

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

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**FINANCIAL STATEMENTS**  
**December 31, 2013**

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# Hardin County Water District No. 1

*Serving Radcliff and Hardin County for Over 60 Years*

1400 Rogersville Road  
Radcliff, KY. 40160

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March 10, 2014

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

**SUBJECT: 2013 Annual Report & Managements's Discussion and Analysis**

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

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

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## *Financial Performance & Highlights*

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

For the year, gross plant assets increased by \$9,306,423. Total net assets (net position) increased by \$12,496,397 (- 18.6% [percent changes in parentheses represent change from 2012]). Total revenues, including interest income, increased by \$131,908 or + 0.9% compared to 2012. Operating income before depreciation was \$5,248,293 (- 2.3%) and net income after depreciation (gross of non-operating income and expenses) was \$2,057,658. This amount was 11.7% of total operating revenues. Total net assets at the end of the year were \$98,100,745 (+ 14.6%).

Cash used for capital construction was \$6,123,858 (- 3.6%), of which 100% was provided by government grants (both Kentucky and U.S. Government/Dept. of Defense). Principal payments to reduce bond debt were \$980,639 (+ 16%) and at year end the consolidated outstanding debt principal was \$9,979,847 (- 9%). Total working capital (unrestricted cash + investments) at year end increased by 59% to \$16,756,683. Of all reserves (cash + investments), 89% (+ 5%) were unrestricted and available as working capital for capital construction or operations. At the beginning of 2014 we also had total of \$10,578,875 of available state or federal grant funding for future capital construction projects. An additional \$11,713,988 will become available through ISDC (Initial System Deficiency Corrections) funding over the next three years 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 10.7% less than budgeted. Revenues were 1.6% less than budgeted. Net income after depreciation and interest expense decreased by 0.1% from 2012 partly due to the mild summer and decreased summer water sales. Water sales decreased by 2.8%. Net assets increased by 2.7%. The bond coverage ratio was 2.77 (- 12.6% from 2012) which is 2.3 times the required 1.20.

Ft. Knox Water: 2013 was the first full year of operations and financial results for this fund. Because 2012 was only for eleven months, a percent change comparison from 2012 to 2013 is not reported here. Total operating revenues were \$4,177,925 (including interest income). Net income before depreciation was \$1,442,472. Net income after depreciation and amortized expenses was \$1,078,925 which is 25.8% of revenues. Net assets at year end were \$20,550,783 and construction in progress was valued at \$485,234. Working capital and cash available for capital construction was \$9,772,539.

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues increased slightly by 0.4%. Total operating income, before depreciation expense was \$1,322,029 (+ 0.3%). Total net assets increased by 21%. Total expended for construction was \$3,322,748 (+ 2.9%) of which almost all was provided by contributed capital (direct grants) from the Government. At the beginning of 2014, the fund had a balance of \$3,315,011 (+ 40.4%) available for construction projects and capital improvements. A additional \$2,635,245 is also available in direct Government funding for future capital construction projects.

Radcliff Sewer: Total revenues (including interest income) were \$3,447,198 (- 3.7%) which was 11% below revenue estimates. Total operating expenses (excluding depreciation) were 2% less than budgeted. Total net assets increased 0.3% to \$23,170,767 and at year end we had construction in progress assets of \$1,602,565 (- 13%). Of the \$1,142,375 expended for construction (- 14.4%), 46% was funded by state grants. At year end the total cash & investment reserve balance was \$2,919,800 (- 11%) of which 88% was unrestricted and available for capital construction or operations. At year end a total of \$2,647,027 in state grants are available for future capital construction projects. The fund had net operating income before depreciation and debt interest of \$615,221 (- 30%) with a net operating loss of \$407,459 (11.8% of revenues) after those expenses (and excluding loss on disposal of equipment), compared to a 2012 net operating loss of \$89,481 (+ 355%).

During the year, staff and legal counsel worked with the Public Service Commission (PSC) on the rate case filed on June 25, 2013. On February 26, 2014, the District along with the Office of the Attorney General filed a Stipulation and Recommendation for Settlement motion with the PSC. As of the date of this writing, that motion has not yet been heard or ruled on. Should the terms of the motion be approved, the rates for Radcliff sewer would increase on May 1, 2014 and would significantly improve this fund's financial position.

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### *Operational Changes & Statistics*

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


During 2013 a total of 1,628 MG (million gallons) of potable water was treated (- 8.6%) and a total of 10.4 MG was purchased for resale (- 80%). Total water delivered to the systems (County and Ft. Knox combined) was 1,638.9 MG (- 10.6%). The maximum demand day was 6.188 MG (- 32%) and occurred on 11-November. The average daily water demand for the year was 4.490 MG (- 11%). A total of 30 new water services were installed, down 56% from 2012. Wholesale customers purchased 342.4 MG (+ 1.7%), which was equivalent to 21% of total water sales volume.


The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,486.1 MG (+ 14.7%) which increased due to more rainfall than during 2012. This resulted in an average daily flow of clean, recycled water into streams of 4.072 MG.

Work continues on the design of the new Louisville Water Company Interconnect Project. This connection will provide a reliable, high quality back-up reserve of potable water of up to 3.5 million gallons per day. The project is being funded by a \$4.5 million "BRAC" grant from the Kentucky Cabinet of Economic Development.

At present we have 24 construction projects in either preliminary or final design and construction. The next several years will see an increase in project design and construction as more Ft. Knox Water projects are designed and bid, and other water and sewer grant funds are expended on capital projects.

Sincerely,

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

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

Stephen R. Allen, CPA/PFS  
Michael D. Foley, CPA/CGMA  
Lyman Hager, Jr., CPA/PFS  
Bradley J. Hayes, CPA/CGFM  
Jerry W. Hensley, CPA/CGMA  
T. Cory Reitz, CPA/ABV, CVA

## 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, 2013, 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 auditors consider 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, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

In accordance with **Government Auditing Standards**, we have also issued our report dated February 24, 2014, on our consideration of the Hardin County Water District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering Hardin County Water District No. 1's internal control over financial reporting and compliance.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley, & Company, PLLC  
February 24, 2014



