

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

**FINANCIAL STATEMENTS
December 31, 2017**

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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 Hardin County Water District No.1, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hardin County Water District No.1, as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 and pension schedules on pages 19-20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Prior-Year Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed an unmodified opinion on the respective financial statements in our report dated June 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2018, 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 the Hardin County Water District No. 1's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
July 5, 2018

Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 60 Years

1400 Rogersville Road
Radcliff, KY. 40160

July 5, 2018

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

SUBJECT: 2017 Annual Report & Management's Discussion and Analysis

This report is a joint effort of our staff and RFH, PLLC, Certified Public Accountants. This is the thirteenth 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, Ms. Stephanie Strange (Accountant) and Ms. Jessica Warren (Accounting Specialist) of his staff for their work assisting the auditors in preparing this information. Mr. Kevin Fisher, CPA was the lead auditor for the firm and field staff to complete the audit.

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 \$10,398,617. Total net position increased by \$4,271,751 (+3.6% [percent changes in parentheses represent change from 2016]). Total revenues, including interest income, decreased by \$549,253 or - 3.5% compared to 2016. This decrease was due to the predictable expiration of a 5-year revenue surcharge from the Government for operating a second Ft. Knox Water Treatment Plant, while we continue to operate both plants. A decrease in reimbursed General & Administrative expenses related to Ft. Knox revenues also contributed to this decrease. Operating income before depreciation was \$4,343,314 (- 18.9%) and operating income after depreciation (gross of non-operating income and expenses) was \$560,182. Net Income was 4.2% of total operating revenues. Total net position at the end of the year was \$124,736,908 (+ 3.6%).

Cash used for capital construction was \$10,548,638 (+ 46.8%), of which 38.7% was provided by government grants. At year end, consolidated outstanding debt principal was \$5,546,365 (- 16.3%). Total working capital (unrestricted cash + investments) at year end increased by 1.9% to \$28,579,410 . Of all reserves (cash + investments), 94.1% (-0.11%) were unrestricted and available as working capital for capital construction or operations. At the beginning of 2018 we also had total of \$8,098,025 (- 28.3%) of available state or federal grant funding for future capital construction projects.

Continued

Individual Fund Highlights:

County Water: Total operating expenses (excluding debt interest and depreciation) were 0.43% more than budgeted. Revenues were 8% less than budgeted. Net income after depreciation and interest expense increased by 2.2% from 2016. Water sales increased by 9.5% from 2016 and net position increased by 2.6%. The bond coverage ratio was 2.89% (+1.4% from 2016) which is approximately 2.41 times the required 1.20.

Ft. Knox Water: Total operating revenues were \$3,217,213 (- 23.3%) including interest income. Operating income before depreciation was \$445,462 (- 61.4%) down due to reasons provided above. Net income after depreciation and amortized expenses was \$73,429 which represents 2.2% of revenues. Net position at year end was \$34,047,164 (+ 1.1%) and construction in progress was valued at \$1,502,953. Working capital and cash available for capital construction was \$18,750,564 (- 2.9%). We will be filing a request in the near future with the Government to restore the added revenues required for operating two water plants.

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues increased slightly by 0.2%. Total operating income, before depreciation expense was \$654,007 (- 43.9%)¹. Total net position increased by 0.7%. Total expended for construction was \$1,397,336 of which almost all was provided by contributed capital (direct grants) from the Government. At the beginning of 2018, the fund had a balance of \$5,125,168 (+ 46.0%) available for construction projects and capital improvements. An additional \$109,610 is also available in direct Government funding for future capital construction projects. Since we began self operations of the systems in July 2017, after terminating our private operations contract, our net income (YTD through May) has improved by 2,160%.

Radcliff Sewer: Total revenues (including interest income) were \$3,975,926 (+ 1.5%) which was 2.7% below revenue estimates. Total operating expenses (excluding depreciation) were 1.8% less than budgeted. Total net position increased 12.2% to \$27,155,056 and at year end we had construction in progress assets of \$2,134,794 (+ 215%). Of the \$2,734,768 expended for construction (+ 197.9%), 82% was funded by state grants. At year end, the total cash & investment reserve balance was \$3,044,655 (- 31.2%) of which 88% was unrestricted and available for capital construction or operations. At year end, a total of \$7,959,648 in state grants are available for future capital construction projects. The fund had net operating income before depreciation and debt interest of \$1,816,986 (+ 21.2%) with a net operating income of \$643,271 (16.2% of revenues).

Operational Changes & Statistics

During 2017, a total of 1,631 MG (million gallons) of potable water was treated (- 2.9%) and a total of 18.3 MG was purchased for resale (+ 160%). Total water delivered to customers (County and Ft. Knox combined) was 1,645 MG (+ 12.7%). The maximum demand day was 6.530 MG (- 9.9%) and occurred on 11-July. The average daily water demand for the year was 4.506 MG

¹

The significant decrease in Ft. Knox Sewer net income is a result of our takeover of operations which added several full time employees. As these employees and their pension liability must be recorded under GASB 68, we were required to add the new unfunded pension liability, which is a non-cash expense. Also as an agreed settlement with our prior contract operator we expensed a final termination fee payment, which also affected net income for 2017.

Continued

(-2%). A total of 76 new water services were installed, up 4% from 2016. Wholesale customers purchased 321.2 MG (- 5.9%), which was equivalent to 19.5% of total water produced and purchased volume.

The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,398 MG (+ 6.6%). This resulted in an average daily flow of clean, recycled water into streams of 3.827 MG. The maximum day treated was 15.062 MG and occurred on 2-September.

Other Significant Projects / Changes: During 2017, we completed the new Louisville Water Company Interconnect project. Shortly after that the City of West Point requested a wholesale connection which has been completed. Now the City purchases all their water from us, allowing them to close their aging water plant. We also completed another County Expansion project, adding 10.4 miles of water mains on 12 new roads. This \$1.171 million project was funded 85% through a KIA Grant and the balance from District reserves.

We also substantially completed a new 16 inch transmission main through Vine Grove. This larger main allows the District to provide the Meade County Water District (MCWD) with all their water needs as our largest wholesale customer. MCWD completed their own main extension and new pump station in order to be able to purchase all their water, and also allowed us to double their wholesale volume commitment.


In July 2017, we began self operations of the Ft. Knox Sewer systems (sanitary and storm). This included an internal re-organization. We hired nine new employees and moved the sewer collection staff under the water distribution supervisor. This change saves a significant cost compared to continuing to contract these operations.

After 24 years of service, General Manager Jim Bruce retires in August, 2018. Mr. Stephen Hogan, P.E., was selected by the Board in 2017 and began his employment on December 4th. Mr. Hogan brings extensive experience with water and sewer engineering as well as working as a General Manager in Georgia.

