-term investments:	
Certificates of deposit	<u>669,149</u>
Total unrestricted	<u>28,728,944</u>
Restricted:	
Long-term investments:	
Debt service reserve	342,132
Bond reserve fund	96,667
2016 Sinking fund interest	9,959
2016 Sinking fund principal	50,556
2016 Debt service reserve	416,926
2016 Depreciation fund	<u>756,525</u>
Total restricted	<u>1,672,765</u>
Total reported cash and investments	<u>\$ 30,401,709</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**3. CAPITAL ASSETS**

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

	<b>Balance</b>			<b>Balance</b>
	<b>Jan 1, 2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>Dec. 31, 2016</b>
Capital assets not depreciated:				
Land and easements	\$ 282,589	\$ -	\$ -	\$ 282,589
Construction in process	13,276,577	7,771,992	11,334,618	9,713,951
Capital assets that are depreciated:				
Plant and lines	171,937,116	11,513,691	175,923	183,274,884
Vehicles and equipment	<u>7,765,602</u>	<u>835,275</u>	<u>254,403</u>	<u>8,346,474</u>
Total plant and equipment	193,261,884	20,120,958	11,764,944	201,617,898
Less: accumulated depreciation	<u>99,380,281</u>	<u>3,478,007</u>	<u>270,234</u>	<u>102,588,054</u>
Plant and equipment, net	<u>\$ 93,881,603</u>	<u>\$ 16,642,951</u>	<u>\$ 11,494,710</u>	<u>\$ 99,029,844</u>

Depreciation expense for all combined funds totaled \$3,478,007 for the year ended December 31, 2016.

**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 and notes payable of the County Water, Ft. Knox Water and Radcliff Sewer Funds consists of the following at December 31, 2016:

2016 Revenue bonds, various semi-annual principal and interest payments at 1.4% - 1.7% through September 1, 2025, secured by the revenues of the District.	\$ 4,165,000
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.	1,790,000
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.	660,303
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>6,832</u>
Total debt	6,622,135
Less: current portion	<u>1,075,770</u>
Total long-term debt	<u>\$ 5,546,365</u>

During 2016, the District issued \$4,165,000 of Utility System Refunding Revenue Bonds to refund the previously issued 2005 Revenue Bonds. The new issue will reduce debt service by \$841,736 and has a net economic gain of \$458,036.



**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**4. LONG-TERM LIABILITIES (CONTINUED)**

Debt maturities for the County Water Fund are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 745,000	\$ 123,740	\$ 868,740
2018	745,000	118,387	863,387
2019	745,000	98,657	843,657
2020	755,000	79,038	834,038
2021	760,000	59,057	819,057
2022-2025	<u>2,205,000</u>	<u>88,500</u>	<u>2,293,500</u>
	<u>\$ 5,955,000</u>	<u>\$ 567,379</u>	<u>\$ 6,522,379</u>

Debt maturities for the Radcliff Sewer Fund are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 323,938	\$ 23,203	\$ 347,141
2018	<u>336,365</u>	<u>10,123</u>	<u>346,488</u>
	<u>\$ 660,303</u>	<u>\$ 33,326</u>	<u>\$ 693,629</u>

Debt maturities for the Fort Knox Water Fund are as follows:

Fiscal Year	Principal	Interest	Total
2017	<u>\$ 6,832</u>	<u>\$ -</u>	<u>\$ 6,832</u>

Total bond and related debt maturities \$ 6,622,135 \$ 600,705 \$ 7,222,840

Changes in long-term liabilities are as follows:

	Balance Jan 1, 2016	Additions	Payments	Balance Dec. 31, 2016	Due within one year
Long-term debt	\$ 7,911,089	\$ 4,165,000	\$ (5,453,954)	\$ 6,622,135	\$ 1,075,770
Net pension liability	3,775,211	1,758,384	-	5,533,595	-
Compensated absences	<u>79,665</u>	<u>2,459</u>	<u>-</u>	<u>82,124</u>	<u>-</u>
Net long-term liabilities	<u>\$ 11,765,965</u>	<u>\$ 5,925,843</u>	<u>\$ (5,453,954)</u>	<u>\$ 12,237,854</u>	<u>\$ 1,075,770</u>

**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:

**Sinking Fund** – 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 2016 issue. These funds are used to pay maturing bond and interest coupons on the aforementioned issue. The amount held in the Sinking Fund as of December 31, 2016 was \$60,515.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**5. COMPLIANCE WITH BOND INDENTURE (CONTINUED)**

**Debt Service Reserve Fund** – This fund was established with the 2016 revenue bond issue and is required to have an amount equal to the lesser of: 10% of the proceeds of the bond issue, the maximum annual debt service of the bond issue, or 125% of the average annual debt service of the issue. The amount required to be held in the Debt Service Reserve Fund as of December 31, 2016 was \$416,500. The amount held in the Debt Service Reserve Fund as of December 31, 2016 was \$416,926.

**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, 2016, the District was fully funded with a balance of \$756,525.

**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, 2016, the District funded this reserve in the amount of \$342,132.

**2002 Adjustable Revenue Bonds Sinking Fund** – 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, as of December 31, 2016, the District had reserved \$96,667 for future principal payments.