**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED STATEMENT OF NET POSITION**  
**December 31, 2013**

<b>ASSETS</b>	<b>Water Total</b>	<b>Sewer Total</b>	<b>Storm Water</b>	<b>2013 Total</b>
<b>Current assets</b>				
Cash and cash equivalents	\$ 10,086,849	\$ 5,051,020	\$ 843,590	\$ 15,981,459
Short-term certificates of deposit	775,371	-	-	775,371
Customer accounts receivable, net	513,453	445,946	39,816	999,215
Other accounts receivable	463,747	346,105	37,748	847,600
Interest receivable	1,593	-	-	1,593
Due from other funds	105,234	-	-	105,234
Inventory - materials and supplies	252,266	12,373	-	264,639
Prepaid expenses	<u>79,858</u>	<u>38,531</u>	<u>100</u>	<u>118,489</u>
<b>Total current assets</b>	<u>12,278,371</u>	<u>5,893,975</u>	<u>921,254</u>	<u>19,093,600</u>
<b>Non-current assets</b>				
Restricted assets - reserve funds	1,641,535	340,201	-	1,981,736
Acquisition costs	<u>-</u>	<u>193,002</u>	<u>-</u>	<u>193,002</u>
<b>Total non-current assets</b>	<u>1,641,535</u>	<u>533,203</u>	<u>-</u>	<u>2,174,738</u>
<b>Property, plant and equipment</b>				
Land and easements	273,045	9,544	-	282,589
Plant and lines	47,531,368	114,837,911	3,108,049	165,477,328
Vehicles and equipment	5,244,578	2,241,108	160,743	7,646,429
Construction in progress	<u>1,604,929</u>	<u>5,770,726</u>	<u>1,520,203</u>	<u>8,895,858</u>
<b>Total</b>	54,653,920	122,859,289	4,788,995	182,302,204
Less: accumulated depreciation	<u>(14,836,122)</u>	<u>(78,814,716)</u>	<u>(194,290)</u>	<u>(93,845,128)</u>
<b>Total property, plant, and equipment</b>	<u>39,817,798</u>	<u>44,044,573</u>	<u>4,594,705</u>	<u>88,457,076</u>
<b>TOTAL ASSETS</b>	<u>\$ 53,737,704</u>	<u>\$ 50,471,751</u>	<u>\$ 5,515,959</u>	<u>\$ 109,725,414</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 412,494	\$ 585,607	\$ 41,319	\$ 1,039,420
Due to other funds	52,094	50,794	2,347	105,235
Customers' deposits	172,045	135,932	-	307,977
Accrued expenses	57,259	24,699	851	82,809
Reserve for unclaimed funds - escheatment	6,345	-	-	6,345
Deferred rent revenue	3,855	-	-	3,855
Liabilities payable from restricted assets:				
Current portion of long-term debt	731,960	289,346	-	1,021,306
Accrued interest on long-term debt	<u>57,080</u>	<u>5,207</u>	<u>-</u>	<u>62,287</u>
<b>Total current liabilities</b>	<u>1,493,132</u>	<u>1,091,585</u>	<u>44,517</u>	<u>2,629,234</u>
<b>Long-term liabilities</b>				
Bonds payable	7,515,000	1,272,719	-	8,787,719
Other long-term debt	170,822	-	-	170,822
Less: unamortized discount	(147,183)	-	-	(147,183)
Compensated absences	<u>73,134</u>	<u>-</u>	<u>-</u>	<u>73,134</u>
<b>Long-term liabilities, net</b>	<u>7,611,773</u>	<u>1,272,719</u>	<u>-</u>	<u>8,884,492</u>
<b>Other liabilities</b>				
Customer advances for construction	<u>110,943</u>	<u>-</u>	<u>-</u>	<u>110,943</u>
<b>Total liabilities</b>	<u>9,215,848</u>	<u>2,364,304</u>	<u>44,517</u>	<u>11,624,669</u>
<b>Net position</b>				
Net investment in capital assets	31,490,119	42,477,301	4,594,705	78,562,125
Restricted	1,641,535	340,201	-	1,981,736
Unrestricted	<u>11,390,202</u>	<u>5,289,945</u>	<u>876,737</u>	<u>17,556,884</u>
<b>Total net position</b>	<u>44,521,856</u>	<u>48,107,447</u>	<u>5,471,442</u>	<u>98,100,745</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 53,737,704</u>	<u>\$ 50,471,751</u>	<u>\$ 5,515,959</u>	<u>\$ 109,725,414</u>

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



**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**for the year ended December 31, 2013**

	<b>Water Total</b>	<b>Sewer Total</b>	<b>Storm Water</b>	<b>2013 Total</b>
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 6,727,526	\$ -	\$ -	\$ 6,727,526
Wholesale sales	668,951	-	-	668,951
Sewer billing contract revenue	29,916	-	-	29,916
Sewer service revenue	-	6,139,784	-	6,139,784
Stormwater service revenue	-	-	477,792	477,792
Penalties, service fees and reimbursements	<u>696,794</u>	<u>250,994</u>	<u>43,078</u>	<u>990,866</u>
<b>Total operating revenue</b>	<u>8,123,187</u>	<u>6,390,778</u>	<u>520,870</u>	<u>15,034,835</u>
<b>OPERATING EXPENSES</b>				
Treatment	835,617	-	-	835,617
Distribution	1,238,764	-	-	1,238,764
Customer service	261,519	623,523	-	885,042
General & administrative expenses	2,356,818	4,050,495	-	6,407,313
Purchased water	30,996	-	-	30,996
General maintenance	76,880	-	-	76,880
Source of supply	11,550	-	-	11,550
Stormwater	<u>-</u>	<u>-</u>	<u>300,380</u>	<u>300,380</u>
<b>Total operating expense</b>	<u>4,812,144</u>	<u>4,674,018</u>	<u>300,380</u>	<u>9,786,542</u>
<b>Operating income before depreciation</b>	3,311,043	1,716,760	220,490	5,248,293
Depreciation and amortization expense	<u>(1,463,719)</u>	<u>(1,663,761)</u>	<u>(63,155)</u>	<u>(3,190,635)</u>
<b>OPERATING INCOME</b>	1,847,324	52,999	157,335	2,057,658
Non-operating income (expenses)				
Interest income	39,109	29,947	3,017	72,073
Interest expense	(280,593)	(71,894)	-	(352,487)
Gain (loss) on disposal of equipment	<u>(28,695)</u>	<u>(58,555)</u>	<u>-</u>	<u>(87,250)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	1,577,145	(47,503)	160,352	1,689,994
Capital Contributions				
Grants	54,109	521,413	-	575,522
Tap fees	24,906	750	-	25,656
Customer contributions	<u>5,016,004</u>	<u>2,304,860</u>	<u>2,884,361</u>	<u>10,205,225</u>
<b>CHANGE IN NET POSITION</b>	6,672,164	2,779,520	3,044,713	12,496,397
Net position, beginning of year	<u>37,849,692</u>	<u>45,327,927</u>	<u>2,426,729</u>	<u>85,604,348</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 44,521,856</u>	<u>\$ 48,107,447</u>	<u>\$ 5,471,442</u>	<u>\$ 98,100,745</u>

