

HARDIN COUNTY WATER DISTRICT No. 1
Radcliff, Kentucky

FINANCIAL STATEMENTS
December 31, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Hardin County Water District No.1, as of December 31, 2015, 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 opinions on the financial statements that collectively comprise Hardin County Water District No. 1's basic financial statements. The budgetary comparisons and the combining statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2016, 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

June 24, 2016

Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 60 Years

1400 Rogersville Road
Radcliff, KY. 40160

July 26, 2016

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

SUBJECT: 2015 Annual Report & Managements's Discussion and Analysis

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

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

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 \$5,603,551. Total net assets (net position) increased by \$4,159,547 (+ 4% [percent changes in parentheses represent change from 2014]). Total revenues, including interest income, increased by \$21,079 or + 0.14% compared to 2014. Operating income before depreciation was \$5,352,433 (+ 1.4%) and net income after depreciation (gross of non-operating income and expenses) was \$1,926,958. This amount was 12.6% of total operating revenues. Total net assets at the end of the year were \$109,244,517 (+ 4%).

Cash used for capital construction was \$5,088,973 (- 1.4%), of which 92.9% was provided by government grants (both Kentucky and U.S. Government/Dept. of Defense). Principal payments to reduce bond debt were \$1,047,428 (+ 2.6%) and at year end the consolidated outstanding debt principal was \$7,911,089 (- 11.7%). Total working capital (unrestricted cash + investments) at year end increased by 13.8% to \$22,759,949. Of all reserves (cash + investments), 92% (+ 1%) were unrestricted and available as working capital for capital construction or operations. At the beginning of 2016 we also had total of \$8,277,589 (- 5.8%) of available state or federal grant funding for future capital construction projects. An additional \$5,196,131 will become available through ISDC (Initial System Deficiency Corrections) funding through January, 2017 as part of the Ft. Knox Water system, utility privatization funding.

Continued

Individual Fund Highlights:

County Water: Total operating expenses (excluding debt interest and depreciation) were 1.8% less than budgeted. Revenues were 1.2% less than budgeted. Net income after depreciation and interest expense decreased by 49% from 2014. Water sales decreased by 2.3% and net assets increased by 2.7%. The bond coverage ratio was 2.84 (- 4.4% from 2014) which is approximately 2.4 times the required 1.20.

Ft. Knox Water: 2015 was the third year of operations and financial results for this fund. Total operating revenues were \$4,183,085 including interest income (- 0.17%). Net income before depreciation was \$1,294,229 (- 6%) down due to increased operating expenses. Net income after depreciation and amortized expenses was \$930,225 (- 10.1%) which is 22.5% of revenues. Net assets at year end were \$29,221,537 (+ 15.4%) and construction in progress was valued at \$4,073,318 (+ 92.5%). Working capital and cash available for capital construction was \$15,361,074 (+ 18.1%).

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues decreased slightly by 0.03%. Total operating income, before depreciation expense was \$1,110,768 (- 5.6%). Total net assets increased by 2.1%. Total expended for construction was \$567,824 (56.5%) of which almost all was provided by contributed capital (direct grants) from the Government. At the beginning of 2016, the fund had a balance of \$2,952,340 (+ 1.2%) available for construction projects and capital improvements. An additional \$2,197,260 is also available in direct Government funding for future capital construction projects.

Radcliff Sewer: Total revenues (including interest income) were \$3,859,131 (+ 3.5%) which was 6.4% below revenue estimates. Total operating expenses (excluding depreciation) were 3.6% less than budgeted. Total net assets increased 1.1% to \$23,784,926 and at year end we had construction in progress assets of \$2,245,684 (+ 37.4%). Of the \$1,137,236 expended for construction (+ 25.8%), 65% was funded by state grants. At year end the total cash & investment reserve balance was \$3,271,171 (+ 8.2%) of which 90% was unrestricted and available for capital construction or operations. At year end a total of \$1,270,353 (- 36.7%) in state grants are available for future capital construction projects. The fund had net operating income before depreciation and debt interest of \$1,384,866 (+ 61.8%) with a net operating income of \$294,194 (7.6% of revenues) after those expenses compared to a 2014 net operating loss of \$284,469.

The District took over operations of the Radcliff system on July 1, 2015. The reduced operating expenses, compared to paying for contracted private operations, plus the increase in rates approved by the Public Service Commission in 2014, have made a significant improvement to the net income of this fund. Comparing the five month period from January through May month end, from 2015 to 2016, net income has improved by \$365,013.

GASB 68 Impact:

The new GASB rule for reporting pension liability has now been fully incorporated into the 2015 Audit report and financial statements. A full explanation and calculations are explained with Note 10, shown on pages 15 ~ 18. The impact to the District's net position as a result of this estimated liability was a decrease of \$3,775,211. This is equivalent to a 3.8% decrease from the 2014 year end net position. The estimate used for this audit required a calculation provided by the Kentucky Retirement Systems

Continued

(CERS), which was not provided until mid June, causing this final audit report to be available much later than normal.

Operational Changes & Statistics

During 2015 a total of 1,690 MG (million gallons) of potable water was treated (+/- 0%) and a total of 25.6 MG was purchased for resale (+ 33%). Total water delivered to the systems (County and Ft. Knox combined) was 1,496 MG. The maximum demand day was 8.641 MG (+ 15.5%) and occurred on 12-May. The average daily water demand for the year was 4.630 MG (- 0.6%). A total of 35 new water services were installed, down 29% from 2014, which is a reflection of the continued soft new construction market in Radcliff and Hardin County. Wholesale customers purchased 364.9 MG (- 0.5%), which was equivalent to 21.3% of total water produced and purchased volume.


The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,507 MG (+ 5.2%) due to more rainfall than during 2014. This resulted in an average daily flow of clean, recycled water into streams of 4.129 MG. The maximum day treated was 18.493 MG and occurred on 4-March.

On 1-July-2016 a ground breaking event was held at the site of the new Louisville Water Company Interconnect Project. Bids were opened on 15-January-2016 and a Certificate of Public Convenience & Necessity received from the Public Service Commission on 12-April-2016. The project will be financed by a \$4.5 million BRAC grant and the balance from District reserves. The \$6.5 million project is expected to be completed in 2017 and will provide a new supplemental purchased water supply for the District, at a lower cost than the current U.S. Government / Ft. Knox supply which we have used since 1998.

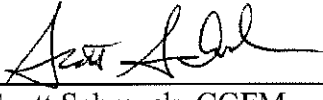
On 2-February-2016 an application was filed with Rural Development / RUS for a loan to construction a 16 inch transmission main extension. This \$1.3 million project would allow the District to increase its sales to Meade County Water District, possibly providing them up to 100% of their water needs. The application included a request to increase water rates (retail and wholesale) by 18%. If approved, this would be the first general rate increase since 2007. This along with the increased wholesale sales revenue would improve the financial position of the County Water fund.