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, 2016, the water fund ratio was 2.85.

**6. LINE OF CREDIT**

During 2016, the District opened up a line of credit at a local bank with a limit of \$5,000,000 that bears interest at a variable rate, with an initial rate of 3.5%. The line of credit was opened to provide short-term financing for various projects taken on by the District and is expected to be paid down shortly after each draw is taken. The entire balance of the line of credit as of December 31, 2016 is considered short-term debt.

Activity for the line of credit during the year is as follows:

	<b>Balance Jan 1, 2016</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance Dec. 31, 2016</b>
Line of credit	\$ -	\$ 2,389,746	\$ (1,804,627)	\$ 589,119

**7. 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.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**8. 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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

*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, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), 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. For the year ended December 31, 2016, participating employers contributed 17.06% through June 30 and 18.68% thereafter, of each non-hazardous employee's wages, 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$482,180 for the year ended, or 100% of the required contribution. The contribution was allocated \$350,063 to the CERS pension fund and \$132,117 to the CERS insurance fund.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**8. RETIREMENT PLAN (CONTINUED)**

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old or at least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2016, the District reported a liability of \$5,533,595 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the District's proportion was .112389 percent, which was a increase of .024584% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the District recognized pension expense of \$1,025,321. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 24,158	\$ -
Changes of assumptions	293,140	-
Net difference between projected and actual earnings on Plan investments	520,214	-
Changes in proportion and differences between District contributions and proportionate share of contributions	658,778	2,989
District contributions subsequent to the measurement date	<u>190,303</u>	<u>-</u>
Total	<u>\$ 1,686,593</u>	<u>\$ 2,989</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**8. RETIREMENT PLAN (CONTINUED)**

The \$190,303 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending December 31,</b>	
2017	\$ 571,587
2018	492,114
2019	310,879
2020	118,721

*Actuarial Assumptions* – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Nominal Real Rate of Return</b>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash	<u>2%</u>	-.25%
Total	100%	

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**8. RETIREMENT PLAN (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>Discount rate</u>		<b>District's proportionate share of net pension liability</b>
1% decrease	6.50%	\$	4,365,955
Current discount rate	7.50%	\$	5,533,595
1% increase	8.50%	\$	6,895,760

*Payable to the Pension Plan* – At December 31, 2016, the District did not have a payable for outstanding contributions to the pension plan required for the year ended December 31, 2016.

**9. RESTATEMENT OF NET POSITION**

Restatement for bond issue costs

Prior to the issuance of Governmental Accounting Standards Board Statement Number 65, bond issue costs were amortized over the life of the respective bond. Current standards require these costs to be expensed when incurred. The District restated the County Water Fund for this change. The result of the restatement on beginning net position in the County Water Fund is as follows:

	<b>County Water</b>
Net position, at beginning of year	\$ 23,706,617
Bond issue costs	<u>(116,088)</u>
Net position, at beginning of year, as restated	<u>\$ 23,590,529</u>

**10. SUBSEQUENT EVENT**

The District anticipates terminating its contract with Veolia Water North America - South, LLC to internally operate and manage the Fort Knox Wastewater and Storm Utility Systems during 2017. The District anticipates paying a fee for early termination of the contract. However, as of June 15, 2017, the amount the District will be required to pay was not determinable.



**REQUIRED SUPPLEMENTARY INFORMATION**

**HARDIN COUNTY WATER DISTRICT No. 1  
REQUIRED SUPPLEMENTARY SCHEDULE OF  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last Three Fiscal Years**

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	<b>2014</b>	<b>2015</b>	<b>2016</b>
District's proportion of the net pension liability	0.087998%	0.087805%	0.112389%
District's proportionate share of the net pension liability (asset)	\$ 2,855,000	\$ 3,775,211	\$ 5,533,595
District's covered employee payroll	\$ 2,097,077	\$ 2,291,730	\$ 2,696,840
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	136.14%	164.73%	205.19%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS**  
**Last Four Fiscal Years**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Contractually required employer contribution	\$ 244,914	\$ 278,406	\$ 275,816	\$ 350,063
Contributions relative to contractually required employer contribution	<u>244,914</u>	<u>278,406</u>	<u>275,816</u>	<u>350,063</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,981,572	\$ 2,097,077	\$ 2,291,730	\$ 2,696,840
Employer contributions as a percentage of covered-employee payroll	12.36%	13.28%	12.04%	12.98%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