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

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2013

	<u>Water Total</u>	<u>Sewer Total</u>	<u>Storm Water</u>	<u>2013 Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 8,750,160	\$ 6,871,844	\$ 562,887	\$ 16,184,891
Payments to suppliers	(3,044,948)	(4,892,968)	(271,830)	(8,209,746)
Payments for employee services and benefits	<u>(1,788,102)</u>	<u>-</u>	<u>-</u>	<u>(1,788,102)</u>
<b>Net cash provided by operating activities</b>	<u>3,917,110</u>	<u>1,978,876</u>	<u>291,057</u>	<u>6,187,043</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on long-term debt	(701,983)	(278,656)	-	(980,639)
Borrowings	-	-	-	-
Principal paid on line of credit	-	-	-	-
Interest paid on long-term debt	(284,305)	(895)	-	(285,200)
Contributions in aid of construction	4,294,503	1,966,518	1,055,838	7,316,859
Grants	54,109	-	-	54,109
Proceeds from sale of equipment	-	-	-	-
Acquisition and construction of capital assets	(1,658,735)	(3,255,529)	(1,209,594)	(6,123,858)
Cash (paid) received under advance construction contract	<u>(2,221)</u>	<u>-</u>	<u>-</u>	<u>(2,221)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>1,701,368</u>	<u>(1,568,562)</u>	<u>(153,756)</u>	<u>(20,950)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	39,390	29,947	3,017	72,354
Redemption of investments	603,779	-	-	603,779
Purchase of investments	<u>(618,850)</u>	<u>(1,478)</u>	<u>-</u>	<u>(620,328)</u>
<b>Net cash provided by (used in) investing activities</b>	<u>24,319</u>	<u>28,469</u>	<u>3,017</u>	<u>55,805</u>
<b>NET INCREASE IN CASH</b>	5,642,797	438,783	140,318	6,221,898
Cash and cash equivalents, beginning of year	<u>4,444,052</u>	<u>4,612,237</u>	<u>703,272</u>	<u>9,759,561</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 10,086,849</u>	<u>\$ 5,051,020</u>	<u>\$ 843,590</u>	<u>\$ 15,981,459</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 1,847,324	\$ 52,999	\$ 157,335	\$ 2,057,658
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	1,463,719	1,663,761	63,155	3,190,635
Change in assets and liabilities:				
Accounts receivable	761,106	360,380	40,451	1,161,937
Prepaid expenses	(10,058)	127,888	170	118,000
Due from other funds	(134,133)	14,652	-	(119,481)
Inventory	69,488	-	-	69,488
Accounts payable	(59,431)	(237,846)	28,380	(268,897)
Accrued expenses	(41,640)	(7,202)	-	(48,842)
Due to other funds	11,882	(2,234)	1,566	11,214
Other payables	<u>8,853</u>	<u>6,478</u>	<u>-</u>	<u>15,331</u>
<b>Net cash provided by operating activities</b>	<u>\$ 3,917,110</u>	<u>\$ 1,978,876</u>	<u>\$ 291,057</u>	<u>\$ 6,187,043</u>
Schedule of non-cash capital and financing activities:				
Contributed water mains from developers	<u>\$ 746,407</u>	<u>\$ 860,505</u>	<u>\$ 2,884,361</u>	<u>\$ 4,491,273</u>
Construction in process included in accounts payable	<u>\$ 12,494</u>	<u>\$ 33,547</u>	<u>\$ 35,165</u>	<u>\$ 81,206</u>

The accompanying notes are an integral part of the financial statements

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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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 is regulated by the Kentucky Public Service Commission.

**Reporting Entity**

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

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

**Basis of Accounting**

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

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

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

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

**Fund Accounting**

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

**Accounts Receivable**

The County Water Fund's accounts receivable is net of an allowance for uncollectible accounts of \$2,193 at December 31, 2013. 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.

**Inventory**

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

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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

**Restricted Assets**

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

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

**Property and Equipment**

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

**Amortization**

The water 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.

**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 February 24, 2014, 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, 2013, have not been evaluated by the District

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**2. CASH AND INVESTMENTS**

The Hardin County Water District's deposits and investments at December 31, 2013, were substantially 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, 2013, the District had \$18,789,524 in the bank of which \$525,371 was uncollateralized.

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

The following is a detail of the District's cash deposit coverage at December 31, 2013:

FDIC insured (or equivalent)	\$ 854,884
Collateralized by securities held by the bank in the District's name	15,861,067
Money market funds – restricted investment	1,548,202
Uncollateralized deposits in the District's name	<u>525,371</u>
Total cash in banks	<u>\$ 18,789,524</u>

Cash and investments are classified as follows as of December 31, 2013:

Unrestricted:	
Cash and cash equivalents:	
Revenue fund	\$ 1,110,500
Other	<u>14,870,959</u>
	15,981,459
Short-term investments:	
Certificates of deposit	<u>775,371</u>
Total unrestricted	<u>16,756,830</u>
Restricted:	
Long-term investments:	
1997 KIA Debt service reserve	340,200
2002 B&I redemption fund – FMV	93,334
2005 B&I redemption fund – FMV	200,728
2005 Debt service reserve – FMV	594,792
Depreciation fund – FMV	<u>752,682</u>
Total restricted	<u>1,981,736</u>
Total reported cash and investments	<u>\$ 18,738,566</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**3. CAPITAL ASSETS**

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

	<b>Balance</b>			<b>Balance</b>
	<b>Jan 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Dec. 31, 2013</b>
Capital assets not depreciated:				
Land and easements	\$ 282,589	\$ -	\$ -	\$ 282,589
Construction in process	6,008,761	4,535,640	1,648,543	8,895,858
Capital assets that are depreciated:				
Plant and lines	158,479,716	7,175,589	177,978	165,477,328
Vehicles and equipment	<u>8,224,715</u>	<u>450,909</u>	<u>1,029,194</u>	<u>7,646,429</u>
Total plant and equipment	172,995,781	12,162,138	2,855,715	182,302,204
Less: accumulated depreciation	<u>90,783,235</u>	<u>3,165,987</u>	<u>104,094</u>	<u>93,845,128</u>
Plant and equipment, net	<u>\$ 82,212,546</u>	<u>\$ 8,996,151</u>	<u>\$ 2,751,621</u>	<u>\$ 88,457,076</u>

Depreciation expense for all combined funds totaled \$3,165,987 for the year ended December 31, 2013.

**4. COMPLIANCE WITH BOND INDENTURE**

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

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

**Bond Reserve Fund** - This fund shall receive, on a monthly basis, within five years of the issue date, an amount equal to the average annual principal and interest requirements on the 2005 issue outstanding. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. At December 31, 2013, the District had reserves of \$594,792 invested with the bond custodian. At December 31, 2013, the requirement for the reserve totaled \$593,371.