At present we have 19 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 \$16 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, 2015

ASSETS	Water Total	Sewer Total	Storm Water	Total
Current assets				
Cash and cash equivalents	\$ 12,976,480	\$ 5,183,509	\$ 698,260	\$ 18,858,249
Short-term certificates of deposit	3,239,065	-	-	3,239,065
Customer accounts receivable, net	511,938	917,623	119,449	1,549,010
Other accounts receivable	522,739	604,685	52,575	1,179,999
Interest receivable	9,513	-	-	9,513
Inventory - materials and supplies	390,900	1,445	-	392,345
Prepaid expenses	89,816	47,147	150	137,113
Total current assets	<u>17,740,451</u>	<u>6,754,409</u>	<u>870,434</u>	<u>25,365,294</u>
Non-current assets				
Long-term certificates of deposits	662,635	-	-	662,635
Restricted assets - reserve funds	1,643,786	341,743	-	1,985,529
Unamortized rate case expense	-	105,159	-	105,159
Unamortized acquisition costs	-	174,802	-	174,802
Total non-current assets	<u>2,306,421</u>	<u>621,704</u>	<u>-</u>	<u>2,928,125</u>
Property, plant and equipment				
Land and easements	273,045	9,544	-	282,589
Construction in progress	6,009,666	5,473,566	1,793,345	13,276,577
Plant and lines	49,204,396	119,283,505	3,449,215	171,937,116
Vehicles and equipment	5,622,381	1,966,675	176,546	7,765,602
Total	61,109,488	126,733,290	5,419,106	193,261,884
Less: accumulated depreciation	<u>(17,466,781)</u>	<u>(81,549,465)</u>	<u>(364,035)</u>	<u>(99,380,281)</u>
Total property, plant, and equipment	<u>43,642,707</u>	<u>45,183,825</u>	<u>5,055,071</u>	<u>93,881,603</u>
Total assets	<u>63,689,579</u>	<u>52,559,938</u>	<u>5,925,505</u>	<u>122,175,022</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	465,684	148,048	-	613,732
Total assets and deferred outflows of resources	<u>\$ 64,155,263</u>	<u>\$ 52,707,986</u>	<u>\$ 5,925,505</u>	<u>\$ 122,788,754</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 827,449	\$ 438,069	\$ -	\$ 1,265,518
Due to (from) other funds	231,225	(232,830)	1,605	-
Customers' deposits	185,462	163,683	-	349,145
Accrued expenses	73,223	54,399	736	128,358
Reserve for unclaimed funds - escheatment	9,860	-	-	9,860
Unearned rent revenue	20,736	-	-	20,736
Liabilities payable from restricted assets:				
Current portion of long-term debt	761,983	311,971	-	1,073,954
Accrued interest on long-term debt	49,294	3,241	-	52,535
Total current liabilities	<u>2,159,232</u>	<u>738,533</u>	<u>2,341</u>	<u>2,900,106</u>
Long-term liabilities				
Bonds and notes payable, net of unamortized discount	6,053,913	660,303	-	6,714,216
Other long-term debt	6,832	-	-	6,832
Net pension liability	2,864,531	910,680	-	3,775,211
Compensated absences	75,592	4,073	-	79,665
Long-term liabilities, net	<u>9,000,868</u>	<u>1,575,056</u>	<u>-</u>	<u>10,575,924</u>
Other liabilities				
Customer advances for construction	63,241	-	-	63,241
Total liabilities	<u>11,223,341</u>	<u>2,313,589</u>	<u>2,341</u>	<u>13,539,271</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	3,768	1,198	-	4,966
Net position				
Net investment in capital assets	36,770,685	44,208,310	5,055,071	86,034,066
Restricted	1,643,786	341,743	-	1,985,529
Unrestricted	14,513,683	5,843,146	868,093	21,224,922
Total net position	<u>52,928,154</u>	<u>50,393,199</u>	<u>5,923,164</u>	<u>109,244,517</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 64,155,263</u>	<u>\$ 52,707,986</u>	<u>\$ 5,925,505</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, 2015

	Water Total	Sewer Total	Storm Water	Total
OPERATING REVENUE				
Metered water sales	\$ 6,669,837	\$ -	\$ -	\$ 6,669,837
Wholesale sales	729,876	-	-	729,876
Sewer billing contract revenue	37,958	-	-	37,958
Sewer service revenue	-	6,532,453	-	6,532,453
Stormwater service revenue	-	-	477,792	477,792
Penalties, service fees and reimbursements	655,279	236,409	7,485	899,173
Total operating revenue	8,092,950	6,768,862	485,277	15,347,089
OPERATING EXPENSES				
Treatment	937,677	-	-	937,677
Distribution	1,298,324	-	-	1,298,324
Customer service	285,714	577,687	-	863,401
General and administrative expenses	2,556,794	3,857,897	-	6,414,691
Purchased water	75,743	-	-	75,743
General maintenance	73,301	-	-	73,301
Source of supply	8,598	-	-	8,598
Stormwater	-	-	322,921	322,921
Total operating expense	5,236,151	4,435,584	322,921	9,994,656
Operating income before depreciation	2,856,799	2,333,278	162,356	5,352,433
Depreciation and amortization expense	(1,442,684)	(1,895,662)	(87,129)	(3,425,475)
OPERATING INCOME	1,414,115	437,616	75,227	1,926,958
Non-operating income (expenses)				
Interest income	68,622	20,808	1,746	91,176
Interest expense	(243,001)	(49,017)	-	(292,018)
(Loss) on disposal of equipment	(925)	(50,478)	-	(51,403)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,238,811	358,929	76,973	1,674,713
Capital Contributions				
Grants	326,754	738,410	-	1,065,164
Tap fees	31,977	900	-	32,877
Customer contributions	3,644,893	605,953	170,109	4,420,955
CHANGE IN NET POSITION	5,242,435	1,704,192	247,082	7,193,709
Net position, beginning of year, as restated	47,685,719	48,689,007	5,676,082	102,050,808
NET POSITION, END OF YEAR	\$ 52,928,154	\$ 50,393,199	\$ 5,923,164	\$ 109,244,517