**SUPPLEMENTARY INFORMATION**

**HARDIN COUNTY WATER DISTRICT No. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**COUNTY WATER FUND**  
**for the year ended December 31, 2016**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 2,979,600	\$ 2,979,600	\$ 2,906,753	\$ (72,847)
Wholesale sales	773,000	773,000	682,904	(90,096)
Sewer billing contract revenue	42,000	42,000	42,279	279
Penalties, service fees and reimbursements	<u>316,600</u>	<u>316,600</u>	<u>317,042</u>	<u>442</u>
<b>Total operating revenue</b>	<u>4,111,200</u>	<u>4,111,200</u>	<u>3,948,978</u>	<u>(162,222)</u>
<b>OPERATING EXPENSES</b>				
Treatment	962,364	962,364	977,320	14,956
Transmission and distribution	706,761	706,761	755,094	48,333
Customer service	286,739	286,739	304,398	17,659
General and administrative expenses	270,778	270,778	271,361	583
Purchased water	109,100	109,100	20,955	(88,145)
General maintenance	81,133	81,133	70,464	(10,669)
Source of supply	<u>16,500</u>	<u>16,500</u>	<u>15,123</u>	<u>(1,377)</u>
<b>Total operating expense</b>	<u>2,433,375</u>	<u>2,433,375</u>	<u>2,414,715</u>	<u>(18,660)</u>
<b>Operating income before depreciation</b>	1,677,825	1,677,825	1,534,263	(143,562)
Depreciation and amortization expense	<u>(1,089,224)</u>	<u>(1,089,224)</u>	<u>(1,077,035)</u>	<u>12,189</u>
<b>OPERATING INCOME</b>	588,601	588,601	457,228	(131,373)
Non-operating income (expenses)				
Interest income	7,800	7,800	15,778	7,978
Interest expense	(222,800)	(222,800)	(234,508)	(11,708)
Cost of bond issuance	-	-	(68,666)	(68,666)
Transfers in (out)	-	-	(128)	(128)
Loss on sale of equipment	<u>-</u>	<u>-</u>	<u>(23,706)</u>	<u>(23,706)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	373,601	373,601	145,998	(227,603)
Grants	3,249,000	3,249,000	4,507,657	1,258,657
Tap fees	22,500	22,500	53,541	31,041
Customer contribution	<u>-</u>	<u>-</u>	<u>68,066</u>	<u>68,066</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 3,645,101</u>	<u>\$ 3,645,101</u>	<u>\$ 4,775,262</u>	<u>\$ 1,130,161</u>

Note 1: Adjustments to account for the changes in the net pension liability resulted in an increase in pension expense of \$96,435. Due to the uncertainty of the impact of the required net pension liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension liability.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**FORT KNOX WATER FUND**  
**for the year ended December 31, 2016**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 3,777,500	\$ 3,777,500	\$ 3,772,348	\$ (5,152)
Penalties, service fees and reimbursements	<u>346,000</u>	<u>346,000</u>	<u>347,435</u>	<u>1,435</u>
<b>Total operating revenue</b>	<u>4,123,500</u>	<u>4,123,500</u>	<u>4,119,783</u>	<u>(3,717)</u>
<b>OPERATING EXPENSES</b>				
Transmission and distribution	701,068	701,068	749,028	47,960
General and administrative expenses	<u>2,268,720</u>	<u>2,268,720</u>	<u>2,216,388</u>	<u>(52,332)</u>
<b>Total operating expense</b>	<u>2,969,788</u>	<u>2,969,788</u>	<u>2,965,416</u>	<u>(4,372)</u>
<b>Operating income before depreciation</b>	1,153,712	1,153,712	1,154,367	655
Depreciation and amortization expense	<u>(373,150)</u>	<u>(373,150)</u>	<u>(405,950)</u>	<u>(32,800)</u>
<b>OPERATING INCOME</b>	780,562	780,562	748,417	(32,145)
Non-operating income (expenses)				
Interest income	37,000	37,000	72,330	35,330
Transfers in (out)	-	-	173	173
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(5,401)</u>	<u>(5,401)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	817,562	817,562	815,519	(2,043)
Tap fees	-	-	1,023	1,023
Customer contribution	<u>3,632,000</u>	<u>3,632,000</u>	<u>3,631,969</u>	<u>(31)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 4,449,562</u>	<u>\$ 4,449,562</u>	<u>\$ 4,448,511</u>	<u>\$ (1,051)</u>

Note 1: Adjustments to account for the changes in the net pension liability resulted in an increase in pension expense of \$149,793. Due to the uncertainty of the impact of the required net pension liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension liability.