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, 2017

ASSETS	Water Total	Sewer Total	Storm Water	Total	2016 Totals
Current assets					
Cash and cash equivalents	\$ 16,760,020	\$ 6,672,530	\$ 1,154,819	\$ 24,587,369	\$ 24,785,708
Short-term certificates of deposit	3,992,041	-	-	3,992,041	3,274,087
Customer accounts receivable, net	802,480	705,174	79,627	1,587,281	1,857,772
Other accounts receivable	12,764	97,400	38,705	148,869	2,540,701
Interest receivable	14,327	-	-	14,327	11,771
Inventory - materials and supplies	299,474	3,842	-	303,316	266,858
Prepaid expenses	70,065	48,516	152	118,733	142,361
Total current assets	<u>21,951,171</u>	<u>7,527,462</u>	<u>1,273,303</u>	<u>30,751,936</u>	<u>32,879,258</u>
Non-current assets					
Interfund receivable (payable)	(2,600,000)	2,600,000	-	-	-
Long-term certificates of deposits	-	-	-	-	669,149
Restricted assets - reserve funds	1,446,264	342,474	-	1,788,738	1,672,765
Unamortized rate case expense	-	43,603	-	43,603	74,381
Unamortized acquisition costs	-	156,601	-	156,601	165,701
Total non-current assets	<u>(1,153,736)</u>	<u>3,142,678</u>	<u>-</u>	<u>1,988,942</u>	<u>2,581,996</u>
Capital assets					
Land and easements	338,807	9,544	-	348,351	282,589
Construction in progress	10,806,615	2,936,300	749,070	14,491,985	9,713,951
Plant and lines	56,559,620	126,206,784	5,550,700	188,317,104	183,274,884
Vehicles and equipment	6,010,399	2,707,162	141,514	8,859,075	8,346,474
Total	73,715,441	131,859,790	6,441,284	212,016,515	201,617,898
Less: accumulated depreciation	(20,326,583)	(85,136,415)	(521,604)	(105,984,602)	(102,588,054)
Total capital assets	<u>53,388,858</u>	<u>46,723,375</u>	<u>5,919,680</u>	<u>106,031,913</u>	<u>99,029,844</u>
Total assets	<u>74,186,293</u>	<u>57,393,515</u>	<u>7,192,983</u>	<u>138,772,791</u>	<u>134,491,098</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - pension	1,203,421	777,201	-	1,980,622	1,686,593
Total assets and deferred outflows of resources	<u>\$ 75,389,714</u>	<u>\$ 58,170,716</u>	<u>\$ 7,192,983</u>	<u>\$ 140,753,413</u>	<u>\$ 136,177,691</u>
LIABILITIES AND NET POSITION					
Current liabilities					
Accounts payable	\$ 631,868	\$ 358,013	\$ 3,738	\$ 993,619	\$ 2,380,309
Due to (from) other funds	(17,921)	(94,265)	112,186	-	-
Customers' deposits	197,889	188,577	-	386,466	362,325
Accrued expenses	66,077	150,536	19,086	235,699	86,830
Reserve for unclaimed funds - escheatment	8,292	-	-	8,292	8,272
Unearned revenue	37,971	-	-	37,971	40,736
Line of credit	1,867,510	-	-	1,867,510	585,119
Liabilities payable from restricted assets:					
Current portion of long-term debt	745,000	336,365	-	1,081,365	1,075,770
Accrued interest on long-term debt	19,219	1,121	-	20,340	8,100
Total current liabilities	<u>3,555,905</u>	<u>940,347</u>	<u>135,010</u>	<u>4,631,262</u>	<u>4,547,461</u>
Long-term liabilities					
Bonds and notes payable	4,465,000	-	-	4,465,000	5,546,365
Net pension liability	4,035,472	2,606,218	-	6,641,690	5,533,595
Compensated absences	92,894	16,057	-	108,951	82,124
Long-term liabilities, net	<u>8,593,366</u>	<u>2,622,275</u>	<u>-</u>	<u>11,215,641</u>	<u>11,162,084</u>
Total liabilities	<u>12,149,271</u>	<u>3,562,622</u>	<u>135,010</u>	<u>15,846,903</u>	<u>15,709,545</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pension	103,050	66,552	-	169,602	2,989
Net position					
Net investment in capital assets	46,292,129	46,385,889	5,919,680	98,597,698	91,814,490
Restricted	1,446,264	342,474	-	1,788,738	1,672,765
Unrestricted	15,399,000	7,813,179	1,138,293	24,350,472	26,977,902
Total net position	<u>63,137,393</u>	<u>54,541,542</u>	<u>7,057,973</u>	<u>124,736,908</u>	<u>120,465,157</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 75,389,714</u>	<u>\$ 58,170,716</u>	<u>\$ 7,192,983</u>	<u>\$ 140,753,413</u>	<u>\$ 136,177,691</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, 2017

	Water Total	Sewer Total	Storm Water	Total	2016 Totals
OPERATING REVENUE					
Metered water sales	\$ 6,254,589	\$ -	\$ -	\$ 6,254,589	\$ 6,679,101
Wholesale sales	713,552	-	-	713,552	682,904
Sewer billing contract revenue	46,590	-	-	46,590	42,279
Sewer service revenue	-	6,628,720	-	6,628,720	6,566,433
Stormwater service revenue	-	-	477,792	477,792	477,792
Penalties, service fees and reimbursements	331,540	239,587	5,324	576,451	947,709
	<u>7,346,271</u>	<u>6,868,307</u>	<u>483,116</u>	<u>14,697,694</u>	<u>15,396,218</u>
Total operating revenue					
OPERATING EXPENSES					
Treatment	1,093,117	1,069,443	-	2,162,560	1,675,165
Distribution	1,429,819	1,215,884	26,178	2,671,881	2,427,886
Customer service	356,676	756,583	808	1,114,067	896,523
General and administrative expenses	2,500,846	1,595,661	-	4,096,507	4,609,508
Purchased water	8,263	-	-	8,263	20,955
General maintenance	69,161	3,736	-	72,897	77,233
Source of supply	16,068	-	-	16,068	15,123
Stormwater	-	-	212,137	212,137	320,132
	<u>5,473,950</u>	<u>4,641,307</u>	<u>239,123</u>	<u>10,354,380</u>	<u>10,042,525</u>
Total operating expense					
Operating income before depreciation	1,872,321	2,227,000	243,993	4,343,314	5,353,693
Depreciation and amortization expense	<u>(1,612,273)</u>	<u>(2,061,004)</u>	<u>(109,855)</u>	<u>(3,783,132)</u>	<u>(3,516,850)</u>
OPERATING INCOME	260,048	165,996	134,138	560,182	1,836,843
Non-operating income (expenses)					
Interest income	195,606	58,082	10,451	264,139	114,868
Interest expense	(103,066)	(26,632)	-	(129,698)	(272,714)
Cost of bond issuance	-	-	-	-	(68,666)
Transfers in (out)	40	(89)	49	-	-
(Loss) on disposal of equipment	<u>(19,151)</u>	<u>(62,515)</u>	<u>(24)</u>	<u>(81,690)</u>	<u>(123,327)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	333,477	134,842	144,614	612,933	1,487,004
Capital contributions					
Grants	352,441	2,334,586	-	2,687,027	4,721,893
Tap fees	85,162	-	-	85,162	54,564
Customer contributions	<u>330,474</u>	<u>398,065</u>	<u>158,090</u>	<u>886,629</u>	<u>5,073,267</u>
CHANGE IN NET POSITION	1,101,554	2,867,493	302,704	4,271,751	11,336,728
Net position, beginning of year	<u>62,035,839</u>	<u>51,674,049</u>	<u>6,755,269</u>	<u>120,465,157</u>	<u>109,128,429</u>
NET POSITION, END OF YEAR	<u>\$ 63,137,393</u>	<u>\$ 54,541,542</u>	<u>\$ 7,057,973</u>	<u>\$ 124,736,908</u>	<u>\$ 120,465,157</u>

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

HARDIN COUNTY WATER DISTRICT No. 1
STATEMENT OF CASH FLOWS
for the year ended December 31, 2017