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, 2015

	<u>Water Total</u>	<u>Sewer Total</u>	<u>Storm Water</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 8,122,975	\$ 5,908,726	\$ 392,971	\$ 14,424,672
Payments to suppliers	(3,363,284)	(3,852,571)	(377,646)	(7,593,501)
Payments for employee services and benefits	<u>(1,979,855)</u>	<u>(666,646)</u>	<u>-</u>	<u>(2,646,501)</u>
Net cash provided by operating activities	<u>2,779,836</u>	<u>1,389,509</u>	<u>15,325</u>	<u>4,184,670</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	(746,983)	(300,445)	-	(1,047,428)
Interest paid on long-term debt	(246,971)	(50,016)	-	(296,987)
Contributions in aid of construction	3,663,946	900	-	3,664,846
Grants	326,754	738,410	-	1,065,164
Proceeds from sale of equipment	20,190	172,400	-	192,590
Acquisition and construction of capital assets	(3,383,913)	(1,654,968)	(50,092)	(5,088,973)
Cash (paid) under advance construction contract	<u>(12,924)</u>	<u>-</u>	<u>-</u>	<u>(12,924)</u>
Net cash (used in) capital and related financing activities	<u>(379,901)</u>	<u>(1,093,719)</u>	<u>(50,092)</u>	<u>(1,523,712)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	70,613	20,808	1,746	93,167
Redemption of investments	715,491	-	-	715,491
Purchase of investments	<u>(9,263)</u>	<u>(478)</u>	<u>-</u>	<u>(9,741)</u>
Net cash provided by investing activities	<u>776,841</u>	<u>20,330</u>	<u>1,746</u>	<u>798,917</u>
NET INCREASE (DECREASE) IN CASH	3,176,776	316,120	(33,021)	3,459,875
Cash and cash equivalents, beginning of year	<u>9,799,704</u>	<u>4,867,389</u>	<u>731,281</u>	<u>15,398,374</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,976,480</u>	<u>\$ 5,183,509</u>	<u>\$ 698,260</u>	<u>\$ 18,858,249</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,414,115	\$ 437,616	\$ 75,227	\$ 1,926,958
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	1,442,684	1,895,662	87,129	3,425,475
Change in assets and liabilities:				
Accounts receivable	(117,699)	(692,048)	(89,806)	(899,553)
Prepaid expenses	18,395	5,070	258	23,723
Due from other funds	143,384	(177,034)	-	(33,650)
Inventory	(130,881)	10,928	-	(119,953)
Accounts payable	(167,521)	(167,593)	(54,983)	(390,097)
Unearned revenue	4,340	-	-	4,340
Accrued expenses	31,037	18,854	-	49,891
Compensated absences	(2,063)	-	-	(2,063)
Due to other funds	27,203	8,946	(2,500)	33,649
Net pension liability	100,372	31,911	-	132,283
Other payables	<u>16,470</u>	<u>17,197</u>	<u>-</u>	<u>33,667</u>
Net cash provided by operating activities	<u>\$ 2,779,836</u>	<u>\$ 1,389,509</u>	<u>\$ 15,325</u>	<u>\$ 4,184,670</u>
Schedule of non-cash capital and financing activities:				
Non-cash capital contributions	<u>\$ 12,924</u>	<u>\$ 605,953</u>	<u>\$ 170,109</u>	<u>\$ 788,986</u>
Fixed asset additions included in accounts payable	<u>\$ 191,465</u>	<u>\$ 138,786</u>	<u>\$ -</u>	<u>\$ 330,251</u>
Loss on disposal of assets allocated to (from) other funds	<u>\$ 4,839</u>	<u>\$ (1,374)</u>	<u>\$ -</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, 2015

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

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

Basis of Accounting

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

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

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, 2015. The allowance is increased by charges to bad debts and decreased by write-offs. Management's periodic evaluation of the adequacy of the allowance is based on the District's aged accounts receivable balances. The Ft. Knox Water fund, both sewer funds and the stormwater fund do not carry an allowance for doubtful accounts based upon historical experience.

Interfund Transfers

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

Inventory

The water fund's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance and repairs and new water lines. The sewer fund's inventory consists of 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, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

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

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

Investments

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

Property and Equipment

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

Amortization

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

Cash and Cash Equivalents

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

Estimates

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

Management's Review of Subsequent events

The District has evaluated and considered the need to recognize or disclose subsequent events through June 24, 2016, 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, 2015, have not been evaluated by the District.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

2. CASH AND INVESTMENTS

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

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The majority of the District's deposits and investments at December 31, 2015, 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, 2015, the District had \$24,997,485 in banks, of which \$3,651,700 was uncollateralized.

The following is a detail of the District's cash deposit coverage at December 31, 2015:

FDIC insured (or equivalent)	\$ 753,081
Collateralized by securities held by the bank in the District's name	19,042,251
Money market funds – restricted investment	1,550,453
Uncollateralized deposits in the District's name	<u>3,651,700</u>
Total cash and investments in banks	<u>\$ 24,997,485</u>

Cash and investments are classified as follows as of December 31, 2015:

Unrestricted:	
Cash and cash equivalents:	
Revenue fund	\$ 8,021,344
Other	<u>836,905</u>
	18,858,249
Short-term investments:	
Certificates of deposit	3,239,065
Long-term investments:	
Certificates of deposit	<u>662,635</u>
Total unrestricted	<u>22,759,949</u>
Restricted:	
Long-term investments:	
1997 KIA Debt service reserve	341,743
2002 B&I redemption fund – FMV	93,333
2005 B&I redemption fund – FMV	201,991
2005 Debt service reserve – FMV	594,519
Depreciation fund – FMV	<u>753,943</u>
Total restricted	<u>1,985,529</u>
Total reported cash and investments	<u>\$ 24,745,478</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

2. CASH AND INVESTMENTS (CONTINUED)

The District's investment pool account had the following credit risk structure as of December 31, 2015:

Investment Type	Credit Rating (1)	Fair Value
Money Market Fund:		
Fidelity Institutional MMF	AAA	1,550,453
(1) Per Moody's		

3. CAPITAL ASSETS

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

	Balance Jan 1, 2015	Additions	Retirements	Balance Dec. 31, 2015
Capital assets not depreciated:				
Land and easements	\$ 282,589	\$ -	\$ -	\$ 282,589
Construction in process	11,038,326	5,467,617	3,229,366	13,276,577
Capital assets that are depreciated:				
Plant and lines	168,404,778	3,637,900	105,562	171,937,116
Vehicles and equipment	<u>7,932,640</u>	<u>332,060</u>	<u>499,098</u>	<u>7,765,602</u>
Total plant and equipment	187,658,333	9,437,577	3,834,026	193,261,884
Less: accumulated depreciation	<u>96,370,896</u>	<u>3,370,049</u>	<u>360,664</u>	<u>99,380,281</u>
Plant and equipment, net	<u>\$ 91,287,437</u>	<u>\$ 6,067,528</u>	<u>\$ 3,473,362</u>	<u>\$ 93,881,603</u>

Depreciation expense for all combined funds totaled \$3,370,049 for the year ended December 31, 2015.