**HARDIN COUNTY WATER DISTRICT No. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**FORT KNOX SEWER FUND**  
**for the year ended December 31, 2016**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 2,895,827	\$ 2,895,827	\$ 2,886,585	\$ (9,242)
Penalties, service fees and reimbursements	<u>59,800</u>	<u>59,800</u>	<u>25,402</u>	<u>(34,398)</u>
<b>Total operating revenue</b>	<u>2,955,627</u>	<u>2,955,627</u>	<u>2,911,987</u>	<u>(43,640)</u>
<b>OPERATING EXPENSES</b>				
Professional services	12,622	12,622	6,721	(5,901)
Contractual obligations	1,949,595	1,949,595	1,872,385	(77,210)
Insurance	28,100	28,100	28,093	(7)
Customer service	23,726	23,726	15,837	(7,889)
Other	<u>11,200</u>	<u>11,200</u>	<u>11,653</u>	<u>453</u>
<b>Total operating expense</b>	<u>2,025,243</u>	<u>2,025,243</u>	<u>1,934,689</u>	<u>(90,554)</u>
<b>Operating income before depreciation</b>	930,384	930,384	977,298	46,914
Depreciation and amortization expense	<u>(848,908)</u>	<u>(848,908)</u>	<u>(836,653)</u>	<u>12,255</u>
<b>OPERATING INCOME</b>	81,476	81,476	140,645	59,169
Non-operating income (expenses)				
Interest income	12,100	12,100	14,966	2,866
Interest expense	(700)	(700)	(972)	(272)
Transfers in (out)	-	-	52,265	52,265
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(5,234)</u>	<u>(5,234)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	92,876	92,876	201,670	108,794
Customer contributions	<u>1,277,000</u>	<u>1,277,000</u>	<u>656,499</u>	<u>(620,501)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,369,876</u>	<u>\$ 1,369,876</u>	<u>\$ 858,169</u>	<u>\$ (511,707)</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**RADCLIFF SEWER FUND**  
**for the year ended December 31, 2016**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 3,827,700	\$ 3,827,700	\$ 3,679,848	\$ (147,852)
Penalties, service fees and reimbursements	<u>220,200</u>	<u>220,200</u>	<u>226,795</u>	<u>6,595</u>
<b>Total operating revenue</b>	<u>4,047,900</u>	<u>4,047,900</u>	<u>3,906,643</u>	<u>(141,257)</u>
<b>OPERATING EXPENSES</b>				
Treatment	647,709	647,709	697,845	50,136
Transmission and distribution	835,909	835,909	923,764	87,855
Professional services	17,459	17,459	1,074	(16,385)
Insurance	28,100	28,100	29,317	1,217
Customer service	529,677	529,677	576,288	46,611
Sewer administration	59,285	59,285	144,014	84,729
Sewer commission	20,903	20,903	28,502	7,599
System maintenance	<u>5,402</u>	<u>5,402</u>	<u>6,769</u>	<u>1,367</u>
<b>Total operating expense</b>	<u>2,144,444</u>	<u>2,144,444</u>	<u>2,407,573</u>	<u>263,129</u>
<b>Operating income before depreciation</b>	1,903,456	1,903,456	1,499,070	(404,386)
Depreciation and amortization expense	<u>(1,074,936)</u>	<u>(1,074,936)</u>	<u>(1,109,954)</u>	<u>(35,018)</u>
<b>OPERATING INCOME (LOSS)</b>	828,520	828,520	389,116	(439,404)
Non-operating income (expenses)				
Interest income	8,500	8,500	9,868	1,368
Interest expense	(36,200)	(36,200)	(37,234)	(1,034)
Transfers in (out)	-	-	(64,319)	(64,319)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(88,986)</u>	<u>(88,986)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	800,820	800,820	208,445	(592,375)
Grants	1,356,500	1,356,500	214,236	(1,142,264)
Tap fees	<u>1,500</u>	<u>1,500</u>	<u>-</u>	<u>(1,500)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 2,158,820</u>	<u>\$ 2,158,820</u>	<u>\$ 422,681</u>	<u>\$ (1,736,139)</u>

Note 1: Adjustments to account for the changes in the net pension liability resulted in an increase in pension expense of \$438,318. Due to the uncertainty of the impact of the required net pension liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension liability.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**STORMWATER FUND**  
**for the year ended December 31, 2016**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Stormwater revenue	\$ 477,800	\$ 477,800	\$ 477,792	\$ (8)
Penalties, service fees and reimbursements	<u>35,600</u>	<u>35,600</u>	<u>31,035</u>	<u>(4,565)</u>
<b>Total operating revenue</b>	<u>513,400</u>	<u>513,400</u>	<u>508,827</u>	<u>(4,573)</u>
<b>OPERATING EXPENSES</b>				
Professional services	1,970	1,970	1,637	(333)
Contractual obligations	309,283	309,283	292,896	(16,387)
Insurance	3,400	3,400	3,382	(18)
Customer service	772	772	793	21
Other	<u>20,740</u>	<u>20,740</u>	<u>21,424</u>	<u>684</u>
<b>Total operating expense</b>	<u>336,165</u>	<u>336,165</u>	<u>320,132</u>	<u>(16,033)</u>
<b>Operating income before depreciation</b>	177,235	177,235	188,695	11,460
Depreciation and amortization expense	<u>(91,707)</u>	<u>(91,707)</u>	<u>(87,258)</u>	<u>4,449</u>
<b>OPERATING INCOME</b>	85,528	85,528	101,437	15,909
Non-operating income (expenses)				
Interest income	1,800	1,800	1,926	126
Transfers in (out)	<u>-</u>	<u>-</u>	<u>12,009</u>	<u>12,009</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	87,328	87,328	115,372	28,044
Customer contributions	<u>774,100</u>	<u>774,100</u>	<u>716,733</u>	<u>(57,367)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 861,428</u>	<u>\$ 861,428</u>	<u>\$ 832,105</u>	<u>\$ (29,323)</u>

**COMBINING FUND STATEMENTS**

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINING WATER STATEMENT OF NET POSITION**  
**December 31, 2016**