	Water Total	Sewer Total	Storm Water	Total	2016 Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 7,460,403	\$ 7,342,409	\$ 562,748	\$ 15,365,560	\$ 15,106,430
Payments to suppliers	(3,008,281)	(2,806,271)	(217,037)	(6,031,589)	(6,835,155)
Payments for employee services and benefits	(2,051,761)	(1,143,514)	-	(3,195,275)	(2,984,744)
Net cash provided by operating activities	<u>2,400,361</u>	<u>3,392,624</u>	<u>345,711</u>	<u>6,138,696</u>	<u>5,286,531</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers (to) from other funds	2,463,168	(2,547,285)	84,117	-	-
Net cash provided by (used in) non-capital financing activities	<u>2,463,168</u>	<u>(2,547,285)</u>	<u>84,117</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on long-term debt	(751,832)	(323,938)	-	(1,075,770)	(5,453,954)
Proceeds from issuance of debt	-	-	-	-	4,165,000
Line of credit proceeds, net of payments	1,282,391	-	-	1,282,391	585,119
Interest paid on long-term debt	(89,746)	(27,712)	-	(117,458)	(317,149)
Contributions in aid of construction	387,826	490,736	697,561	1,576,123	4,743,622
Grants received	1,835,361	2,242,453	-	4,077,814	3,746,425
Proceeds from sale of equipment	21,093	19,079	-	40,172	38,204
Acquisition and construction of capital assets	(8,007,883)	(3,875,921)	(333,308)	(12,217,112)	(7,186,936)
Cash (paid) under advance construction contract	-	-	-	-	(63,241)
Net cash provided by (used in) capital and related financing activities	<u>(5,322,790)</u>	<u>(1,475,303)</u>	<u>364,253</u>	<u>(6,433,840)</u>	<u>257,090</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	193,050	58,082	10,451	261,583	112,610
Redemption of investments	-	-	-	-	1,550,453
Purchase of investments	(164,436)	(342)	-	(164,778)	(1,279,225)
Net cash provided by investing activities	<u>28,614</u>	<u>57,740</u>	<u>10,451</u>	<u>96,805</u>	<u>383,838</u>
NET INCREASE (DECREASE) IN CASH	(430,647)	(572,224)	804,532	(198,339)	5,927,459
Cash and cash equivalents, beginning of year	17,190,667	7,244,754	350,287	24,785,708	18,858,249
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 16,760,020</u>	<u>\$ 6,672,530</u>	<u>\$ 1,154,819</u>	<u>\$ 24,587,369</u>	<u>\$ 24,785,708</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 260,048	\$ 165,996	\$ 134,138	\$ 560,182	\$ 1,836,843
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization expense	1,612,273	2,061,004	109,855	3,783,132	3,516,850
Net change in pension liability	287,260	693,418	-	980,678	683,546
Change in assets and liabilities:					
Accounts receivable	116,897	474,102	79,632	670,631	(309,788)
Prepaid expenses	24,027	(397)	(2)	23,628	(5,247)
Inventory	(33,847)	(2,610)	-	(36,457)	125,487
Accounts payable	103,041	(146,969)	22,088	(21,840)	(553,683)
Unearned revenue	(2,765)	-	-	(2,765)	20,000
Accrued expenses	11,240	138,818	-	150,058	(41,528)
Compensated absences	22,167	-	-	22,167	1,484
Other payables	20	9,262	-	9,282	12,567
Net cash provided by operating activities	<u>\$ 2,400,361</u>	<u>\$ 3,392,624</u>	<u>\$ 345,711</u>	<u>\$ 6,138,696</u>	<u>\$ 5,286,531</u>
Schedule of non-cash capital and financing activities:					
Capital asset additions included in accounts payable	\$ (1,401,701)	\$ 60,101	\$ (4,900)	\$ (1,346,500)	\$ 1,668,474
Loss on disposal of assets allocated to (from) other funds	\$ -	\$ -	\$ -	\$ -	\$ 2,083

The accompanying notes are an integral part of the financial statements

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Reporting Entity

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

Basis of Accounting

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

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

Fund Accounting

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

Accounts Receivable

The County Water Fund's accounts receivable is net of an allowance for uncollectible accounts of \$2,193 at December 31, 2017. The allowance is increased by charges to bad debts and decreased by write-offs. Management's periodic evaluation of the adequacy of the allowance is based on the District's aged accounts receivable balances. The Ft. Knox Water Fund, both sewer funds and the Stormwater Fund do not carry an allowance for doubtful accounts based upon historical experience.

Pensions

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

Interfund Transactions

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.

The asset "interfund receivable" and the liability "interfund payable" represent long term interfund obligations. The "receivable" and "payable" 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, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

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

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

Investments

It is the policy of the District to invest public funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the District and conforming to all state statutes and District regulations governing the investment of public funds. As of December 31, 2017, all investments of the District were in certificates of deposit and were valued at cost.

Capital Assets

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

Amortization

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Investments classified as restricted assets are not included as a cash and cash equivalents. 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 July 5, 2018, 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, 2017, have not been evaluated by the District.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

2. CASH AND INVESTMENTS

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies, larger amounts in such institutions providing such banks pledge as security obligations of the United States Government or its agencies, and certificates of deposit issued by a bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.

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

The majority of the District's deposits and investments at December 31, 2017, were covered by federal depository insurance or by collateral held by the custodial banks in the District's name. At December 31, 2017, the District had \$30,344,351 in banks, of which \$3,742,041 was uncollateralized. The entire uncollateralized balance consisted of certificates of deposit held at a single financial institution which is rated in one of the three highest categories by a nationally recognized rating agency.

The following is a detail of the District's deposit coverage at December 31, 2017:

FDIC insured (or equivalent)	\$ 753,086
Collateralized by securities held by the bank in the District's name	25,849,224
Uncollateralized certificates of deposit	<u>3,742,041</u>
Total cash and investments in banks	<u>\$ 30,344,351</u>

Cash and investments are classified as follows as of December 31, 2017:

Unrestricted:	
Cash and cash equivalents:	
Revenue fund	\$ 23,863,998
Other	<u>723,371</u>
	24,587,369
Short-term investments:	
Certificates of deposit	<u>3,992,041</u>
Total unrestricted	<u>28,579,410</u>
Restricted:	
Long-term reserved funds:	
Debt service reserve	342,474
Bond reserve fund	100,000
2016 Sinking fund interest	23,309
2016 Sinking fund principal	148,333
2016 Debt service reserve	417,342
2016 Depreciation fund	<u>757,280</u>
Total restricted	<u>1,788,738</u>
Total reported cash and investments	<u>\$ 30,368,148</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

3. CAPITAL ASSETS

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

	Balance Jan 1, 2017	Additions	Retirements	Balance Dec. 31, 2017
Capital assets not depreciated:				
Land and easements	\$ 282,589	\$ 65,762	\$ -	\$ 348,351
Construction in process	9,713,951	4,778,034	-	14,491,985
Capital assets that are depreciated:				
Plant and lines	183,274,884	5,291,118	(248,898)	188,317,104
Vehicles and equipment	<u>8,346,474</u>	<u>722,209</u>	<u>(209,608)</u>	<u>8,859,075</u>
Total plant and equipment	201,617,898	10,857,123	(458,506)	212,016,515
Less: accumulated depreciation	<u>102,588,054</u>	<u>3,743,254</u>	<u>(346,706)</u>	<u>105,984,602</u>
Capital assets, net	<u>\$ 99,029,844</u>	<u>\$ 7,113,869</u>	<u>\$ (111,800)</u>	<u>\$ 106,031,913</u>

Depreciation expense for all combined funds totaled \$3,743,254 for the year ended December 31, 2017.