**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, 2013, the District was required to fund the account in the amount of \$750,000 and the assets in this account totaled \$752,682.

**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, 2013, the District funded this reserve in the amount of \$340,200.

**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, 2013, the water fund ratio was 2.77.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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**5. LONG-TERM LIABILITIES**

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

Bonds payable of the County water and Radcliff sewer funds consists of the following at December 31, 2013:

2005 Revenue Bonds, various semi-annual principal and interest payments at 4.125% through September 1, 2025, secured by the revenues of the District.	\$ 5,535,000
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.	2,630,000
1997 KIA Wastewater Revolving Loan, various semi-annual principal and interest payments at a rate of interest of 3.8% through December 1, 2018, secured by the revenues of the District.	1,562,065
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>252,782</u>
Total debt	9,979,847
Less: current portion	<u>1,021,306</u>
Total long-term debt	<u>\$ 8,958,541</u>

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

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

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



**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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

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

Fiscal Year	Principal	Interest	Total
2014	\$ 650,000	\$ 343,493	\$ 993,493
2015	665,000	315,630	980,630
2016	680,000	287,404	967,404
2017	705,000	257,936	962,936
2018	730,000	227,653	957,653
2019-2023	3,620,000	658,987	4,278,987
2024-2025	<u>1,115,000</u>	<u>69,507</u>	<u>1,184,507</u>
	<u>\$ 8,165,000</u>	<u>\$ 2,160,610</u>	<u>\$ 10,325,610</u>

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

Fiscal Year	Principal	Interest	Total
2014	\$ 289,323	\$ 59,616	\$ 348,939
2015	300,468	47,933	348,401
2016	311,970	35,800	347,770
2017	323,938	23,203	347,141
2018	<u>336,366</u>	<u>10,123</u>	<u>346,489</u>
	<u>\$ 1,562,065</u>	<u>\$ 176,675</u>	<u>\$ 1,738,740</u>

Total bond and related debt maturities \$ 9,727,065 \$ 2,337,285 \$ 12,064,350

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

Fiscal Year	Principal	Interest	Total
2014	\$ 81,983	\$ -	\$ 81,983
2015	81,983	-	81,983
2016	81,983	-	81,983
2018	<u>6,833</u>	<u>-</u>	<u>6,833</u>
Total other debt maturities	<u>\$ 252,782</u>	<u>\$ -</u>	<u>\$ 252,782</u>

Changes in long-term liabilities are as follows:

	Balance Jan 1, 2013	Additions	Payments	Balance Dec. 31, 2013	Due within one year
Long-term debt	\$ 10,960,486	\$ -	(\$ 980,639)	\$ 9,979,847	\$ 1,021,306
Bond amortization	(162,731)	-	15,548	(147,183)	-
Compensated absences	<u>58,363</u>	<u>14,771</u>	<u>-</u>	<u>73,134</u>	<u>-</u>
Net long-term liabilities	<u>\$ 10,856,118</u>	<u>\$ 14,771</u>	<u>(\$ 965,091)</u>	<u>\$ 9,905,798</u>	<u>\$ 1,021,306</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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**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 2013. As of December 31, 2013 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 \$110,943 at December 31, 2013, 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.

**8. RISK MANAGEMENT**

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

**9. RETIREMENT PLAN**

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

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

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

Contributions – For the year ended December 31, 2013, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 6.00% for employees hired after September 1, 2008. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Participating employers contributed 19.55% of each non-hazardous employee's wages from January 1, 2013 through June 30 and 18.89% from July 1 through December 31, 2013, 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.

**HARDIN COUNTY WATER DISTRICT No. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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**9. RETIREMENT PLAN (CONTINUED)**

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

<b>Required Year</b>	<b>Contribution</b>	<b>Percentage Contributed</b>
2013	\$ 483,790	100%
2012	\$ 454,042	100%
2011	\$ 373,637	100%

**10. SUBSEQUENT EVENT**

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

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

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

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013, (that is, for years ended June 30, 2014, or later). The District is currently evaluating the effects of this statement on its financial statements. The potential liability for the year ending December 31, 2014, is not currently estimable.