	County Water	Ft. Knox Water	Total	2015 Totals
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,033,776	\$ 16,156,891	\$ 17,190,667	\$ 12,976,480
Short-term certificates of deposit	128,685	3,145,402	3,274,087	3,239,065
Customer accounts receivable, net	274,140	245,094	519,234	511,938
Other accounts receivable	1,463,871	400,723	1,864,594	522,739
Interest receivable	2,257	9,514	11,771	9,513
Due from other funds	-	-	-	-
Inventory - materials and supplies	203,657	61,969	265,626	390,900
Prepaid expenses	<u>80,648</u>	<u>13,444</u>	<u>94,092</u>	<u>89,816</u>
Total current assets	<u>3,187,034</u>	<u>20,033,037</u>	<u>23,220,071</u>	<u>17,740,451</u>
Other assets				
Long-term certificates of deposits	669,149	-	669,149	662,635
Restricted funds	<u>1,330,633</u>	<u>-</u>	<u>1,330,633</u>	<u>1,643,786</u>
Total other assets	<u>1,999,782</u>	<u>-</u>	<u>1,999,782</u>	<u>2,306,421</u>
Property, plant and equipment				
Land and easements	273,045	-	273,045	273,045
Construction in progress	6,469,422	584,633	7,054,055	6,009,666
Plant and lines	39,579,476	14,479,539	54,059,015	49,204,396
Vehicles and equipment	<u>4,108,069</u>	<u>1,806,668</u>	<u>5,914,737</u>	<u>5,622,381</u>
Total	50,430,012	16,870,840	67,300,852	61,109,488
Less: accumulated depreciation	<u>(16,889,651)</u>	<u>(1,972,879)</u>	<u>(18,862,530)</u>	<u>(17,466,781)</u>
Total property, plant, and equipment	<u>33,540,361</u>	<u>14,897,961</u>	<u>48,438,322</u>	<u>43,642,707</u>
<b>TOTAL ASSETS</b>	<u><b>38,727,177</b></u>	<u><b>34,930,998</b></u>	<u><b>73,658,175</b></u>	<u><b>63,689,579</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources - pension	<u>767,095</u>	<u>392,864</u>	<u>1,159,959</u>	<u>465,684</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>\$ 39,494,272</b></u>	<u><b>\$ 35,323,862</b></u>	<u><b>\$ 74,818,134</b></u>	<u><b>\$ 64,155,263</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable	\$ 1,671,362	\$ 259,166	\$ 1,930,528	\$ 827,449
Due to other funds	50,429	68,224	118,653	231,225
Customers' deposits	188,209	-	188,209	185,462
Accrued expenses	45,818	14,097	59,915	73,224
Reserve for unclaimed funds - escheatment	8,272	-	8,272	9,860
Unearned rent revenue	40,736	-	40,736	20,736
Line of credit	585,119	-	585,119	-
Liabilities payable from restricted assets:				
Current portion of long-term debt	745,000	6,832	751,832	761,983
Accrued interest on long-term debt	<u>5,899</u>	<u>-</u>	<u>5,899</u>	<u>49,294</u>
Total current liabilities	<u>3,340,844</u>	<u>348,319</u>	<u>3,689,163</u>	<u>2,159,233</u>
Long-term liabilities				
Bonds payable	5,210,000	-	5,210,000	6,170,000
Other long-term debt	-	-	-	6,832
Net pension liability	2,516,787	1,288,959	3,805,746	2,864,531
Compensated absences	<u>59,490</u>	<u>15,840</u>	<u>75,330</u>	<u>75,592</u>
Total long-term liabilities	<u>7,786,277</u>	<u>1,304,799</u>	<u>9,091,076</u>	<u>9,116,955</u>
Other liabilities				
Customer advances for construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,241</u>
Total liabilities	<u>11,127,121</u>	<u>1,653,118</u>	<u>12,780,239</u>	<u>11,339,429</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources - pension	<u>1,360</u>	<u>696</u>	<u>2,056</u>	<u>3,768</u>
Net position				
Net investment in capital assets	26,994,343	14,891,129	41,885,472	36,770,685
Restricted	1,330,633	-	1,330,633	1,643,786
Unrestricted	<u>40,815</u>	<u>18,778,919</u>	<u>18,819,734</u>	<u>14,397,595</u>
Total net position	<u>28,365,791</u>	<u>33,670,048</u>	<u>62,035,839</u>	<u>52,812,066</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><b>\$ 39,494,272</b></u>	<u><b>\$ 35,323,862</b></u>	<u><b>\$ 74,818,134</b></u>	<u><b>\$ 64,155,263</b></u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINING WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
for the year ended December 31, 2016