4. LONG-TERM LIABILITIES

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

Bonds and notes payable of the County Water, Ft. Knox Water and Radcliff Sewer Funds consists of the following at December 31, 2017:

2016 Revenue bonds, various semi-annual principal and interest payments at 1.4% - 1.7% through September 1, 2025, secured by the revenues of the District.	\$ 3,710,000
2002 Revenue Bonds, various semi-annual principal payments with monthly interest payments at a variable rate which is to be the lowest interest rate on the determination date at which the bonds can be remarketed at par for the interest rate period through September 1, 2022, secured by a letter of credit issued from Cecilian Bank.	1,500,000
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.	<u>336,365</u>
Total debt	5,546,365
Less: current portion	<u>1,081,365</u>
Total long-term debt	<u>\$ 4,465,000</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

4. LONG-TERM LIABILITIES (CONTINUED)

Debt maturities for the County Water Fund are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 745,000	\$ 118,387	\$ 863,387
2019	745,000	98,657	843,657
2020	755,000	79,038	834,038
2021	760,000	59,057	819,057
2022	760,000	39,115	799,115
2023-2025	<u>1,445,000</u>	<u>49,385</u>	<u>1,494,385</u>
	<u>\$ 5,210,000</u>	<u>\$ 443,639</u>	<u>\$ 5,653,639</u>

Debt maturities for the Radcliff Sewer Fund are as follows:

Fiscal Year	Principal	Interest	Total
2018	<u>\$ 336,365</u>	<u>\$ 10,123</u>	<u>\$ 346,488</u>
Total bond and related debt maturities	<u>\$ 5,546,365</u>	<u>\$ 453,762</u>	<u>\$ 6,000,127</u>

Changes in long-term liabilities are as follows:

	Balance Jan 1, 2017	Additions	Payments	Balance Dec. 31, 2017	Due within one year
Long-term debt	\$ 6,622,135	\$ -	\$ (1,075,770)	\$ 5,546,365	\$ 1,081,365
Net pension liability	5,533,595	1,108,095	-	6,641,690	-
Compensated absences	<u>82,124</u>	<u>26,827</u>	<u>-</u>	<u>108,951</u>	<u>-</u>
Net long-term liabilities	<u>\$ 12,237,854</u>	<u>\$ 1,134,922</u>	<u>\$ (1,075,770)</u>	<u>\$ 12,297,006</u>	<u>\$ 1,081,365</u>

5. COMPLIANCE WITH BOND INDENTURE

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

Sinking Fund – There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2016 issue. These funds are used to pay maturing bond and interest coupons on the aforementioned issue. The amount held in the Sinking Fund as of December 31, 2017 was \$171,642.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

5. COMPLIANCE WITH BOND INDENTURE (CONTINUED)

Debt Service Reserve Fund – This fund was established with the 2016 revenue bond issue and is required to have an amount equal to the lesser of: 10% of the proceeds of the bond issue, the maximum annual debt service of the bond issue, or 125% of the average annual debt service of the issue. The amount required to be held in the Debt Service Reserve Fund as of December 31, 2017 was \$416,500. The amount held in the Debt Service Reserve Fund as of December 31, 2017 was \$417,342.

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, 2017, the District was fully funded with a balance of \$757,280.

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 the 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, 2017, the District funded this reserve in the amount of \$342,474.

2002 Adjustable Revenue Bonds Sinking Fund – The District filed Supplement No. 1 to Trust Indenture dated April 1, 2010. This supplement allows for a letter of credit to be issued by Cecilian Bank via a wrap around letter of credit from the Federal Home Loan Bank of Cincinnati as collateral for the original bond issue. As a result, the District is no longer required to fulfill the debt service reserve and depreciation fund requirements with the Bank of New York Mellon Trust Company. However, as of December 31, 2017, the District had reserved \$100,000 for future principal payments.

The bond ordinance calls for “net annual revenues” to exceed the maximum annual debt requirements of fixed rate bonds by 1.20 for the Water Fund. For the year ended December 31, 2017, the water fund ratio was 2.89.

6. LINE OF CREDIT

During 2016, the District opened up a line of credit at a local bank with a limit of \$5,000,000 that bears interest at a variable rate, with an initial rate of 3.5%. The line of credit was opened to provide short-term financing for various projects taken on by the District and is expected to be paid down shortly after each draw is taken. The entire balance of the line of credit as of December 31, 2017 is considered short-term debt.

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

	Balance Jan 1, 2017	Additions	Payments	Balance Dec. 31, 2017
Line of credit	\$ 589,119	\$ 2,217,347	\$ (929,956)	\$ 1,867,510

7. RISK MANAGEMENT

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

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

8. RETIREMENT PLAN

Hardin County Water District No. 1 is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions – For the year ended December 31, 2017, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2017, participating employers contributed 18.68% through June 30 and 19.18% 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 \$581,159 for the year ended December 31, 2017, or 100% of the required contribution. The contribution was allocated \$438,748 to the CERS pension fund and \$142,411 to the CERS insurance fund.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

8. RETIREMENT PLAN (CONTINUED)

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

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old or at least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 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 to 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, 2017, the District reported a liability of \$6,641,690 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the District's proportion was .113469 percent, which was an increase of .001080 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of \$1,417,829. At December 31, 2017, 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	\$ 8,238	\$ 168,593
Changes of assumptions	1,225,568	-
Net difference between projected and actual earnings on Plan investments	82,150	-
Changes in proportion and differences between District contributions and proportionate share of contributions	422,605	1,009
District contributions subsequent to the measurement date	<u>242,061</u>	<u>-</u>
Total	<u>\$ 1,980,622</u>	<u>\$ 169,602</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

8. RETIREMENT PLAN (CONTINUED)

The \$242,061 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2018	\$ 800,634
2019	619,398
2020	231,631
2021	(82,704)

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, 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, 2017 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
U.S Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	<u>2.0%</u>	3.65%
Total	100%	

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

8. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 6.25 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 26 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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	\$ 8,376,589
Current discount rate	6.25%	\$ 6,641,690
1% increase	7.25%	\$ 5,190,435

Payable to the Pension Plan – At December 31, 2017, the District did not have a payable for outstanding contributions to the pension plan required for the year ended December 31, 2017.

9. SUBSEQUENT EVENT

For the year ending December 31, 2018, the District will be required to report their proportionate share of the net liability associated with the CERS Insurance Plan's net other post-employment benefits (OPEB), in accordance with Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits other than Pensions. The District is analyzing the impact of the new standard but expects to record a net OPEB liability, estimated at \$2,281,115.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014
District's proportion of the net pension liability	0.113469%	0.112389%	0.087805%	0.087998%
District's proportionate share of the net pension liability (asset)	\$ 6,641,690	\$ 5,533,595	\$ 3,775,211	\$ 2,855,000
District's covered employee payroll	\$ 2,696,840	\$ 2,291,730	\$ 2,097,077	\$ 1,981,572
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	246.28%	241.46%	180.02%	144.08%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's fiscal year payroll, reported on the Schedule of Contributions.