**REQUIRED 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, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 3,030,400	\$ 3,030,400	\$ 2,949,850	\$ (80,550)
Wholesale sales	690,000	690,000	668,951	(21,049)
Sewer billing contract revenue	28,000	28,000	29,916	1,916
Penalties, service fees and reimbursements	<u>289,200</u>	<u>289,200</u>	<u>326,015</u>	<u>36,815</u>
<b>Total operating revenue</b>	<u>4,037,600</u>	<u>4,037,600</u>	<u>3,974,732</u>	<u>(62,868)</u>
<b>OPERATING EXPENSES</b>				
Treatment	800,980	800,980	835,617	34,637
Transmission and Distribution	682,903	682,903	620,710	(62,193)
Customer service	268,300	268,300	261,519	(6,781)
General & administrative expenses	395,350	395,350	268,889	(126,461)
Purchased water	92,000	92,000	30,996	(61,004)
General maintenance	81,180	81,180	76,880	(4,300)
Source of supply	<u>38,600</u>	<u>38,600</u>	<u>11,550</u>	<u>(27,050)</u>
<b>Total operating expense</b>	<u>2,359,313</u>	<u>2,359,313</u>	<u>2,106,161</u>	<u>(253,152)</u>
<b>Operating income before depreciation</b>	1,678,287	1,678,287	1,868,571	190,284
Depreciation and amortization expense	<u>(1,027,014)</u>	<u>(1,027,014)</u>	<u>(1,070,702)</u>	<u>(43,688)</u>
<b>OPERATING INCOME</b>	651,273	651,273	797,869	146,596
Non-operating income (expenses)				
Interest income	15,700	15,700	9,639	(6,061)
Interest expense	(289,400)	(289,400)	(280,593)	8,807
Transfers	-	-	42,026	42,026
Loss on sale of equipment	<u>-</u>	<u>-</u>	<u>(19,033)</u>	<u>(19,033)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	377,573	377,573	549,908	172,335
Grants	1,382,000	1,382,000	54,109	(1,327,891)
Tap Fees	50,000	50,000	21,965	(28,035)
Customer Contribution	<u>-</u>	<u>-</u>	<u>2,222</u>	<u>2,222</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,809,573</u>	<u>\$ 1,809,573</u>	<u>\$ 628,204</u>	<u>\$ (1,181,369)</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, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 3,777,676	\$ 3,777,676	\$ 3,777,676	\$ -
Penalties, service fees and reimbursements	<u>351,700</u>	<u>351,700</u>	<u>370,779</u>	<u>19,079</u>
<b>Total operating revenue</b>	<u>4,129,376</u>	<u>4,129,376</u>	<u>4,148,455</u>	<u>19,079</u>
<b>OPERATING EXPENSES</b>				
Transmission and Distribution	566,194	566,194	618,054	51,860
General & administrative expenses	<u>2,371,380</u>	<u>2,371,380</u>	<u>2,087,929</u>	<u>(283,451)</u>
<b>Total operating expense</b>	<u>2,937,574</u>	<u>2,937,574</u>	<u>2,705,983</u>	<u>(231,591)</u>
<b>Operating income before depreciation</b>	1,191,802	1,191,802	1,442,472	250,670
Depreciation and amortization expense	<u>(336,600)</u>	<u>(336,600)</u>	<u>(393,017)</u>	<u>(56,417)</u>
<b>OPERATING INCOME</b>	855,202	855,202	1,049,455	194,253
Non-operating income (expenses)				
Interest income	15,500	15,500	29,470	13,970
Transfers	-	-	(42,026)	(42,026)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(9,662)</u>	<u>(9,662)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	870,702	870,702	1,027,237	156,535
Tap Fees	-	-	2,941	2,941
Customer Contribution	<u>3,863,245</u>	<u>3,863,245</u>	<u>5,013,782</u>	<u>1,150,537</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 4,733,947</u>	<u>\$ 4,733,947</u>	<u>\$ 6,043,960</u>	<u>\$ 1,310,013</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, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 2,901,379	\$ 2,901,379	\$ 2,896,870	\$ (4,509)
Penalties, service fees and reimbursements	<u>140,100</u>	<u>140,100</u>	<u>60,818</u>	<u>(79,282)</u>
<b>Total operating revenue</b>	<u>3,041,479</u>	<u>3,041,479</u>	<u>2,957,688</u>	<u>(83,791)</u>
<b>OPERATING EXPENSES</b>				
Professional services	16,969	16,969	38,729	21,760
Contractual obligations	1,813,783	1,813,783	1,756,533	(57,250)
Allocated expense	(49,542)	(49,542)	(44,001)	5,541
Insurance	20,600	20,600	20,656	56
Customer service	98,094	98,094	71,030	(27,064)
Other	<u>9,900</u>	<u>9,900</u>	<u>13,202</u>	<u>3,302</u>
<b>Total operating expense</b>	<u>1,909,804</u>	<u>1,909,804</u>	<u>1,856,149</u>	<u>(53,655)</u>
<b>Operating income before depreciation</b>	1,131,675	1,131,675	1,101,539	(30,136)
Depreciation and amortization expense	<u>(651,424)</u>	<u>(651,424)</u>	<u>(697,845)</u>	<u>(46,421)</u>
<b>OPERATING INCOME</b>	480,251	480,251	403,694	(76,557)
Non-operating income (expenses)				
Interest income	19,100	19,100	15,839	(3,261)
Interest expense	(1,300)	(1,300)	(1,022)	278
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(6,708)</u>	<u>(6,708)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	498,051	498,051	411,803	(86,248)
Customer contributions	<u>3,043,600</u>	<u>3,043,600</u>	<u>2,304,860</u>	<u>(738,740)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 3,541,651</u>	<u>\$ 3,541,651</u>	<u>\$ 2,716,663</u>	<u>\$ (824,988)</u>



**HARDIN COUNTY WATER DISTRICT No. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**RADCLIFF SEWER FUND**  
**for the year ended December 31, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 3,685,500	\$ 3,685,500	\$ 3,242,914	\$ (442,586)
Penalties, service fees and reimbursements	<u>169,900</u>	<u>169,900</u>	<u>190,176</u>	<u>20,276</u>
<b>Total operating revenue</b>	<u>3,855,400</u>	<u>3,855,400</u>	<u>3,433,090</u>	<u>(422,310)</u>
<b>OPERATING EXPENSES</b>				
Professional services	15,702	15,702	12,790	(2,912)
Contractual obligations	2,170,338	2,170,338	2,170,340	2
Allocated expense	(54,666)	(54,666)	(54,190)	476
Insurance	25,600	25,600	25,614	14
Customer service	592,517	592,517	552,493	(40,024)
System maintenance	<u>127,784</u>	<u>127,784</u>	<u>110,822</u>	<u>(16,962)</u>
<b>Total operating expense</b>	<u>2,877,275</u>	<u>2,877,275</u>	<u>2,817,869</u>	<u>(59,406)</u>
<b>Operating income before depreciation</b>	978,125	978,125	615,221	(362,904)
Depreciation and amortization expense	<u>(954,766)</u>	<u>(954,766)</u>	<u>(965,916)</u>	<u>(11,150)</u>
<b>OPERATING INCOME (LOSS)</b>	23,359	23,359	(350,695)	(374,054)
Non-operating income (expenses)				
Interest income	19,700	19,700	14,108	(5,592)
Interest expense	(71,900)	(71,900)	(70,872)	1,028
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(51,847)</u>	<u>(51,847)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(28,841)	(28,841)	(459,306)	(430,465)
Customer contributions	2,400,000	2,400,000	521,413	(1,878,587)
Tap fees	<u>3,750</u>	<u>3,750</u>	<u>750</u>	<u>(3,000)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 2,374,909</u>	<u>\$ 2,374,909</u>	<u>\$ 62,857</u>	<u>\$ (2,312,052)</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**STORMWATER FUND**  
**for the year ended December 31, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Stormwater revenue	\$ 477,792	\$ 477,792	\$ 477,792	\$ -
Penalties, service fees and reimbursements	<u>61,600</u>	<u>61,600</u>	<u>43,078</u>	<u>(18,522)</u>
<b>Total operating revenue</b>	<u>539,392</u>	<u>539,392</u>	<u>520,870</u>	<u>(18,522)</u>
<b>OPERATING EXPENSES</b>				
Professional services	2,523	2,523	2,027	(496)
Contractual obligations	286,579	286,579	281,698	(4,881)
Allocated expense	(15,146)	(15,146)	(15,014)	132
Insurance	1,100	1,100	1,080	(20)
Customer service	720	720	718	(2)
Other	<u>40,055</u>	<u>40,055</u>	<u>29,871</u>	<u>(10,184)</u>
<b>Total operating expense</b>	<u>315,831</u>	<u>315,831</u>	<u>300,380</u>	<u>(15,451)</u>
<b>Operating income before depreciation</b>	223,561	223,561	220,490	(3,071)
Depreciation and amortization expense	<u>(37,848)</u>	<u>(37,848)</u>	<u>(63,155)</u>	<u>(25,307)</u>
<b>OPERATING INCOME</b>	185,713	185,713	157,335	(28,378)
Non-operating income (expenses)				
Interest income	<u>4,400</u>	<u>4,400</u>	<u>3,017</u>	<u>(1,383)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	190,113	190,113	160,352	(29,761)
Customer contributions	<u>1,337,900</u>	<u>1,337,900</u>	<u>2,884,361</u>	<u>1,546,461</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,528,013</u>	<u>\$ 1,528,013</u>	<u>\$ 3,044,713</u>	<u>\$ 1,516,700</u>