	County Water	Fort Knox Water	Total	2015 Totals
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 2,906,753	\$ 3,772,348	\$ 6,679,101	\$ 6,669,837
Wholesale sales	682,904	-	682,904	729,876
Sewer billing contract revenue	42,279	-	42,279	37,958
Penalties, service fees and reimbursements	<u>317,042</u>	<u>347,435</u>	<u>664,477</u>	<u>655,279</u>
<b>Total operating revenue</b>	<u>3,948,978</u>	<u>4,119,783</u>	<u>8,068,761</u>	<u>8,092,950</u>
<b>OPERATING EXPENSES</b>				
Treatment	977,320	-	977,320	937,677
Distribution	755,094	749,028	1,504,122	1,298,325
Customer service	304,398	-	304,398	285,714
General and administrative expenses	271,361	2,216,388	2,487,749	2,556,794
Purchased water	20,955	-	20,955	75,743
General maintenance	70,464	-	70,464	73,301
Source of supply	<u>15,123</u>	<u>-</u>	<u>15,123</u>	<u>8,598</u>
<b>Total operating expense</b>	<u>2,414,715</u>	<u>2,965,416</u>	<u>5,380,131</u>	<u>5,236,152</u>
<b>Operating income before depreciation</b>	1,534,263	1,154,367	2,688,630	2,856,798
Depreciation and amortization expense	<u>(1,077,035)</u>	<u>(405,950)</u>	<u>(1,482,985)</u>	<u>(1,442,684)</u>
<b>OPERATING INCOME</b>	457,228	748,417	1,205,645	1,414,114
Non-operating income (expenses)				
Interest income	15,778	72,330	88,108	68,622
Interest expense	(234,508)	-	(234,508)	(243,001)
Cost of bond issuance	(68,666)	-	(68,666)	-
Transfers in (out)	(128)	173	45	-
(Loss) on sale of equipment	<u>(23,706)</u>	<u>(5,401)</u>	<u>(29,107)</u>	<u>(925)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	145,998	815,519	961,517	1,238,810
Capital Contributions				
Grants	4,507,657	-	4,507,657	326,753
Tap fees	53,541	1,023	54,564	31,977
Customer contributions	<u>68,066</u>	<u>3,631,969</u>	<u>3,700,035</u>	<u>3,644,893</u>
<b>CHANGE IN NET POSITION</b>	4,775,262	4,448,511	9,223,773	5,242,433
Net position, beginning of year, as restated	<u>23,590,529</u>	<u>29,221,537</u>	<u>52,812,066</u>	<u>47,569,633</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 28,365,791</u>	<u>\$ 33,670,048</u>	<u>\$ 62,035,839</u>	<u>\$ 52,812,066</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINING WATER STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2016

	County Water	Ft. Knox Water	Total	2015 Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,960,604	\$ 4,119,838	\$ 8,080,442	\$ 8,122,975
Payments to suppliers	(1,222,791)	(2,256,235)	(3,479,026)	(3,363,284)
Payments for employee services and benefits	<u>(1,350,235)</u>	<u>(685,324)</u>	<u>(2,035,559)</u>	<u>(1,979,855)</u>
<b>Net cash provided by operating activities</b>	<u>1,387,578</u>	<u>1,178,279</u>	<u>2,565,857</u>	<u>2,779,836</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Receipts (payments) on interfund loans	<u>(95,879)</u>	<u>(9,705)</u>	<u>(105,584)</u>	<u>-</u>
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>(95,879)</u>	<u>(9,705)</u>	<u>(105,584)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on long-term debt	(5,060,000)	(81,983)	(5,141,983)	(746,983)
Proceeds from issuance of debt	4,165,000	-	4,165,000	-
Line of credit proceeds net of payments	585,119	-	585,119	-
Interest paid on long-term debt	(277,903)	-	(277,903)	(246,971)
Contributions in aid of construction	53,541	3,632,992	3,686,533	3,663,946
Grants	3,234,892	-	3,234,892	326,754
Proceeds from sale of equipment	9,069	-	9,069	20,190
Acquisition and construction of capital assets	(3,952,016)	(849,023)	(4,801,039)	(3,383,913)
Cash (paid) under advance construction contract	<u>(63,241)</u>	<u>-</u>	<u>(63,241)</u>	<u>(12,924)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(1,305,539)</u>	<u>2,701,986</u>	<u>1,396,447</u>	<u>(379,901)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	15,191	70,659	85,850	70,613
Redemption of investments	1,550,453	-	1,550,453	715,491
Purchase of investments	<u>(1,245,241)</u>	<u>(33,595)</u>	<u>(1,278,836)</u>	<u>(9,263)</u>
<b>Net cash provided by investing activities</b>	<u>320,403</u>	<u>37,064</u>	<u>357,467</u>	<u>776,841</u>
<b>NET INCREASE IN CASH</b>	<u>306,563</u>	<u>3,907,624</u>	<u>4,214,187</u>	<u>3,176,776</u>
Cash and cash equivalents, beginning of year	<u>727,213</u>	<u>12,249,267</u>	<u>12,976,480</u>	<u>9,799,704</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,033,776</u>	<u>\$ 16,156,891</u>	<u>\$ 17,190,667</u>	<u>\$ 12,976,480</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 457,228	\$ 748,417	\$ 1,205,645	\$ 1,414,114
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,077,035	405,950	1,482,985	1,442,684
Net change in pension liability	96,435	148,793	245,228	100,372
Change in assets and liabilities:				
Accounts receivable	(8,374)	55	(8,319)	(117,699)
Prepaid expenses	(3,682)	(593)	(4,275)	18,395
Due from other funds	-	-	-	143,384
Inventory	114,270	11,004	125,274	(130,880)
Accounts payable	(352,670)	(135,600)	(488,270)	(167,521)
Unearned revenue	20,000	-	20,000	4,340
Accrued expenses	(15,307)	1,999	(13,308)	31,037
Compensated absences	1,484	-	1,484	(2,063)
Due to other funds	-	-	-	27,203
Other payables	<u>1,159</u>	<u>(1,746)</u>	<u>(587)</u>	<u>16,470</u>
<b>Net cash provided by operating activities</b>	<u>\$ 1,387,578</u>	<u>\$ 1,178,279</u>	<u>\$ 2,565,857</u>	<u>\$ 2,779,836</u>
<b>Schedule of non-cash capital and financing activities:</b>				
Non-cash capital contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,924</u>
Capital asset additions included in accounts payable	<u>\$ 1,502,845</u>	<u>\$ 88,504</u>	<u>\$ 1,591,349</u>	<u>\$ 191,465</u>
Loss on disposal of assets allocated to other funds	<u>\$ 26,134</u>	<u>\$ -</u>	<u>\$ 26,134</u>	<u>\$ 4,839</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINING SEWER STATEMENT OF NET POSITION**  
**December 31, 2016**