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

	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 438,748	\$ 350,063	\$ 275,816	\$ 278,406	\$ 244,914
Contributions relative to contractually required employer contribution	<u>438,748</u>	<u>350,063</u>	<u>275,816</u>	<u>278,406</u>	<u>244,914</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 3,066,388	\$ 2,696,840	\$ 2,291,730	\$ 2,097,077	\$ 1,981,572
Employer contributions as a percentage of covered-employee payroll	14.31%	12.98%	12.04%	13.28%	12.36%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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, 2017

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 3,461,100	\$ 3,461,100	\$ 3,216,422	\$ (244,678)
Wholesale sales	826,000	826,000	713,552	(112,448)
Sewer billing contract revenue	44,700	44,700	46,590	1,890
Penalties, service fees and reimbursements	<u>346,800</u>	<u>346,800</u>	<u>329,231</u>	<u>(17,569)</u>
Total operating revenue	<u>4,678,600</u>	<u>4,678,600</u>	<u>4,305,795</u>	<u>(372,805)</u>
OPERATING EXPENSES				
Treatment	1,090,283	1,090,283	1,093,117	2,834
Transmission and distribution	792,388	792,388	842,837	50,449
Customer service	328,845	328,845	356,676	27,831
General and administrative expenses	440,780	440,780	492,814	52,034
Purchased water	94,907	94,907	8,263	(86,644)
General maintenance	106,169	106,169	69,161	(37,008)
Source of supply	<u>13,300</u>	<u>13,300</u>	<u>16,068</u>	<u>2,768</u>
Total operating expense	<u>2,866,672</u>	<u>2,866,672</u>	<u>2,878,936</u>	<u>12,264</u>
Operating income before depreciation	1,811,928	1,811,928	1,426,859	(385,069)
Depreciation and amortization expense	<u>(1,352,061)</u>	<u>(1,352,061)</u>	<u>(1,096,156)</u>	<u>255,905</u>
OPERATING INCOME	459,867	459,867	330,703	(129,164)
Non-operating income (expenses)				
Interest income	15,600	15,600	18,869	3,269
Interest expense	(159,400)	(159,400)	(103,066)	56,334
Transfers in (out)	-	-	300	300
Gain on sale of equipment	<u>-</u>	<u>-</u>	<u>13,242</u>	<u>13,242</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	316,067	316,067	260,048	(56,019)
Grants	68,700	68,700	352,441	283,741
Tap fees	22,500	22,500	84,139	61,639
Customer contributions	<u>-</u>	<u>-</u>	<u>27,810</u>	<u>27,810</u>
CHANGE IN NET POSITION	<u>\$ 407,267</u>	<u>\$ 407,267</u>	<u>\$ 724,438</u>	<u>\$ 317,171</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, 2017

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 3,038,200	\$ 3,038,200	\$ 3,038,167	\$ (33)
Penalties, service fees and reimbursements	<u>4,800</u>	<u>4,800</u>	<u>2,309</u>	<u>(2,491)</u>
Total operating revenue	<u>3,043,000</u>	<u>3,043,000</u>	<u>3,040,476</u>	<u>(2,524)</u>
OPERATING EXPENSES				
Transmission and distribution	562,539	562,539	586,982	24,443
General and administrative expenses	<u>2,112,564</u>	<u>2,112,564</u>	<u>2,008,032</u>	<u>(104,532)</u>
Total operating expense	<u>2,675,103</u>	<u>2,675,103</u>	<u>2,595,014</u>	<u>(80,089)</u>
Operating income before depreciation	367,897	367,897	445,462	77,565
Depreciation and amortization expense	<u>(405,631)</u>	<u>(405,631)</u>	<u>(516,117)</u>	<u>(110,486)</u>
OPERATING (LOSS)	(37,734)	(37,734)	(70,655)	(32,921)
Non-operating income (expenses)				
Interest income	73,600	73,600	176,737	103,137
Transfers in (out)	-	-	(260)	(260)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(32,393)</u>	<u>(32,393)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	35,866	35,866	73,429	37,563
Tap fees	-	-	1,023	1,023
Customer contribution	<u>302,700</u>	<u>302,700</u>	<u>302,664</u>	<u>(36)</u>
CHANGE IN NET POSITION	<u>\$ 338,566</u>	<u>\$ 338,566</u>	<u>\$ 377,116</u>	<u>\$ 38,550</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, 2017

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 2,927,527	\$ 2,927,527	\$ 2,911,459	\$ (16,068)
Penalties, service fees and reimbursements	<u>1,000</u>	<u>1,000</u>	<u>411</u>	<u>(589)</u>
Total operating revenue	<u>2,928,527</u>	<u>2,928,527</u>	<u>2,911,870</u>	<u>(16,657)</u>
OPERATING EXPENSES				
Treatment	298,666	298,666	528,261	229,595
Transmission and distribution	240,559	240,559	336,917	96,358
Sewer administration	-	-	108,822	108,822
Professional services	11,480	11,480	45,036	33,556
Contractual obligations	1,006,545	1,006,545	1,218,329	211,784
Insurance	36,680	36,680	33,071	(3,609)
Customer service	122,230	122,230	205,786	83,556
Other	<u>17,062</u>	<u>17,062</u>	<u>25,634</u>	<u>8,572</u>
Total operating expense	<u>1,733,222</u>	<u>1,733,222</u>	<u>2,501,856</u>	<u>768,634</u>
Operating income before depreciation	1,195,305	1,195,305	410,014	(785,291)
Depreciation and amortization expense	<u>(836,739)</u>	<u>(836,739)</u>	<u>(887,289)</u>	<u>(50,550)</u>
OPERATING INCOME (LOSS)	358,566	358,566	(477,275)	(835,841)
Non-operating income (expenses)				
Interest income	13,600	13,600	38,593	24,993
Interest expense	(1,000)	(1,000)	(1,053)	(53)
Transfers in (out)	-	-	(396)	(396)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(37,890)</u>	<u>(37,890)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	371,166	371,166	(478,021)	(849,187)
Customer contributions	<u>528,900</u>	<u>528,900</u>	<u>398,065</u>	<u>(130,835)</u>
CHANGE IN NET POSITION	<u>\$ 900,066</u>	<u>\$ 900,066</u>	<u>\$ (79,956)</u>	<u>\$ (980,022)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
RADCLIFF SEWER FUND
for the year ended December 31, 2017

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 3,846,725	\$ 3,846,725	\$ 3,717,261	\$ (129,464)
Penalties, service fees and reimbursements	<u>229,500</u>	<u>229,500</u>	<u>239,176</u>	<u>9,676</u>
Total operating revenue	<u>4,076,225</u>	<u>4,076,225</u>	<u>3,956,437</u>	<u>(119,788)</u>
OPERATING EXPENSES				
Treatment	606,657	606,657	541,182	(65,475)
Transmission and distribution	833,014	833,014	878,967	45,953
Professional services	14,980	14,980	13,316	(1,664)
Insurance	31,400	31,400	33,912	2,512
Customer service	551,182	551,182	550,797	(385)
Sewer administration	119,567	119,567	103,210	(16,357)
Sewer commission	12,577	12,577	14,331	1,754
System maintenance	<u>8,441</u>	<u>8,441</u>	<u>3,736</u>	<u>(4,705)</u>
Total operating expense	<u>2,177,818</u>	<u>2,177,818</u>	<u>2,139,451</u>	<u>(38,367)</u>
Operating income before depreciation	1,898,407	1,898,407	1,816,986	(81,421)
Depreciation and amortization expense	<u>(1,131,037)</u>	<u>(1,131,037)</u>	<u>(1,173,715)</u>	<u>(42,678)</u>
OPERATING INCOME (LOSS)	767,370	767,370	643,271	(124,099)
Non-operating income (expenses)				
Interest income	10,200	10,200	19,489	9,289
Interest expense	(25,500)	(25,500)	(25,579)	(79)
Transfers in (out)	-	-	307	307
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(24,625)</u>	<u>(24,625)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	752,070	752,070	612,863	(139,207)
Grants	6,803,309	6,803,309	2,334,586	(4,468,723)
Tap fees	<u>1,500</u>	<u>1,500</u>	<u>-</u>	<u>(1,500)</u>
CHANGE IN NET POSITION	<u>\$ 7,556,879</u>	<u>\$ 7,556,879</u>	<u>\$ 2,947,449</u>	<u>\$ (4,609,430)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
STORMWATER FUND
for the year ended December 31, 2017