**SUPPLEMENTARY INFORMATION**

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED WATER STATEMENT OF NET POSITION**  
**December 31, 2013**

	County Water	Ft. Knox Water	2013 Total	2012 Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 314,310	\$ 9,772,539	\$ 10,086,849	\$ 4,444,052
Short-term certificates of deposit	775,371	-	775,371	767,708
Customer accounts receivable, net	267,281	246,172	513,453	736,654
Other accounts receivable	62,397	401,350	463,747	1,001,652
Interest receivable	1,593	-	1,593	1,874
Due from other funds	105,234	-	105,234	-
Inventory - materials and supplies	198,248	54,018	252,266	321,754
Prepaid expenses	72,110	7,748	79,858	69,800
Total current assets	<u>1,796,544</u>	<u>10,481,827</u>	<u>12,278,371</u>	<u>7,343,494</u>
Other assets				
Restricted funds	<u>1,641,535</u>	<u>-</u>	<u>1,641,535</u>	<u>1,634,127</u>
Property, plant and equipment				
Land and easements	273,045	-	273,045	273,045
Plant and lines	37,834,980	9,696,388	47,531,368	45,384,251
Vehicles and equipment	3,979,751	1,264,827	5,244,578	5,773,986
Construction in progress	1,119,695	485,234	1,604,929	876,545
Total	43,207,471	11,446,449	54,653,920	52,307,827
Less: accumulated depreciation	<u>(13,975,275)</u>	<u>(860,847)</u>	<u>(14,836,122)</u>	<u>(13,428,672)</u>
Total property, plant, and equipment	<u>29,232,196</u>	<u>10,585,602</u>	<u>39,817,798</u>	<u>38,879,155</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 32,670,275</b></u>	<u><b>\$ 21,067,429</b></u>	<u><b>\$ 53,737,704</b></u>	<u><b>\$ 47,856,776</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable	\$ 236,957	\$ 175,537	\$ 412,494	\$ 471,925
Due to other funds	-	52,094	52,094	69,111
Customers' deposits	172,045	-	172,045	168,032
Accrued expenses	35,144	22,115	57,259	98,899
Reserve for unclaimed funds - escheatment	6,345	-	6,345	5,231
Deferred rent revenue	3,855	-	3,855	4,533
Liabilities payable from restricted assets:				
Current portion of long-term debt	650,000	81,960	731,960	701,960
Accrued interest on long-term debt	57,080	-	57,080	60,792
Total current liabilities	<u>1,161,426</u>	<u>331,706</u>	<u>1,493,132</u>	<u>1,580,483</u>
Long-term liabilities				
Bonds payable	7,515,000	-	7,515,000	8,165,000
Other long-term debt	-	170,822	170,822	252,805
Less: unamortized discount	(147,183)	-	(147,183)	(162,731)
Compensated absences	59,016	14,118	73,134	58,363
Total long-term liabilities	<u>7,426,833</u>	<u>184,940</u>	<u>7,611,773</u>	<u>8,313,437</u>
Other liabilities				
Customer advances for construction	<u>110,943</u>	<u>-</u>	<u>110,943</u>	<u>113,164</u>
Total liabilities	<u>8,699,202</u>	<u>516,646</u>	<u>9,215,848</u>	<u>10,007,084</u>
Net position				
Net investment in capital assets	21,157,299	10,332,820	31,490,119	29,861,329
Restricted	1,641,535	-	1,641,535	1,634,127
Unrestricted	1,172,239	10,217,963	11,390,202	6,354,236
Total net position	<u>23,971,073</u>	<u>20,550,783</u>	<u>44,521,856</u>	<u>37,849,692</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><b>\$ 32,670,275</b></u>	<u><b>\$ 21,067,429</b></u>	<u><b>\$ 53,737,704</b></u>	<u><b>\$ 47,856,776</b></u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**for the year ended December 31, 2013**

	<b>County Water</b>	<b>Fort Knox Water</b>	<b>2013 Total</b>	<b>2012 Total</b>
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 2,949,850	\$ 3,777,676	\$ 6,727,526	\$ 6,538,415
Wholesale sales	668,951	-	668,951	647,969
Sewer billing contract revenue	29,916	-	29,916	18,335
Penalties, service fees and reimbursements	<u>326,015</u>	<u>370,779</u>	<u>696,794</u>	<u>662,107</u>
<b>Total operating revenue</b>	<u>3,974,732</u>	<u>4,148,455</u>	<u>8,123,187</u>	<u>7,866,826</u>
<b>OPERATING EXPENSES</b>				
Treatment	835,617	-	835,617	777,035
Distribution	620,710	618,054	1,238,764	1,175,956
Customer service	261,519	-	261,519	249,581
General & administrative expenses	268,889	2,087,929	2,356,818	2,277,310
Purchased water	30,996	-	30,996	85,289
General maintenance	76,880	-	76,880	91,070
Source of supply	<u>11,550</u>	<u>-</u>	<u>11,550</u>	<u>34,837</u>
<b>Total operating expense</b>	<u>2,106,161</u>	<u>2,705,983</u>	<u>4,812,144</u>	<u>4,691,078</u>
<b>Operating income before depreciation</b>	1,868,571	1,442,472	3,311,043	3,175,748
Depreciation and amortization expense	<u>(1,070,702)</u>	<u>(393,017)</u>	<u>(1,463,719)</u>	<u>(1,449,633)</u>
<b>OPERATING INCOME</b>	797,869	1,049,455	1,847,324	1,726,115
Non-operating income (expenses)				
Interest income	9,639	29,470	39,109	43,715
Interest expense	(280,593)	-	(280,593)	(296,635)
Transfers	42,026	(42,026)	-	-
Gain (loss) on sale of equipment	<u>(19,033)</u>	<u>(9,662)</u>	<u>(28,695)</u>	<u>3,250</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	549,908	1,027,237	1,577,145	1,476,445
Capital Contributions				
Grants	54,109	-	54,109	237,953
Tap fees	21,965	2,941	24,906	46,333
Customer contributions	<u>2,222</u>	<u>5,013,782</u>	<u>5,016,004</u>	<u>13,619,294</u>
<b>CHANGE IN NET POSITION</b>	628,204	6,043,960	6,672,164	15,380,025
Net position, beginning of year	<u>23,342,869</u>	<u>14,506,823</u>	<u>37,849,692</u>	<u>22,469,667</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 23,971,073</u>	<u>\$ 20,550,783</u>	<u>\$ 44,521,856</u>	<u>\$ 37,849,692</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED WATER STATEMENT OF CASH FLOWS**  
**for the year ended December 31, 2013**