	Ft. Knox Sewer	Radcliff Sewer	Total	2015 Totals
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 3,159,831	\$ 4,084,923	\$ 7,244,754	\$ 5,183,509
Customer accounts receivable, net	942,399	236,877	1,179,276	917,623
Grant receivable	70,699	27,232	97,931	604,685
Inventory	-	1,232	1,232	1,445
Prepaid expenses	2,852	45,267	48,119	47,147
Due from other funds	<u>19,435</u>	<u>127,787</u>	<u>147,222</u>	<u>-</u>
Total current assets	<u>4,195,216</u>	<u>4,523,318</u>	<u>8,718,534</u>	<u>6,754,409</u>
Other assets				
Restricted assets - reserve funds	-	342,132	342,132	341,743
Unamortized rate case expense	-	74,381	74,381	105,159.00
Unamortized Radcliff acquisition costs, net	<u>-</u>	<u>165,701</u>	<u>165,701</u>	<u>174,802</u>
Total other assets	<u>-</u>	<u>582,214</u>	<u>582,214</u>	<u>621,704</u>
Property, plant and equipment				
Land and easements	-	9,544	9,544	9,544
Construction in progress	1,212,157	676,882	1,889,039	5,473,566
Plant and lines	86,314,069	37,676,922	123,990,991	119,283,505
Vehicles and equipment	<u>900,360</u>	<u>1,412,962</u>	<u>2,313,322</u>	<u>1,966,675</u>
Total	88,426,586	39,776,310	128,202,896	126,733,290
Less: accumulated depreciation	<u>(64,914,413)</u>	<u>(18,398,560)</u>	<u>(83,312,973)</u>	<u>(81,549,465)</u>
Total property, plant, and equipment	<u>23,512,173</u>	<u>21,377,750</u>	<u>44,889,923</u>	<u>45,183,825</u>
TOTAL ASSETS	<u>27,707,389</u>	<u>26,483,282</u>	<u>54,190,671</u>	<u>52,559,938</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources - pension	<u>-</u>	<u>526,634</u>	<u>526,634</u>	<u>148,048</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 27,707,389</u>	<u>\$ 27,009,916</u>	<u>\$ 54,717,305</u>	<u>\$ 52,707,986</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable	\$ 236,697	\$ 208,184	\$ 444,881	\$ 438,069
Due to other funds	-	-	-	(232,830)
Customers' deposits	-	174,116	174,116	163,683
Accrued expenses	4,250	21,929	26,179	54,399
Liabilities payable from restricted assets:				
Current portion of long-term debt	-	323,938	323,938	311,971
Accrued interest on long-term debt	<u>-</u>	<u>2,201</u>	<u>2,201</u>	<u>3,241</u>
Total current liabilities	<u>240,947</u>	<u>730,368</u>	<u>971,315</u>	<u>738,533</u>
Long-term liabilities				
Compensated absences	-	6,794	6,794	4,073
Net pension liability	-	1,727,849	1,727,849	910,680
Bonds payable	<u>-</u>	<u>336,365</u>	<u>336,365</u>	<u>660,303</u>
Total long-term liabilities	<u>-</u>	<u>2,071,008</u>	<u>2,071,008</u>	<u>1,575,056</u>
Total liabilities	<u>240,947</u>	<u>2,801,376</u>	<u>3,042,323</u>	<u>2,313,589</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources - pension	<u>-</u>	<u>933</u>	<u>933</u>	<u>1,198</u>
Net position				
Net investment in capital assets	23,512,173	20,715,246	44,227,419	44,208,310
Restricted	-	342,132	342,132	341,743
Unrestricted	<u>3,954,269</u>	<u>3,150,229</u>	<u>7,104,498</u>	<u>5,843,146</u>
Total net position	<u>27,466,442</u>	<u>24,207,607</u>	<u>51,674,049</u>	<u>50,393,199</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 27,707,389</u>	<u>\$ 27,009,916</u>	<u>\$ 54,717,305</u>	<u>\$ 52,707,986</u>



**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINING SEWER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**for the year ended December 31, 2016**