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Stormwater revenue	\$ 477,800	\$ 477,800	\$ 477,792	\$ (8)
Penalties, service fees and reimbursements	<u>7,400</u>	<u>7,400</u>	<u>5,324</u>	<u>(2,076)</u>
Total operating revenue	<u>485,200</u>	<u>485,200</u>	<u>483,116</u>	<u>(2,084)</u>
OPERATING EXPENSES				
Transmission and distribution	58,564	58,564	26,178	(32,386)
Professional services	3,953	3,953	3,786	(167)
Contractual obligations	160,129	160,129	170,826	10,697
Insurance	4,920	4,920	4,099	(821)
Customer service	809	809	808	(1)
Other	<u>37,567</u>	<u>37,567</u>	<u>33,426</u>	<u>(4,141)</u>
Total operating expense	<u>265,942</u>	<u>265,942</u>	<u>239,123</u>	<u>(26,819)</u>
Operating income before depreciation	219,258	219,258	243,993	24,735
Depreciation and amortization expense	<u>(73,789)</u>	<u>(73,789)</u>	<u>(109,855)</u>	<u>(36,066)</u>
OPERATING INCOME	145,469	145,469	134,138	(11,331)
Non-operating income (expenses)				
Interest income	1,800	1,800	10,451	8,651
Transfers in (out)	-	-	49	49
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(24)</u>	<u>(24)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	147,269	147,269	144,614	(2,655)
Customer contributions	<u>160,000</u>	<u>160,000</u>	<u>158,090</u>	<u>(1,910)</u>
CHANGE IN NET POSITION	<u>\$ 307,269</u>	<u>\$ 307,269</u>	<u>\$ 302,704</u>	<u>\$ (4,565)</u>

COMBINING FUND STATEMENTS

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF NET POSITION
December 31, 2017

ASSETS	County Water	Ft. Knox Water	Total	2016 Totals
Current assets				
Cash and cash equivalents	\$ 1,194,569	\$ 15,565,451	\$ 16,760,020	\$ 17,190,667
Short-term certificates of deposit	806,928	3,185,113	3,992,041	3,274,087
Customer accounts receivable, net	312,292	490,188	802,480	519,234
Other accounts receivable	12,187	577	12,764	1,864,594
Interest receivable	2,365	11,962	14,327	11,771
Due from other funds	82,313	-	82,313	-
Inventory - materials and supplies	241,127	58,347	299,474	265,626
Prepaid expenses	60,061	10,004	70,065	94,092
Total current assets	<u>2,711,842</u>	<u>19,321,642</u>	<u>22,033,484</u>	<u>23,220,071</u>
Other assets				
Long-term certificates of deposits	-	-	-	669,149
Restricted assets - reserve funds	1,446,264	-	1,446,264	1,330,633
Total other assets	<u>1,446,264</u>	<u>-</u>	<u>1,446,264</u>	<u>1,999,782</u>
Capital assets				
Land and easements	338,807	-	338,807	273,045
Construction in progress	9,303,662	1,502,953	10,806,615	7,054,055
Plant and lines	41,433,112	15,126,508	56,559,620	54,059,015
Vehicles and equipment	4,131,787	1,878,612	6,010,399	5,914,737
Total	55,207,368	18,508,073	73,715,441	67,300,852
Less: accumulated depreciation	<u>(17,841,406)</u>	<u>(2,485,177)</u>	<u>(20,326,583)</u>	<u>(18,862,530)</u>
Total capital assets	<u>37,365,962</u>	<u>16,022,896</u>	<u>53,388,858</u>	<u>48,438,322</u>
Total assets	<u>41,524,068</u>	<u>35,344,538</u>	<u>76,868,606</u>	<u>73,658,175</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pension	845,355	358,066	1,203,421	1,159,959
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 42,369,423</u>	<u>\$ 35,702,604</u>	<u>\$ 78,072,027</u>	<u>\$ 74,818,134</u>
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable	\$ 296,972	\$ 334,896	\$ 631,868	\$ 1,930,528
Due to other funds	-	64,392	64,392	118,653
Customers' deposits	197,889	-	197,889	188,209
Accrued expenses	52,537	13,540	66,077	59,915
Reserve for unclaimed funds - escheatment	8,292	-	8,292	8,272
Unearned revenue	37,971	-	37,971	40,736
Line of credit	1,867,510	-	1,867,510	585,119
Liabilities payable from restricted assets:				
Current portion of long-term debt	745,000	-	745,000	751,832
Accrued interest on long-term debt	19,219	-	19,219	5,899
Total current liabilities	<u>3,225,390</u>	<u>412,828</u>	<u>3,638,218</u>	<u>3,689,163</u>
Long-term liabilities				
Bonds payable	4,465,000	-	4,465,000	5,210,000
Net pension liability	2,834,758	1,200,714	4,035,472	3,805,746
Interfund loan	2,600,000	-	2,600,000	-
Compensated absences	81,657	11,237	92,894	75,330
Total long-term liabilities	<u>9,981,415</u>	<u>1,211,951</u>	<u>11,193,366</u>	<u>9,091,076</u>
Total liabilities	<u>13,206,805</u>	<u>1,624,779</u>	<u>14,831,584</u>	<u>12,780,239</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension	72,389	30,661	103,050	2,056
Net position				
Net investment in capital assets	30,269,233	16,022,896	46,292,129	41,885,472
Restricted	1,446,264	-	1,446,264	1,330,633
Unrestricted	<u>(2,625,268)</u>	<u>18,024,268</u>	<u>15,399,000</u>	<u>18,819,734</u>
Total net position	<u>29,090,229</u>	<u>34,047,164</u>	<u>63,137,393</u>	<u>62,035,839</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 42,369,423</u>	<u>\$ 35,702,604</u>	<u>\$ 78,072,027</u>	<u>\$ 74,818,134</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2017

	County Water	Fort Knox Water	Total	2016 Totals
OPERATING REVENUE				
Metered water sales	\$ 3,216,422	\$ 3,038,167	\$ 6,254,589	\$ 6,679,101
Wholesale sales	713,552	-	713,552	682,904
Sewer billing contract revenue	46,590	-	46,590	42,279
Penalties, service fees and reimbursements	<u>329,231</u>	<u>2,309</u>	<u>331,540</u>	<u>664,477</u>
Total operating revenue	<u>4,305,795</u>	<u>3,040,476</u>	<u>7,346,271</u>	<u>8,068,761</u>
OPERATING EXPENSES				
Treatment	1,093,117	-	1,093,117	977,320
Distribution	842,837	586,982	1,429,819	1,504,122
Customer service	356,676	-	356,676	304,398
General and administrative expenses	492,814	2,008,032	2,500,846	2,487,749
Purchased water	8,263	-	8,263	20,955
General maintenance	69,161	-	69,161	70,464
Source of supply	<u>16,068</u>	<u>-</u>	<u>16,068</u>	<u>15,123</u>
Total operating expense	<u>2,878,936</u>	<u>2,595,014</u>	<u>5,473,950</u>	<u>5,380,131</u>
Operating income before depreciation	1,426,859	445,462	1,872,321	2,688,630
Depreciation and amortization expense	<u>(1,096,156)</u>	<u>(516,117)</u>	<u>(1,612,273)</u>	<u>(1,482,985)</u>
OPERATING INCOME (LOSS)	330,703	(70,655)	260,048	1,205,645
Non-operating income (expenses)				
Interest income	18,869	176,737	195,606	88,108
Interest expense	(103,066)	-	(103,066)	(234,508)
Cost of bond issuance	-	-	-	(68,666)
Transfers in (out)	300	(260)	40	45
Gain (loss) on sale of equipment	<u>13,242</u>	<u>(32,393)</u>	<u>(19,151)</u>	<u>(29,107)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	260,048	73,429	333,477	961,517
Capital Contributions				
Grants	352,441	-	352,441	4,507,657
Tap fees	84,139	1,023	85,162	54,564
Customer contributions	<u>27,810</u>	<u>302,664</u>	<u>330,474</u>	<u>3,700,035</u>
CHANGE IN NET POSITION	724,438	377,116	1,101,554	9,223,773
Net position, beginning of year	<u>28,365,791</u>	<u>33,670,048</u>	<u>62,035,839</u>	<u>52,812,066</u>
NET POSITION, END OF YEAR	<u>\$ 29,090,229</u>	<u>\$ 34,047,164</u>	<u>\$ 63,137,393</u>	<u>\$ 62,035,839</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF CASH FLOWS
for the year ended December 31, 2017