	County Water	Ft. Knox Water	2013 Total	2012 Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,809,221	\$ 4,940,939	\$ 8,750,160	\$ 6,212,212
Payments to suppliers	(740,937)	(2,304,011)	(3,044,948)	(2,690,467)
Payments for employee services and benefits	(1,243,120)	(544,982)	(1,788,102)	(1,727,828)
<b>Net cash provided by operating activities</b>	<u>1,825,164</u>	<u>2,091,946</u>	<u>3,917,110</u>	<u>1,793,917</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on long-term debt	(620,000)	(81,983)	(701,983)	(575,151)
Borrowings	-	-	-	75,151
Principal paid on line of credit	-	-	-	(32,683)
Interest paid on long-term debt	(284,305)	-	(284,305)	(299,110)
Contributions in aid of construction	21,965	4,272,538	4,294,503	4,719,696
Grants	54,109	-	54,109	281,382
Proceeds from sale of equipment	-	-	-	7,412
Acquisition and construction of capital assets	(1,169,793)	(488,942)	(1,658,735)	(1,787,532)
Cash (paid) received under advance construction contract	(2,221)	-	(2,221)	(13,237)
<b>Net cash (used in) capital and related financing activities</b>	<u>(2,000,245)</u>	<u>3,701,613</u>	<u>1,701,368</u>	<u>2,375,928</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	9,920	29,470	39,390	42,837
Redemption of investments	603,779	-	603,779	508,442
Purchase of investments	(618,850)	-	(618,850)	(582,672)
<b>Net cash provided by (used in) investing activities</b>	<u>(5,151)</u>	<u>29,470</u>	<u>24,319</u>	<u>(31,393)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(180,232)	5,823,029	5,642,797	4,138,452
Cash and cash equivalents, beginning of year	<u>494,542</u>	<u>3,949,510</u>	<u>4,444,052</u>	<u>305,600</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 314,310</u>	<u>\$ 9,772,539</u>	<u>\$ 10,086,849</u>	<u>\$ 4,444,052</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 797,869	\$ 1,049,455	\$ 1,847,324	\$ 1,726,115
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	1,070,702	393,017	1,463,719	1,449,633
Transfer out	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	(31,378)	792,484	761,106	(1,398,019)
Prepaid expenses	(15,438)	5,380	(10,058)	(3,136)
Due from other funds	(134,133)	-	(134,133)	40,498
Inventory	97,865	(28,377)	69,488	(38,035)
Accounts payable	82,867	(142,298)	(59,431)	234,237
Accrued expenses	(48,317)	6,677	(41,640)	34,171
Due to other funds	-	11,882	11,882	(256,881)
Other payables	5,127	3,726	8,853	5,334
<b>Net cash provided by operating activities</b>	<u>\$ 1,825,164</u>	<u>\$ 2,091,946</u>	<u>\$ 3,917,110</u>	<u>\$ 1,793,917</u>
Schedule of non-cash capital and financing activities:				
Non-cash capital contributions	<u>\$ 2,222</u>	<u>\$ 744,185</u>	<u>\$ 746,407</u>	<u>\$ 8,945,931</u>
Construction in process included in accounts payable	<u>\$ -</u>	<u>\$ 12,494</u>	<u>\$ 12,494</u>	<u>\$ 334,765</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED SEWER STATEMENT OF NET POSITION**  
**December 31, 2013**

<b>ASSETS</b>	<b>Ft. Knox Sewer</b>	<b>Radcliff Sewer</b>	<b>2013 Total</b>	<b>2012 Total</b>
<b>Current assets</b>				
Cash and cash equivalents	\$ 2,471,421	\$ 2,579,599	\$ 5,051,020	\$ 4,612,237
Customer accounts receivable, net	239,959	205,987	445,946	440,844
Grant receivable	55,015	291,090	346,105	711,587
Due from other funds	-	-	-	80,225
Inventory	12,373	-	12,373	12,373
Prepaid expenses	<u>2,696</u>	<u>35,835</u>	<u>38,531</u>	<u>53,183</u>
<b>Total current assets</b>	<u>2,781,464</u>	<u>3,112,511</u>	<u>5,893,975</u>	<u>5,910,449</u>
<b>Other assets</b>				
Restricted assets - reserve funds	-	340,201	340,201	338,723
Radcliff acquisition costs, net	<u>-</u>	<u>193,002</u>	<u>193,002</u>	<u>202,103</u>
<b>Total other assets</b>	<u>-</u>	<u>533,203</u>	<u>533,203</u>	<u>540,826</u>
<b>Property, plant and equipment</b>				
Land and easements	-	9,544	9,544	9,544
Plant and lines	80,314,029	34,523,882	114,837,911	111,823,319
Vehicles and equipment	1,126,085	1,115,023	2,241,108	2,300,517
Construction in progress	<u>4,168,161</u>	<u>1,602,565</u>	<u>5,770,726</u>	<u>4,803,696</u>
<b>Total</b>	<u>85,608,275</u>	<u>37,251,014</u>	<u>122,859,289</u>	<u>118,937,076</u>
Less: accumulated depreciation	<u>(63,179,774)</u>	<u>(15,634,942)</u>	<u>(78,814,716)</u>	<u>(77,223,428)</u>
<b>Total property, plant, and equipment</b>	<u>22,428,501</u>	<u>21,616,072</u>	<u>44,044,573</u>	<u>41,713,648</u>
<b>TOTAL ASSETS</b>	<u>\$ 25,209,965</u>	<u>\$ 25,261,786</u>	<u>\$ 50,471,751</u>	<u>\$ 48,164,923</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 264,987	\$ 320,620	\$ 585,607	\$ 823,453
Due to other funds	3,131	47,663	50,794	10,333
Customers' deposits	-	135,932	135,932	129,454
Accrued expenses	5,167	19,532	24,699	26,933
<b>Liabilities payable from restricted assets:</b>				
Current portion of long-term debt	-	289,346	289,346	278,656
Accrued interest on long-term debt	<u>-</u>	<u>5,207</u>	<u>5,207</u>	<u>6,102</u>
<b>Total current liabilities</b>	<u>273,285</u>	<u>818,300</u>	<u>1,091,585</u>	<u>1,274,931</u>
<b>Long-term liabilities</b>				
Bonds payable	<u>-</u>	<u>1,272,719</u>	<u>1,272,719</u>	<u>1,562,065</u>
<b>Total liabilities</b>	<u>273,285</u>	<u>2,091,019</u>	<u>2,364,304</u>	<u>2,836,996</u>
<b>Net position</b>				
Net investment in capital assets	22,428,501	20,048,800	42,477,301	39,866,825
Restricted	-	340,201	340,201	338,723
Unrestricted	<u>2,508,179</u>	<u>2,781,766</u>	<u>5,289,945</u>	<u>5,122,379</u>
<b>Total net position</b>	<u>24,936,680</u>	<u>23,170,767</u>	<u>48,107,447</u>	<u>45,327,927</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 25,209,965</u>	<u>\$ 25,261,786</u>	<u>\$ 50,471,751</u>	<u>\$ 48,164,923</u>