4. LONG-TERM LIABILITIES

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

Bonds payable of the County water and Radcliff sewer funds consists of the following at December 31, 2015:

2005 Revenue Bonds, various semi-annual principal and interest payments at 4.125% through September 1, 2025, secured by the revenues of the District.	\$ 4,780,000
2002 Revenue Bonds, various semi-annual principal payments with monthly interest payments at a variable rate which is to be the lowest interest rate on the determination date at which the bonds can be remarketed at par for the interest rate period through September 1, 2022, secured by a letter of credit issued from Cecilian Bank.	2,070,000
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.	972,274
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>88,815</u>
Total debt	7,911,089
Less: current portion	<u>1,073,954</u>
Total long-term debt	<u>\$ 6,837,155</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

4. LONG-TERM LIABILITIES (CONTINUED)

Debt maturities for the County water fund are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 680,000	\$ 284,263	\$ 964,263
2017	705,000	254,796	959,796
2018	730,000	224,288	954,288
2019	745,000	193,051	938,051
2020	765,000	161,306	926,306
2021-2025	<u>3,225,000</u>	<u>360,675</u>	<u>3,585,675</u>
	<u>\$ 6,850,000</u>	<u>\$ 1,478,379</u>	<u>\$ 8,328,379</u>

Debt maturities for the Radcliff sewer fund are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 311,971	\$ 35,800	\$ 347,771
2017	323,938	23,203	347,141
2018	<u>336,365</u>	<u>10,123</u>	<u>346,488</u>
	<u>\$ 972,274</u>	<u>\$ 69,126</u>	<u>\$ 1,041,400</u>

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

Fiscal Year	Principal	Interest	Total
2016	\$ 81,983	\$ -	\$ 81,983
2017	<u>6,832</u>	<u>-</u>	<u>6,832</u>
Total other debt maturities	<u>\$ 88,815</u>	<u>\$ -</u>	<u>\$ 88,815</u>
Total bond and related debt maturities	<u>\$ 7,911,089</u>	<u>\$ 1,547,505</u>	<u>\$ 9,458,594</u>

Changes in long-term liabilities are as follows:

	Balance Jan 1, 2015	Additions	Payments	Balance Dec. 31, 2015	Due within one year
Long-term debt	\$ 8,958,517	\$ -	\$ (1,047,428)	\$ 7,911,089	\$ 1,073,954
Bond amortization	(131,635)	-	15,548	(116,087)	-
Net pension liability	2,855,000	920,211	-	3,775,211	-
Compensated absences	<u>71,804</u>	<u>7,861</u>	<u>-</u>	<u>79,665</u>	<u>-</u>
Net long-term liabilities	<u>\$ 11,753,686</u>	<u>\$ 928,072</u>	<u>\$ (1,031,880)</u>	<u>\$11,649,878</u>	<u>\$ 1,073,954</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

5. COMPLIANCE WITH BOND INDENTURE

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

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

Bond Reserve Fund - This fund shall receive, on a monthly basis, within five years of the issue date, an amount equal to the average annual principal and interest requirements on the 2005 issue outstanding. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. At December 31, 2015, the District had reserves of \$594,519 invested with the bond custodian. At December 31, 2015, the reserve is fully funded.

Depreciation Fund - This fund receives \$8,500 monthly after the above transfers have been made until the total sum of \$750,000 has been established and maintained. This fund also receives the proceeds from the sale of any property and equipment. This fund may be used to purchase new or replacement property and equipment. Monies from this account are held by the bond custodian. At December 31, 2015, the District was fully funded with a balance of \$753,943.

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, 2015, the District funded this reserve in the amount of \$341,743.

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

The bond ordinance calls for “net annual revenues” to exceed the maximum annual debt requirements of fixed rate bonds by 1.20 for the Water Fund. For the year ended December 31, 2015, the water fund ratio was 2.84.

6. LINE OF CREDIT

The District maintains a \$2,500,000 line of credit that is designated for use in various construction projects, if needed. There was no activity on the line of credit during 2015. As of December 31, 2015, the prime interest rate on the line of credit is 3.25%.

7. OTHER LIABILITIES

The water fund’s other liabilities in the amount of \$63,241 at December 31, 2015, represent customers’ advances for construction and extension of water mains beyond limits now provided by the District. These advances will be repaid in accordance with the terms of the agreements. The terms call for a portion of the revenue from these waterlines to be refunded to customers.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

8. RISK MANAGEMENT

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

9. SALES TAX ASSESSMENT

During 2015, the District was assessed by the State of Kentucky for sales tax owed for 2010 through 2014. The sales tax was assessed by the State on water franchise fees, sewer franchise fees and stormwater fees which are collected by the District and remitted to the City of Radcliff. The District has agreed to the State's assessment of sales tax on franchise fees and has accrued approximately \$12,000 of liability related to this assessment at December 31, 2015. The District is not in agreement with the State's assessment of sales tax on stormwater fees and continues to dispute that claim. The District has accrued approximately \$42,000 related to the stormwater sales tax assessment as an estimate of potential loss at December 31, 2015.

10. 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, 2015, 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 proved through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.5455(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, 2015, participating employers contributed 17.67% through June 30 and 17.06% 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 \$382,249 for the year ended, or 100% of the required contribution. The contribution was allocated \$275,816 to the CERS pension fund and \$106,433 to the CERS insurance fund.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

10. 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
	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, 2015, the District reported a liability of \$3,775,211 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 December 31, 2015, the District's proportion was .087998 percent, which was equal to its proportion measured as of June 30, 2015. At June 30, 2015, the District's proportion was .087805 percent, which was a decrease of .000193% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense of \$422,763. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 31,373	\$ -
Changes of assumptions	380,689	-
Net difference between projected and actual earnings on Plan investments	33,842	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	-	4,966
Company contributions subsequent to the measurement date	<u>167,828</u>	<u>-</u>
Total	<u>\$ 613,732</u>	<u>\$ 4,966</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

10. RETIREMENT PLAN (CONTINUED)

The \$167,828 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 June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2016	\$ (150,713)
2017	(150,713)
2018	(71,240)
2019	(68,272)

Actuarial Assumptions – The total pension liability in the June 30, 2015 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, 2015 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:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
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%	7.00%
Private Equity	10%	5.25%
Cash	<u>2%</u>	3.25%
Total	100%	

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

10. 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 28 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:

	Discount rate	District's proportionate share of net pension liability
1% decrease	6.50%	\$ 4,819,519
Current discount rate	7.50%	\$ 3,775,211
1% increase	8.50%	\$ 2,880,844

Payable to the Pension Plan – At December 31, 2015, the District reported a payable of \$70,647 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015. The payable includes both the pension and insurance contribution allocation.

11. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 68

During 2015 the District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67, Financial Reporting for Pension Plans.

The guidance contained in Statement 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards GASB requires that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 68 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

	County Water	Radcliff Sewer	Ft. Knox Water
Net position, at beginning of year	\$ 24,675,444	\$ 23,525,611	\$ 25,312,518
Beginning net pension liability	<u>(1,585,493)</u>	<u>(731,920)</u>	<u>(716,750)</u>
Net position, at beginning of year, as restated	<u>\$ 23,089,951</u>	<u>\$ 22,793,691</u>	<u>\$ 24,595,768</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	2015	2014
District's proportion of the net pension liability	0.087805%	0.087998%
District's proportionate share of the net pension liability (asset)	\$ 3,775,211	\$ 2,855,000
District's covered employee payroll	\$ 2,291,730	\$ 2,097,077
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	164.73%	136.14%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

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 last two fiscal years.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

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

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

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 last two fiscal years.

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, 2015

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 2,879,600	\$ 2,879,600	\$ 2,892,336	\$ 12,736
Wholesale sales	774,000	774,000	729,876	(44,124)
Sewer billing contract revenue	37,898	37,898	37,958	60
Penalties, service fees and reimbursements	<u>323,200</u>	<u>323,200</u>	<u>307,378</u>	<u>(15,822)</u>
Total operating revenue	<u>4,014,698</u>	<u>4,014,698</u>	<u>3,967,548</u>	<u>(47,150)</u>
OPERATING EXPENSES				
Treatment	916,060	916,060	937,677	21,617
Transmission and Distribution	720,291	720,291	659,684	(60,607)
Customer service	272,226	272,226	285,714	13,488
General & administrative expenses	322,526	322,526	364,261	41,735
Purchased water	113,000	113,000	75,743	(37,257)
General maintenance	85,547	85,547	73,301	(12,246)
Source of supply	<u>19,700</u>	<u>19,700</u>	<u>8,598</u>	<u>(11,102)</u>
Total operating expense	<u>2,449,350</u>	<u>2,449,350</u>	<u>2,404,978</u>	<u>(44,372)</u>
Operating income before depreciation	1,565,348	1,565,348	1,562,570	(2,778)
Depreciation and amortization expense	<u>(1,063,234)</u>	<u>(1,063,234)</u>	<u>(1,078,680)</u>	<u>(15,446)</u>
OPERATING INCOME	502,114	502,114	483,890	(18,224)
Non-operating income (expenses)				
Interest income	8,700	8,700	10,939	2,239
Interest expense	(243,400)	(243,400)	(243,001)	399
Loss on sale of equipment	<u>-</u>	<u>-</u>	<u>(925)</u>	<u>(925)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	267,414	267,414	250,903	(16,511)
Grants	2,102,800	2,102,800	326,754	(1,776,046)
Tap Fees	22,500	22,500	26,085	3,585
Customer Contribution	<u>-</u>	<u>-</u>	<u>12,924</u>	<u>12,924</u>
CHANGE IN NET POSITION	<u>\$ 2,392,714</u>	<u>\$ 2,392,714</u>	<u>\$ 616,666</u>	<u>\$ (1,776,048)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX WATER FUND
for the year ended December 31, 2015

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 3,777,500	\$ 3,777,500	\$ 3,777,501	\$ 1
Penalties, service fees and reimbursements	<u>346,000</u>	<u>346,000</u>	<u>347,901</u>	<u>1,901</u>
Total operating revenue	<u>4,123,500</u>	<u>4,123,500</u>	<u>4,125,402</u>	<u>1,902</u>
OPERATING EXPENSES				
Transmission and Distribution	738,334	738,334	638,640	(99,694)
General & administrative expenses	<u>2,251,424</u>	<u>2,251,424</u>	<u>2,192,533</u>	<u>(58,891)</u>
Total operating expense	<u>2,989,758</u>	<u>2,989,758</u>	<u>2,831,173</u>	<u>(158,585)</u>
Operating income before depreciation	1,133,742	1,133,742	1,294,229	160,487
Depreciation and amortization expense	<u>(354,036)</u>	<u>(354,036)</u>	<u>(364,004)</u>	<u>(9,968)</u>
OPERATING INCOME	779,706	779,706	930,225	150,519
Non-operating income (expenses)				
Interest income	38,200	38,200	57,683	19,483
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	817,906	817,906	987,908	170,002
Tap Fees	-	-	5,892	5,892
Customer Contribution	<u>3,632,000</u>	<u>3,632,000</u>	<u>3,631,969</u>	<u>(31)</u>
CHANGE IN NET POSITION	<u>\$ 4,449,906</u>	<u>\$ 4,449,906</u>	<u>\$ 4,625,769</u>	<u>\$ 175,863</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX SEWER FUND
for the year ended December 31, 2015

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 2,901,127	\$ 2,901,127	\$ 2,892,699	\$ (8,428)
Penalties, service fees and reimbursements	<u>43,800</u>	<u>43,800</u>	<u>24,094</u>	<u>(19,706)</u>
Total operating revenue	<u>2,944,927</u>	<u>2,944,927</u>	<u>2,916,793</u>	<u>(28,134)</u>
OPERATING EXPENSES				
Professional services	17,262	17,262	7,016	(10,246)
Contractual obligations	1,892,675	1,892,675	1,886,792	(5,883)
Allocated expense	(37,954)	(37,954)	(38,757)	(803)
Insurance	23,101	23,101	23,101	-
Customer service	88,657	88,657	80,606	(8,051)
Other	<u>11,500</u>	<u>11,500</u>	<u>9,623</u>	<u>(1,877)</u>
Total operating expense	<u>1,995,241</u>	<u>1,995,241</u>	<u>1,968,381</u>	<u>(26,860)</u>
Operating income before depreciation	949,686	949,686	948,412	(1,274)
Depreciation and amortization expense	<u>(715,857)</u>	<u>(715,857)</u>	<u>(804,990)</u>	<u>(89,133)</u>
OPERATING INCOME	233,829	233,829	143,422	(90,407)
Non-operating income (expenses)				
Interest income	8,000	8,000	13,746	5,746
Interest expense	(800)	(800)	(832)	(32)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(49,332)</u>	<u>(49,332)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	241,029	241,029	107,004	(134,025)
Customer contributions	<u>886,800</u>	<u>886,800</u>	<u>605,953</u>	<u>(280,847)</u>
CHANGE IN NET POSITION	<u>\$ 1,127,829</u>	<u>\$ 1,127,829</u>	<u>\$ 712,957</u>	<u>\$ (414,872)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
RADCLIFF SEWER FUND
for the year ended December 31, 2015