	<b>Ft. Knox Sewer</b>	<b>Radcliff Sewer</b>	<b>Total</b>	<b>2015 Totals</b>
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 2,886,585	\$ 3,679,848	\$ 6,566,433	\$ 6,532,453
Penalties, service fees and reimbursements	<u>25,402</u>	<u>226,795</u>	<u>252,197</u>	<u>236,409</u>
<b>Total operating revenue</b>	<u>2,911,987</u>	<u>3,906,643</u>	<u>6,818,630</u>	<u>6,768,862</u>
<b>OPERATING EXPENSES</b>				
Customer service	15,837	576,288	592,125	577,687
Sewer operations	<u>1,918,852</u>	<u>1,831,285</u>	<u>3,750,137</u>	<u>3,857,897</u>
<b>Total operating expense</b>	<u>1,934,689</u>	<u>2,407,573</u>	<u>4,342,262</u>	<u>4,435,584</u>
<b>Operating income before depreciation</b>	977,298	1,499,070	2,476,368	2,333,278
Depreciation and amortization expense	<u>(836,653)</u>	<u>(1,109,954)</u>	<u>(1,946,607)</u>	<u>(1,895,662)</u>
<b>OPERATING INCOME (LOSS)</b>	140,645	389,116	529,761	437,616
Non-operating income (expenses)				
Interest income	14,966	9,868	24,834	20,808
Interest expense	(972)	(37,234)	(38,206)	(49,017)
Transfers in (out)	52,265	(64,319)	(12,054)	-
(Loss) on sale of equipment	<u>(5,234)</u>	<u>(88,986)</u>	<u>(94,220)</u>	<u>(50,478)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	201,670	208,445	410,115	358,929
Capital Contributions				
Grants	-	214,236	214,236	738,410
Tap fees	-	-	-	900
Customer contributions	<u>656,499</u>	<u>-</u>	<u>656,499</u>	<u>605,953</u>
<b>CHANGE IN NET POSITION</b>	858,169	422,681	1,280,850	1,704,192
Net position, beginning of year	<u>26,608,273</u>	<u>23,784,926</u>	<u>50,393,199</u>	<u>48,689,007</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 27,466,442</u>	<u>\$ 24,207,607</u>	<u>\$ 51,674,049</u>	<u>\$ 50,393,199</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINING SEWER STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2016

	Ft. Knox Sewer	Radcliff Sewer	Total	2015 Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 2,677,465	\$ 3,879,512	\$ 6,556,977	\$ 5,908,726
Payments to suppliers	(2,042,855)	(993,142)	(3,035,997)	(3,852,571)
Payments for employee services and benefits	-	(949,185)	(949,185)	(666,646)
<b>Net cash provided by operating activities</b>	<u>634,610</u>	<u>1,937,185</u>	<u>2,571,795</u>	<u>1,389,509</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Receipts (payments) on interfund loans	107,869	(63,371)	44,498	-
<b>Net cash provided (used) by non-capital financing activities</b>	<u>107,869</u>	<u>(63,371)</u>	<u>44,498</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on long-term debt	-	(311,971)	(311,971)	(300,445)
Interest paid on long-term debt	(972)	(38,274)	(39,246)	(50,016)
Contributions in aid of construction	865,957	-	865,957	900
Grants	-	511,533	511,533	738,410
Proceeds from sale of equipment	-	29,135	29,135	172,400
Acquisition and construction of capital assets	(716,680)	(918,221)	(1,634,901)	(1,654,968)
<b>Net cash (used in) capital and related financing activities</b>	<u>148,305</u>	<u>(727,798)</u>	<u>(579,493)</u>	<u>(1,093,719)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	14,966	9,868	24,834	20,808
Redemption of investments	-	-	-	-
Purchase of investments	-	(389)	(389)	(478)
<b>Net cash provided by investing activities</b>	<u>14,966</u>	<u>9,479</u>	<u>24,445</u>	<u>20,330</u>
<b>NET INCREASE IN CASH</b>	905,750	1,155,495	2,061,245	316,120
Cash and cash equivalents, beginning of year	2,254,081	2,929,428	5,183,509	4,867,389
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,159,831</u>	<u>\$ 4,084,923</u>	<u>\$ 7,244,754</u>	<u>\$ 5,183,509</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 140,645	\$ 389,116	\$ 529,761	\$ 437,616
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	836,653	1,109,954	1,946,607	1,895,662
Net change in pension liability	-	438,318	438,318	31,911
Change in assets and liabilities:				
Accounts receivable	(234,522)	(27,131)	(261,653)	(692,048)
Prepaid expenses	(7)	(965)	(972)	5,070
Inventory	-	213	213	10,928
Due from other funds	-	-	-	(177,034)
Accounts payable	(108,159)	42,746	(65,413)	(167,593)
Accrued expenses	-	(28,220)	(28,220)	18,854
Due to other funds	-	-	-	8,946
Other payables	-	13,154	13,154	17,197
<b>Net cash provided by operating activities</b>	<u>\$ 634,610</u>	<u>\$ 1,937,185</u>	<u>\$ 2,571,795</u>	<u>\$ 1,389,509</u>
Schedule of non-cash capital and financing activities:				
Non-cash capital contributions	\$ -	\$ -	\$ -	\$ 605,953
Fixed asset additions included in accounts payable	\$ 45,300	\$ 26,925	\$ 72,225	\$ 138,786
Loss on disposal of assets allocated from other funds	\$ 229	\$ 23,822	\$ 24,051	\$ 1,374



**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, 2016, 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 June 15, 2017.

**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 opinion 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.

**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.

The logo for RFH, PLLC, consisting of the letters 'RFH' in a bold, stylized, handwritten-style font.

RFH, PLLC  
Lexington, Kentucky  
June 15, 2017