**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED SEWER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
for the year ended December 31, 2013

	Ft. Knox Sewer	Radcliff Sewer	2013 Total	2012 Total
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 2,896,870	\$ 3,242,914	\$ 6,139,784	\$ 6,256,675
Penalties, service fees and reimbursements	<u>60,818</u>	<u>190,176</u>	<u>250,994</u>	<u>267,920</u>
<b>Total operating revenue</b>	<u>2,957,688</u>	<u>3,433,090</u>	<u>6,390,778</u>	<u>6,524,595</u>
<b>OPERATING EXPENSES</b>				
Customer service	71,030	552,493	623,523	612,048
Sewer operations	<u>1,785,119</u>	<u>2,265,376</u>	<u>4,050,495</u>	<u>3,911,432</u>
<b>Total operating expense</b>	<u>1,856,149</u>	<u>2,817,869</u>	<u>4,674,018</u>	<u>4,523,480</u>
<b>Operating income before depreciation</b>	1,101,539	615,221	1,716,760	2,001,115
Depreciation and amortization expense	<u>(697,845)</u>	<u>(965,916)</u>	<u>(1,663,761)</u>	<u>(1,557,218)</u>
<b>OPERATING INCOME LOSS)</b>	403,694	(350,695)	52,999	443,897
Non-operating income (expenses)				
Interest income	15,839	14,108	29,947	39,165
Interest expense	(1,022)	(70,872)	(71,894)	(82,779)
Bad debts recovered	-	-	-	-
Gain (loss) on sale of equipment	<u>(6,708)</u>	<u>(51,847)</u>	<u>(58,555)</u>	<u>(99,903)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	411,803	(459,306)	(47,503)	300,380
Grants	-	521,413	521,413	642,224
Tap fees	-	750	750	3,000
Customer contributions	<u>2,304,860</u>	<u>-</u>	<u>2,304,860</u>	<u>1,963,758</u>
<b>CHANGE IN NET POSITION</b>	2,716,663	62,857	2,779,520	2,909,362
Net position, beginning of year	<u>22,220,017</u>	<u>23,107,910</u>	<u>45,327,927</u>	<u>42,418,565</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 24,936,680</u>	<u>\$ 23,170,767</u>	<u>\$ 48,107,447</u>	<u>\$ 45,327,927</u>

**HARDIN COUNTY WATER DISTRICT No. 1**  
**COMBINED SEWER STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2013

	Ft. Knox Sewer	Radcliff Sewer	2013 Total	2012 Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,517,567	\$ 3,354,277	\$ 6,871,844	\$ 6,114,213
Payments to suppliers	<u>(2,051,399)</u>	<u>(2,841,569)</u>	<u>(4,892,968)</u>	<u>(4,150,132)</u>
<b>Net cash provided by operating activities</b>	<u>1,466,168</u>	<u>512,708</u>	<u>1,978,876</u>	<u>1,964,081</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on long-term debt	-	(278,656)	(278,656)	(268,362)
Interest paid on long-term debt	-	(895)	(895)	(83,707)
Contributions in aid of construction	1,444,355	522,163	1,966,518	2,608,982
Proceeds from sale of equipment	-	-	-	4,640
Acquisition and construction of capital assets	<u>(2,113,154)</u>	<u>(1,142,375)</u>	<u>(3,255,529)</u>	<u>(4,063,447)</u>
<b>Net cash (used in) capital and related financing activities</b>	<u>(668,799)</u>	<u>(899,763)</u>	<u>(1,568,562)</u>	<u>(1,801,894)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	15,839	14,108	29,947	39,688
Redemption of investments	-	-	-	335,230
Purchase of investments	<u>-</u>	<u>(1,478)</u>	<u>(1,478)</u>	<u>(338,723)</u>
<b>Net cash provided by investing activities</b>	<u>15,839</u>	<u>12,630</u>	<u>28,469</u>	<u>36,195</u>
<b>NET INCREASE IN CASH</b>	813,208	(374,425)	438,783	198,382
Cash and cash equivalents, beginning of year	<u>1,658,213</u>	<u>2,954,024</u>	<u>4,612,237</u>	<u>4,413,855</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,471,421</u>	<u>\$ 2,579,599</u>	<u>\$ 5,051,020</u>	<u>\$ 4,612,237</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 403,694	\$ (350,695)	\$ 52,999	\$ 443,897
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	697,845	965,916	1,663,761	1,557,218
Change in assets and liabilities:				
Accounts receivable	567,081	(206,701)	360,380	(616,919)
Prepaid expenses	-	127,888	127,888	189,903
Inventory	-	-	-	-
Due from other funds	4,979	9,673	14,652	(3,198)
Accounts payable	(199,709)	(38,137)	(237,846)	391,909
Accrued expenses	(7,202)	-	(7,202)	24,476
Due to other funds	(520)	(1,714)	(2,234)	(19,675)
Other payables	<u>-</u>	<u>6,478</u>	<u>6,478</u>	<u>(3,530)</u>
<b>Net cash provided by operating activities</b>	<u>\$ 1,466,168</u>	<u>\$ 512,708</u>	<u>\$ 1,978,876</u>	<u>\$ 1,964,081</u>
<b>Schedule of non-cash capital and financing activities:</b>				
Non-cash capital contributions	<u>\$ 860,505</u>	<u>\$ -</u>	<u>\$ 860,505</u>	<u>\$ -</u>
Construction in process included in accounts payable	<u>\$ 14,031</u>	<u>\$ 19,516</u>	<u>\$ 33,547</u>	<u>\$ 1,873</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States, the financial statements of the business-type activities of Hardin County Water District No. 1, as of and for the year ended December 31, 2013, 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 February 24, 2014.

**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.

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Ray, Foley, Hensley, & Company*

Ray, Foley, Hensley, & Company, PLLC  
February 24, 2014