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 3,901,400	\$ 3,901,400	\$ 3,639,754	\$ (261,646)
Penalties, service fees and reimbursements	<u>210,900</u>	<u>210,900</u>	<u>212,315</u>	<u>1,415</u>
Total operating revenue	<u>4,112,300</u>	<u>4,112,300</u>	<u>3,852,069</u>	<u>(260,231)</u>
OPERATING EXPENSES				
Treatment	347,286	347,286	277,955	(69,331)
Transmission and distribution	434,380	434,380	416,687	(17,693)
Professional services	15,578	15,578	47,760	32,182
Contractual obligations	1,159,200	1,159,200	1,097,699	(61,501)
Allocated expense	(67,560)	(67,560)	(67,560)	-
Insurance	30,199	30,199	31,332	1,133
Customer service	479,248	479,248	497,081	17,833
Sewer administration	136,288	136,288	140,401	4,113
Sewer commission	22,937	22,937	25,089	2,152
System maintenance	<u>1,100</u>	<u>1,100</u>	<u>759</u>	<u>(341)</u>
Total operating expense	<u>2,558,656</u>	<u>2,558,656</u>	<u>2,467,203</u>	<u>(91,453)</u>
Operating income before depreciation	1,553,644	1,553,644	1,384,866	(168,778)
Depreciation and amortization expense	<u>(1,122,553)</u>	<u>(1,122,553)</u>	<u>(1,090,672)</u>	<u>31,881</u>
OPERATING INCOME (LOSS)	431,091	431,091	294,194	(136,897)
Non-operating income (expenses)				
Interest income	9,600	9,600	7,062	(2,538)
Interest expense	(48,200)	(48,200)	(48,185)	15
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(1,146)</u>	<u>(1,146)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	392,491	392,491	251,925	(140,566)
Customer contributions	1,750,000	1,750,000	738,410	(1,011,590)
Tap fees	<u>1,500</u>	<u>1,500</u>	<u>900</u>	<u>(600)</u>
CHANGE IN NET POSITION	<u>\$ 2,143,991</u>	<u>\$ 2,143,991</u>	<u>\$ 991,235</u>	<u>\$ (1,152,756)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
STORMWATER FUND
for the year ended December 31, 2015

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Stormwater revenue	\$ 477,800	\$ 477,800	\$ 477,792	\$ (8)
Penalties, service fees and reimbursements	<u>31,000</u>	<u>31,000</u>	<u>7,485</u>	<u>(23,515)</u>
Total operating revenue	<u>508,800</u>	<u>508,800</u>	<u>485,277</u>	<u>(23,523)</u>
OPERATING EXPENSES				
Professional services	1,883	1,883	1,488	(395)
Contractual obligations	300,974	300,974	300,975	1
Allocated expense	(11,624)	(11,624)	(11,624)	-
Insurance	1,227	1,227	1,227	-
Customer service	-	-	758	758
Other	<u>35,539</u>	<u>35,539</u>	<u>30,097</u>	<u>(5,442)</u>
Total operating expense	<u>327,999</u>	<u>327,999</u>	<u>322,921</u>	<u>(5,078)</u>
Operating income before depreciation	180,801	180,801	162,356	(18,445)
Depreciation and amortization expense	<u>(87,101)</u>	<u>(87,101)</u>	<u>(87,129)</u>	<u>(28)</u>
OPERATING INCOME	93,700	93,700	75,227	(18,473)
Non-operating income (expenses)				
Interest income	<u>2,300</u>	<u>2,300</u>	<u>1,746</u>	<u>(554)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	96,000	96,000	76,973	(19,027)
Customer contributions	<u>674,000</u>	<u>674,000</u>	<u>170,109</u>	<u>(503,891)</u>
CHANGE IN NET POSITION	<u>\$ 770,000</u>	<u>\$ 770,000</u>	<u>\$ 247,082</u>	<u>\$ (522,918)</u>

COMBINING FUND STATEMENTS

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF NET POSITION
December 31, 2015

	County Water	Ft. Knox Water	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 727,213	\$ 12,249,267	\$ 12,976,480
Short-term certificates of deposit	127,258	3,111,807	3,239,065
Customer accounts receivable, net	265,766	246,172	511,938
Other accounts receivable	123,038	399,701	522,739
Interest receivable	1,670	7,843	9,513
Due from other funds	-	-	-
Inventory - materials and supplies	317,927	72,973	390,900
Prepaid expenses	76,966	12,850	89,816
Total current assets	<u>1,639,838</u>	<u>16,100,613</u>	<u>17,740,451</u>
Other assets			
Long-term certificates of deposits	662,635	-	662,635
Restricted funds	1,643,786	-	1,643,786
Total other assets	<u>2,306,421</u>	<u>-</u>	<u>2,306,421</u>
Property, plant and equipment			
Land and easements	273,045	-	273,045
Construction in progress	1,936,348	4,073,318	6,009,666
Plant and lines	38,899,697	10,304,699	49,204,396
Vehicles and equipment	4,061,976	1,560,405	5,622,381
Total	45,171,066	15,938,422	61,109,488
Less: accumulated depreciation	<u>(15,899,971)</u>	<u>(1,566,810)</u>	<u>(17,466,781)</u>
Total property, plant, and equipment	<u>29,271,095</u>	<u>14,371,612</u>	<u>43,642,707</u>
TOTAL ASSETS	<u>33,217,354</u>	<u>30,472,225</u>	<u>63,689,579</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension	320,704	144,980	465,684
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 33,538,058</u>	<u>\$ 30,617,205</u>	<u>\$ 64,155,263</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 521,187	\$ 306,262	\$ 827,449
Due to other funds	153,296	77,929	231,225
Customers' deposits	185,462	-	185,462
Accrued expenses	61,125	12,098	73,223
Reserve for unclaimed funds - escheatment	9,860	-	9,860
Unearned rent revenue	20,736	-	20,736
Liabilities payable from restricted assets:			
Current portion of long-term debt	680,000	81,983	761,983
Accrued interest on long-term debt	49,294	-	49,294
Total current liabilities	<u>1,680,960</u>	<u>478,272</u>	<u>2,159,232</u>
Long-term liabilities			
Bonds payable	6,170,000	-	6,170,000
Less: unamortized discount	(116,087)	-	(116,087)
Other long-term debt	-	6,832	6,832
Net pension liability	1,972,726	891,805	2,864,531
Compensated absences	58,006	17,586	75,592
Total long-term liabilities	<u>8,084,645</u>	<u>916,223</u>	<u>9,000,868</u>
Other liabilities			
Customer advances for construction	63,241	-	63,241
Total liabilities	<u>9,828,846</u>	<u>1,394,495</u>	<u>11,223,341</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	2,595	1,173	3,768
Net position			
Net investment in capital assets	22,487,888	14,282,797	36,770,685
Restricted	1,643,786	-	1,643,786
Unrestricted	<u>(425,057)</u>	<u>14,938,740</u>	<u>14,513,683</u>
Total net position	<u>23,706,617</u>	<u>29,221,537</u>	<u>52,928,154</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 33,538,058</u>	<u>\$ 30,617,205</u>	<u>\$ 64,155,263</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2015