	County Water	Ft. Knox Water	Total	2016 Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 4,264,875	\$ 3,195,528	\$ 7,460,403	\$ 8,080,442
Payments to suppliers	(944,460)	(2,063,821)	(3,008,281)	(3,479,026)
Payments for employee services and benefits	<u>(1,497,729)</u>	<u>(554,032)</u>	<u>(2,051,761)</u>	<u>(2,035,559)</u>
Net cash provided by operating activities	<u>1,822,686</u>	<u>577,675</u>	<u>2,400,361</u>	<u>2,565,857</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Receipts (payments) on interfund loans	<u>2,467,260</u>	<u>(4,092)</u>	<u>2,463,168</u>	<u>(105,584)</u>
Net cash provided by (used in) non-capital financing activities	<u>2,467,260</u>	<u>(4,092)</u>	<u>2,463,168</u>	<u>(105,584)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	(745,000)	(6,832)	(751,832)	(5,141,983)
Proceeds from issuance of debt	-	-	-	4,165,000
Line of credit proceeds, net of payments	1,282,391	-	1,282,391	585,119
Interest paid on long-term debt	(89,746)	-	(89,746)	(277,903)
Contributions in aid of construction	84,139	303,687	387,826	3,686,533
Grants received	1,835,361	-	1,835,361	3,234,892
Proceeds from sale of equipment	19,353	1,740	21,093	9,069
Acquisition and construction of capital assets	(6,409,687)	(1,598,196)	(8,007,883)	(4,801,039)
Cash (paid) under advance construction contract	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63,241)</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,023,189)</u>	<u>(1,299,601)</u>	<u>(5,322,790)</u>	<u>1,396,447</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	18,761	174,289	193,050	85,850
Redemption of investments	-	-	-	1,550,453
Purchase of investments	<u>(124,725)</u>	<u>(39,711)</u>	<u>(164,436)</u>	<u>(1,278,836)</u>
Net cash provided by (used in) investing activities	<u>(105,964)</u>	<u>134,578</u>	<u>28,614</u>	<u>357,467</u>
NET INCREASE (DECREASE) IN CASH	160,793	(591,440)	(430,647)	4,214,187
Cash and cash equivalents, beginning of year	<u>1,033,776</u>	<u>16,156,891</u>	<u>17,190,667</u>	<u>12,976,480</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,194,569</u>	<u>\$ 15,565,451</u>	<u>\$ 16,760,020</u>	<u>\$ 17,190,667</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 330,703	\$ (70,655)	\$ 260,048	\$ 1,205,645
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,096,156	516,117	1,612,273	1,482,985
Net change in pension liability	310,740	(23,480)	287,260	245,228
Change in assets and liabilities:				
Accounts receivable	(38,155)	155,052	116,897	(8,319)
Prepaid expenses	20,587	3,440	24,027	(4,275)
Inventory	(37,469)	3,622	(33,847)	125,274
Accounts payable	104,303	(1,262)	103,041	(488,270)
Unearned revenue	(2,765)	-	(2,765)	20,000
Accrued expenses	16,399	(5,159)	11,240	(13,308)
Compensated absences	22,167	-	22,167	1,484
Due to other funds	-	-	-	-
Other payables	<u>20</u>	<u>-</u>	<u>20</u>	<u>(587)</u>
Net cash provided by operating activities	<u>\$ 1,822,686</u>	<u>\$ 577,675</u>	<u>\$ 2,400,361</u>	<u>\$ 2,565,857</u>
Schedule of non-cash capital and financing activities:				
Capital asset additions included in accounts payable	<u>\$ (1,478,693)</u>	<u>\$ 76,992</u>	<u>\$ (1,401,701)</u>	<u>\$ 1,591,349</u>
Loss on disposal of assets allocated to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,134</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF NET POSITION
December 31, 2017

	Ft. Knox Sewer	Radcliff Sewer	Total	2016 Totals
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,970,349	\$ 2,702,181	\$ 6,672,530	\$ 7,244,754
Customer accounts receivable, net	472,975	232,199	705,174	1,179,276
Grant receivable	24,733	72,667	97,400	97,931
Inventory - material and supplies	1,910	1,932	3,842	1,232
Prepaid expenses	9,652	38,864	48,516	48,119
Due from other funds	132,234	-	132,234	147,222
Total current assets	<u>4,611,853</u>	<u>3,047,843</u>	<u>7,659,696</u>	<u>8,718,534</u>
Other assets				
Interfund receivable	-	2,600,000	2,600,000	-
Restricted assets - reserve funds	-	342,474	342,474	342,132
Unamortized rate case expense	-	43,603	43,603	74,381
Unamortized Radcliff acquisition costs, net	-	156,601	156,601	165,701
Total other assets	<u>-</u>	<u>3,142,678</u>	<u>3,142,678</u>	<u>582,214</u>
Capital assets				
Land and easements	-	9,544	9,544	9,544
Construction in progress	801,506	2,134,794	2,936,300	1,889,039
Plant and lines	87,508,145	38,698,639	126,206,784	123,990,991
Vehicles and equipment	1,131,076	1,576,086	2,707,162	2,313,322
Total	89,440,727	42,419,063	131,859,790	128,202,896
Less: accumulated depreciation	<u>(65,725,883)</u>	<u>(19,410,532)</u>	<u>(85,136,415)</u>	<u>(83,312,973)</u>
Total capital assets	<u>23,714,844</u>	<u>23,008,531</u>	<u>46,723,375</u>	<u>44,889,923</u>
Total assets	<u>28,326,697</u>	<u>29,199,052</u>	<u>57,525,749</u>	<u>54,190,671</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pension	<u>247,263</u>	<u>529,938</u>	<u>777,201</u>	<u>526,634</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 28,573,960</u>	<u>\$ 29,728,990</u>	<u>\$ 58,302,950</u>	<u>\$ 54,717,305</u>
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable	\$ 202,719	\$ 155,294	\$ 358,013	\$ 444,881
Due to other funds	-	37,969	37,969	-
Customers' deposits	-	188,577	188,577	174,116
Accrued expenses	127,866	22,670	150,536	26,179
Liabilities payable from restricted assets:				
Current portion of long-term debt	-	336,365	336,365	323,938
Accrued interest on long-term debt	-	1,121	1,121	2,201
Total current liabilities	<u>330,585</u>	<u>741,996</u>	<u>1,072,581</u>	<u>971,315</u>
Long-term liabilities				
Compensated absences	6,555	9,502	16,057	6,794
Net pension liability	829,161	1,777,057	2,606,218	1,727,849
Bonds payable	-	-	-	336,365
Total long-term liabilities	<u>835,716</u>	<u>1,786,559</u>	<u>2,622,275</u>	<u>2,071,008</u>
Total liabilities	<u>1,166,301</u>	<u>2,528,555</u>	<u>3,694,856</u>	<u>3,042,323</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension	<u>21,173</u>	<u>45,379</u>	<u>66,552</u>	<u>933</u>
Net position				
Net investment in capital assets	23,714,844	22,671,045	46,385,889	44,227,419
Restricted	-	342,474	342,474	342,132
Unrestricted	<u>3,671,642</u>	<u>4,141,537</u>	<u>7,813,179</u>	<u>7,104,498</u>
Total net position	<u>27,386,486</u>	<u>27,155,056</u>	<u>54,541,542</u>	<u>51,674,049</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 28,573,960</u>	<u>\$ 29,728,990</u>	<u>\$ 58,302,950</u>	<u>\$ 54,717,305</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2017