	County Water	Fort Knox Water	Total
OPERATING REVENUE			
Metered water sales	\$ 2,892,336	\$ 3,777,501	\$ 6,669,837
Wholesale sales	729,876	-	729,876
Sewer billing contract revenue	37,958	-	37,958
Penalties, service fees and reimbursements	<u>307,378</u>	<u>347,901</u>	<u>655,279</u>
Total operating revenue	<u>3,967,548</u>	<u>4,125,402</u>	<u>8,092,950</u>
OPERATING EXPENSES			
Treatment	937,677	-	937,677
Distribution	659,684	638,640	1,298,324
Customer service	285,714	-	285,714
General and administrative expenses	364,261	2,192,533	2,556,794
Purchased water	75,743	-	75,743
General maintenance	73,301	-	73,301
Source of supply	<u>8,598</u>	<u>-</u>	<u>8,598</u>
Total operating expense	<u>2,404,978</u>	<u>2,831,173</u>	<u>5,236,151</u>
Operating income before depreciation	1,562,570	1,294,229	2,856,799
Depreciation and amortization expense	<u>(1,078,680)</u>	<u>(364,004)</u>	<u>(1,442,684)</u>
OPERATING INCOME	483,890	930,225	1,414,115
Non-operating income (expenses)			
Interest income	10,939	57,683	68,622
Interest expense	(243,001)	-	(243,001)
(Loss) on sale of equipment	<u>(925)</u>	<u>-</u>	<u>(925)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	250,903	987,908	1,238,811
Capital Contributions			
Grants	326,754	-	326,754
Tap fees	26,085	5,892	31,977
Customer contributions	<u>12,924</u>	<u>3,631,969</u>	<u>3,644,893</u>
CHANGE IN NET POSITION	616,666	4,625,769	5,242,435
Net position, beginning of year, as restated	<u>23,089,951</u>	<u>24,595,768</u>	<u>47,685,719</u>
NET POSITION, END OF YEAR	<u>\$ 23,706,617</u>	<u>\$ 29,221,537</u>	<u>\$ 52,928,154</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF CASH FLOWS
for the year ended December 31, 2015

	County Water	Ft. Knox Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,997,573	\$ 4,125,402	\$ 8,122,975
Payments to suppliers	(970,269)	(2,393,015)	(3,363,284)
Payments for employee services and benefits	(1,322,376)	(657,479)	(1,979,855)
Net cash provided by operating activities	<u>1,704,928</u>	<u>1,074,908</u>	<u>2,779,836</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	(665,000)	(81,983)	(746,983)
Interest paid on long-term debt	(246,971)	-	(246,971)
Contributions in aid of construction	26,085	3,637,861	3,663,946
Grants	326,754	-	326,754
Proceeds from sale of equipment	20,190	-	20,190
Acquisition and construction of capital assets	(1,050,622)	(2,333,291)	(3,383,913)
Cash (paid) under advance construction contract	(12,924)	-	(12,924)
Net cash provided by (used in) capital and related financing activities	<u>(1,602,488)</u>	<u>1,222,587</u>	<u>(379,901)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	11,126	59,487	70,613
Redemption of investments	-	715,491	715,491
Purchase of investments	(9,263)	-	(9,263)
Net cash provided by investing activities	<u>1,863</u>	<u>774,978</u>	<u>776,841</u>
NET INCREASE IN CASH	104,303	3,072,473	3,176,776
Cash and cash equivalents, beginning of year	622,910	9,176,794	9,799,704
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 727,213</u>	<u>\$ 12,249,267</u>	<u>\$ 12,976,480</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 483,890	\$ 930,225	\$ 1,414,115
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	1,078,680	364,004	1,442,684
Change in assets and liabilities:			
Accounts receivable	(117,699)	-	(117,699)
Prepaid expenses	7,167	11,228	18,395
Due from other funds	143,384	-	143,384
Inventory	(132,926)	2,045	(130,881)
Accounts payable	130,803	(298,324)	(167,521)
Unearned revenue	4,340	-	4,340
Accrued expenses	29,609	1,428	31,037
Compensated absences	(2,063)	-	(2,063)
Due to other funds	-	27,203	27,203
Net pension liability	69,124	31,248	100,372
Other payables	10,619	5,851	16,470
Net cash provided by operating activities	<u>\$ 1,704,928</u>	<u>\$ 1,074,908</u>	<u>\$ 2,779,836</u>
Schedule of non-cash capital and financing activities:			
Non-cash capital contributions	\$ 12,924	\$ -	\$ 12,924
Fixed asset additions included in accounts payable	\$ 188,000	\$ 3,465	\$ 191,465
Loss on disposal of assets allocated to other funds	\$ 1,374	\$ 3,465	\$ 4,839

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF NET POSITION
December 31, 2015

	Ft. Knox Sewer	Radcliff Sewer	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,254,081	\$ 2,929,428	\$ 5,183,509
Customer accounts receivable, net	707,877	209,746	917,623
Grant receivable	280,157	324,528	604,685
Inventory	-	1,445	1,445
Prepaid expenses	<u>2,845</u>	<u>44,302</u>	<u>47,147</u>
Total current assets	<u>3,244,960</u>	<u>3,509,449</u>	<u>6,754,409</u>
Other assets			
Restricted assets - reserve funds	-	341,743	341,743
Unamortized rate case expense	-	105,159	105,159
Unamortized Radcliff acquisition costs, net	<u>-</u>	<u>174,802</u>	<u>174,802</u>
Total other assets	<u>-</u>	<u>621,704</u>	<u>621,704</u>
Property, plant and equipment			
Land and easements	-	9,544	9,544
Construction in progress	3,227,882	2,245,684	5,473,566
Plant and lines	83,554,586	35,728,919	119,283,505
Vehicles and equipment	<u>1,150,676</u>	<u>815,999</u>	<u>1,966,675</u>
Total	87,933,144	38,800,146	126,733,290
Less: accumulated depreciation	<u>(64,251,088)</u>	<u>(17,298,377)</u>	<u>(81,549,465)</u>
Total property, plant, and equipment	<u>23,682,056</u>	<u>21,501,769</u>	<u>45,183,825</u>
TOTAL ASSETS	<u>26,927,016</u>	<u>25,632,922</u>	<u>52,559,938</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension	<u>-</u>	<u>148,048</u>	<u>148,048</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 26,927,016</u>	<u>\$ 25,780,970</u>	<u>\$ 52,707,986</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 299,556	\$ 138,513	\$ 438,069
Due to other funds	14,937	(247,767)	(232,830)
Customers' deposits	-	163,683	163,683
Accrued expenses	4,250	50,149	54,399
Liabilities payable from restricted assets:			
Current portion of long-term debt	-	311,971	311,971
Accrued interest on long-term debt	<u>-</u>	<u>3,241</u>	<u>3,241</u>
Total current liabilities	<u>318,743</u>	<u>419,790</u>	<u>738,533</u>
Long-term liabilities			
Compensated absences	-	4,073	4,073
Net pension liability	-	910,680	910,680
Bonds payable	<u>-</u>	<u>660,303</u>	<u>660,303</u>
Total long-term liabilities	<u>-</u>	<u>1,575,056</u>	<u>1,575,056</u>
Total liabilities	<u>318,743</u>	<u>1,994,846</u>	<u>2,313,589</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	<u>-</u>	<u>1,198</u>	<u>1,198</u>
Net position			
Net investment in capital assets	23,682,056	20,526,254	44,208,310
Restricted	-	341,743	341,743
Unrestricted	<u>2,926,217</u>	<u>2,916,929</u>	<u>5,843,146</u>
Total net position	<u>26,608,273</u>	<u>23,784,926</u>	<u>50,393,199</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 26,927,016</u>	<u>\$ 25,780,970</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, 2015

	Ft. Knox Sewer	Radcliff Sewer	Total
OPERATING REVENUE			
Sewer service revenue	\$ 2,892,699	\$ 3,639,754	\$ 6,532,453
Penalties, service fees and reimbursements	<u>24,094</u>	<u>212,315</u>	<u>236,409</u>
Total operating revenue	<u>2,916,793</u>	<u>3,852,069</u>	<u>6,768,862</u>
OPERATING EXPENSES			
Customer service	80,606	497,081	577,687
Sewer operations	<u>1,887,775</u>	<u>1,970,122</u>	<u>3,857,897</u>
Total operating expense	<u>1,968,381</u>	<u>2,467,203</u>	<u>4,435,584</u>
Operating income before depreciation	948,412	1,384,866	2,333,278
Depreciation and amortization expense	<u>(804,990)</u>	<u>(1,090,672)</u>	<u>(1,895,662)</u>
OPERATING INCOME (LOSS)	143,422	294,194	437,616
Non-operating income (expenses)			
Interest income	13,746	7,062	20,808
Interest expense	(832)	(48,185)	(49,017)
(Loss) on sale of equipment	<u>(49,332)</u>	<u>(1,146)</u>	<u>(50,478)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	107,004	251,925	358,929
Capital Contributions			
Grants	-	738,410	738,410
Tap fees	-	900	900
Customer contributions	<u>605,953</u>	<u>-</u>	<u>605,953</u>
CHANGE IN NET POSITION	712,957	991,235	1,704,192
Net position, beginning of year, restated	<u>25,895,316</u>	<u>22,793,691</u>	<u>48,689,007</u>
NET POSITION, END OF YEAR	<u>\$ 26,608,273</u>	<u>\$ 23,784,926</u>	<u>\$ 50,393,199</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF CASH FLOWS
for the year ended December 31, 2015

	Ft. Knox Sewer	Radcliff Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,534,391	\$ 3,374,335	\$ 5,908,726
Payments to suppliers	(1,972,448)	(1,880,123)	(3,852,571)
Payments for employee services and benefits	<u>-</u>	<u>(666,646)</u>	<u>(666,646)</u>
Net cash provided by operating activities	<u>561,943</u>	<u>827,566</u>	<u>1,389,509</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	-	(300,445)	(300,445)
Interest paid on long-term debt	(830)	(49,186)	(50,016)
Contributions in aid of construction	-	900	900
Grants	-	738,410	738,410
Proceeds from sale of equipment	11,000	161,400	172,400
Acquisition and construction of capital assets	<u>(517,732)</u>	<u>(1,137,236)</u>	<u>(1,654,968)</u>
Net cash (used in) capital and related financing activities	<u>(507,562)</u>	<u>(586,157)</u>	<u>(1,093,719)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	13,746	7,062	20,808
Redemption of investments	-	-	-
Purchase of investments	<u>-</u>	<u>(478)</u>	<u>(478)</u>
Net cash provided by investing activities	<u>13,746</u>	<u>6,584</u>	<u>20,330</u>
NET INCREASE IN CASH	68,127	247,993	316,120
Cash and cash equivalents, beginning of year	<u>2,185,954</u>	<u>2,681,435</u>	<u>4,867,389</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,254,081</u>	<u>\$ 2,929,428</u>	<u>\$ 5,183,509</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 143,422	\$ 294,194	\$ 437,616
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	804,990	1,090,672	1,895,662
Change in assets and liabilities:			
Accounts receivable	(391,536)	(300,512)	(692,048)
Prepaid expenses	5,797	(727)	5,070
Inventory	12,373	(1,445)	10,928
Due from other funds	-	(177,034)	(177,034)
Accounts payable	(21,505)	(146,088)	(167,593)
Accrued expenses	(732)	19,586	18,854
Due to other funds	9,134	(188)	8,946
Net pension liability	-	31,911	31,911
Other payables	<u>-</u>	<u>17,197</u>	<u>17,197</u>
Net cash provided by operating activities	<u>\$ 561,943</u>	<u>\$ 827,566</u>	<u>\$ 1,389,509</u>
Schedule of non-cash capital and financing activities:			
Non-cash capital contributions	<u>\$ 605,953</u>	<u>\$ -</u>	<u>\$ 605,953</u>
Fixed asset additions included in accounts payable	<u>\$ 52,773</u>	<u>\$ 86,013</u>	<u>\$ 138,786</u>
Loss on disposal of assets allocated from other funds	<u>\$ 242</u>	<u>\$ 1,132</u>	<u>\$ 1,374</u>



**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, 2015, 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 24, 2016.

Internal Control over Financial Reporting

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

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

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

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 consists of the letters 'RFH' in a bold, black, hand-drawn or brush-stroke style font.

RFH, PLLC
June 24, 2016