	Ft. Knox Sewer	Radcliff Sewer	Total	2016 Totals
OPERATING REVENUE				
Sewer service revenue	\$ 2,911,459	\$ 3,717,261	\$ 6,628,720	\$ 6,566,433
Penalties, service fees and reimbursements	411	239,176	239,587	252,197
Total operating revenue	<u>2,911,870</u>	<u>3,956,437</u>	<u>6,868,307</u>	<u>6,818,630</u>
OPERATING EXPENSES				
Treatment	528,261	541,182	1,069,443	697,845
Distribution	336,917	878,967	1,215,884	923,764
Customer service	205,786	550,797	756,583	592,125
General and administrative expenses	1,430,892	164,769	1,595,661	2,121,759
General maintenance	-	3,736	3,736	6,769
Total operating expense	<u>2,501,856</u>	<u>2,139,451</u>	<u>4,641,307</u>	<u>4,342,262</u>
Operating income before depreciation	410,014	1,816,986	2,227,000	2,476,368
Depreciation and amortization expense	<u>(887,289)</u>	<u>(1,173,715)</u>	<u>(2,061,004)</u>	<u>(1,946,607)</u>
OPERATING INCOME (LOSS)	(477,275)	643,271	165,996	529,761
Non-operating income (expenses)				
Interest income	38,593	19,489	58,082	24,834
Interest expense	(1,053)	(25,579)	(26,632)	(38,206)
Transfers in (out)	(396)	307	(89)	(12,054)
(Loss) on sale of equipment	<u>(37,890)</u>	<u>(24,625)</u>	<u>(62,515)</u>	<u>(94,220)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(478,021)	612,863	134,842	410,115
Capital Contributions				
Grants	-	2,334,586	2,334,586	214,236
Customer contributions	<u>398,065</u>	<u>-</u>	<u>398,065</u>	<u>656,499</u>
CHANGE IN NET POSITION	(79,956)	2,947,449	2,867,493	1,280,850
Net position, beginning of year	<u>27,466,442</u>	<u>24,207,607</u>	<u>51,674,049</u>	<u>50,393,199</u>
NET POSITION, END OF YEAR	<u>\$ 27,386,486</u>	<u>\$ 27,155,056</u>	<u>\$ 54,541,542</u>	<u>\$ 51,674,049</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF CASH FLOWS
for the year ended December 31, 2017

	Ft. Knox Sewer	Radcliff Sewer	Total	2016 Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 3,381,294	\$ 3,961,115	\$ 7,342,409	\$ 6,556,977
Payments to suppliers	(1,631,323)	(1,174,948)	(2,806,271)	(3,035,997)
Payments for employee services and benefits	<u>(194,240)</u>	<u>(949,274)</u>	<u>(1,143,514)</u>	<u>(949,185)</u>
Net cash provided by operating activities	<u>1,555,731</u>	<u>1,836,893</u>	<u>3,392,624</u>	<u>2,571,795</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Receipts (payments) on interfund loans	<u>(113,195)</u>	<u>(2,434,090)</u>	<u>(2,547,285)</u>	<u>44,498</u>
Net cash provided (used) by non-capital financing activities	<u>(113,195)</u>	<u>(2,434,090)</u>	<u>(2,547,285)</u>	<u>44,498</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	-	(323,938)	(323,938)	(311,971)
Interest paid on long-term debt	(1,053)	(26,659)	(27,712)	(39,246)
Contributions in aid of construction	444,036	46,700	490,736	865,957
Grants received	-	2,242,453	2,242,453	511,533
Proceeds from sale of equipment	634	18,445	19,079	29,135
Acquisition and construction of capital assets	<u>(1,114,228)</u>	<u>(2,761,693)</u>	<u>(3,875,921)</u>	<u>(1,634,901)</u>
Net cash (used in) capital and related financing activities	<u>(670,611)</u>	<u>(804,692)</u>	<u>(1,475,303)</u>	<u>(579,493)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	38,593	19,489	58,082	24,834
Purchase of investments	<u>-</u>	<u>(342)</u>	<u>(342)</u>	<u>(389)</u>
Net cash provided by investing activities	<u>38,593</u>	<u>19,147</u>	<u>57,740</u>	<u>24,445</u>
NET INCREASE (DECREASE) IN CASH	810,518	(1,382,742)	(572,224)	2,061,245
Cash and cash equivalents, beginning of year	<u>3,159,831</u>	<u>4,084,923</u>	<u>7,244,754</u>	<u>5,183,509</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,970,349</u>	<u>\$ 2,702,181</u>	<u>\$ 6,672,530</u>	<u>\$ 7,244,754</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (477,275)	\$ 643,271	\$ 165,996	\$ 529,761
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization expense	887,289	1,173,715	2,061,004	1,946,607
Net change in pension liability	603,069	90,349	693,418	438,318
Change in assets and liabilities:				
Accounts receivable	469,424	4,678	474,102	(261,653)
Prepaid expenses	(6,800)	6,403	(397)	(972)
Inventory	(1,910)	(700)	(2,610)	213
Accounts payable	(48,236)	(98,733)	(146,969)	(65,413)
Accrued expenses	123,616	15,202	138,818	(28,220)
Other payables	<u>6,554</u>	<u>2,708</u>	<u>9,262</u>	<u>13,154</u>
Net cash provided by operating activities	<u>\$ 1,555,731</u>	<u>\$ 1,836,893</u>	<u>\$ 3,392,624</u>	<u>\$ 2,571,795</u>
Schedule of non-cash capital and financing activities:				
Fixed asset additions included in accounts payable	<u>\$ 14,258</u>	<u>\$ 45,843</u>	<u>\$ 60,101</u>	<u>\$ 72,225</u>
Loss on disposal of assets allocated from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,051</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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hardin County Water District No. 1, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Hardin County Water District No. 1's basic financial statements and have issued our report thereon dated July 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Hardin County Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

RFH

RFH, PLLC
Lexington, Kentucky
July 5, 2018

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2017

Federal Grantor Program Title	Federal CFDA Number	Pass Through Contract Number	Federal Expenditures
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	n/a	\$ <u>758,151</u>
Total United States Department of Agriculture			\$ <u>758,151</u>
Total expenditures of federal awards			\$ <u><u>758,151</u></u>

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hardin County Water District No. 1 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

Note 2: Indirect Cost Rates

The Hardin County Water District No. 1 did not elect to use the 10 percent *de minimis* cost rate as allowed under the *Uniform Guidance*.

Note 3: The District did not pass through any funds to subrecipients.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the Hardin County Water District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hardin County Water District No. 1's major federal programs for the year ended December 31, 2017. The Hardin County Water District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Hardin County Water District No. 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hardin County Water District No. 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hardin County Water District No. 1's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hardin County Water District No. 1, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the Hardin County Water District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hardin County Water District No. 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hardin County Water District No. 1's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
July 5, 2018

**HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended December 31, 2017**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
considered to be material weaknesses Yes None reported

Non-compliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
considered to be material weaknesses Yes None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in
accordance with 2 CFR 200.516(a)? Yes No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A
and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? Yes No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR YEAR FINDINGS

NONE