

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

**FINANCIAL STATEMENTS
December 31, 2018**

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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 each major fund of the Hardin County Water District No.1, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Hardin County Water District No.1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hardin County Water District No.1, as of December 31, 2018, 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.

Emphasis of Matter – Implementation of New GASB Accounting Standard

As discussed in Note 10 to the financial statements, effective January 1, 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and OPEB schedules on pages 3–5 and 24–27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 budgetary comparisons and the combining statements of net position, revenues, expenses and changes in net position, and cash flows 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 comparisons and the combining statements of net position, revenues, expenses and changes in net position, and cash flows are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, 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 solely 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 the effectiveness of the Hardin County Water District No.1's 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
May 28, 2019

Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 60 Years

1400 Rogersville Road
Radcliff, KY. 40160

May 28, 2019

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

SUBJECT: 2018 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 fourteenth 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), Ms. Jessica Warren (Accounting Specialist) and Ms. Sara O'Bryant (Accounting Specialist) 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. The overall consolidated financial highlights of the year are reviewed first, followed with more specific key items by utility.

For the year, gross plant assets increased by \$6,545,746. Total net position increased by \$2,639,720 (+2.15% [percent changes in parentheses represent change from 2017]). Total revenues, including interest income, increased by \$775,660 or +5.2% compared to 2017. This increase is attributable to higher volume sold to Meade County Water District, a new wholesale customer in the City of West Point and increased earnings on investments. Operating income before depreciation was \$3,856,504 (- 11.2%) and operating loss after depreciation (gross of non-operating income and expenses) was -\$174,847. This operating loss is due to the continued operations of two water treatment plants at Ft. Knox as well as the implementation of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). Total Net Income was \$159,968 or 1.05% of total operating revenues. Total net position at the end of the year was \$125,578,887 (+ 2.15%).

Cash used for capital construction was \$6,338,042 (- 48.1%), of which 22.7% was provided by government grants. At year end, consolidated outstanding debt principal was \$4,465,000 (- 19.5%). Total working capital (unrestricted cash + investments) at year end increased by 1.2% to \$28,915,784. Of all reserves (cash + investments), 95.2% were unrestricted and available as working capital for capital construction or operations. At the beginning of 2019 we also had total of \$5,833,689 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 1.7% less than budgeted. Revenues were 3.4% more than budgeted. Net income after depreciation and interest expense decreased by 44.9% from 2017 mainly due to increase in pension expense from changes in net pension liability and net OPEB liability (implementation of GASB 75). Water sales increased by 13.0% from 2017 and total net position increased by 1.3%. The bond coverage ratio was 3.01% (+4.2% from 2017) which is approximately 2.51 times the required 1.20.

Ft. Knox Water: Total operating revenues were \$3,295,274 (+ 2.4%) including interest income. Operating loss before depreciation was -\$159,639 due to continued operations of two water treatment plants and only receiving revenues from running one plant. Net loss after depreciation and amortized expenses was -\$371,347. Net position at year end was \$33,403,214 (- 1.0%) and construction in progress was valued at \$1,806,144. Working capital and cash available for capital construction was \$17,805,616 (- 5.0%). We have been in negotiations and filed a request with the Government to restore the added revenues required for operating two water plants.

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues including interest income increased by 1.3%. Total operating income, before depreciation expense was \$1,292,330 (+ 97.6%). This increase is a result of our takeover of operations July 2017. Total net position increased by 1.1%. Total expended for construction was \$1,045,931. At the beginning of 2019, the fund had a balance of \$6,117,383 (+ 19.4%) available for construction projects and capital improvements.

Radcliff Sewer: Total revenues (including interest income) were \$4,083,016 (+ 2.7%) which was 0.21% below revenue estimates. Total operating expenses (excluding depreciation) were 12.5% more than budgeted. Total net position increased 8.4% to \$28,941,031 and at year end we had construction in progress assets of \$4,294,026 (+ 101%). Of the \$2,695,665 expended for construction, 48% was funded by state grants. At year end, the total cash & investment reserve balance was \$3,148,332 (+ 3.4%) of which 100% was unrestricted and available for capital construction or operations. At year end, a total of \$5,833,689 in state grants are available for future capital construction projects. The fund had net operating income before depreciation and debt interest of \$1,357,890 (- 25.3%) with a net operating income of \$101,606 (2.52% of revenues).

Operational Changes & Statistics

During 2018, a total of 1,774 MG (million gallons) of potable water was treated (+ 8.77%) and a total of 52.8 MG was purchased for resale (+ 188.5%). Total water delivered to customers (County and Ft. Knox combined) was 1,827 MG (+ 11.06%). The maximum demand day was 6.962 MG (+ 6.6%) and occurred on 12-Jan. The average daily water demand for the year was 5.006 MG (+ 11.1%). A total of 73 new water services were installed. Wholesale customers purchased 382.6 MG (+ 19.1%), which was equivalent to 20.9% of total water produced and purchased volume.

The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,713 MG (+ 22.5%). This resulted in an average daily flow of clean, recycled water into streams of 4.693 MG. The maximum day treated was 19.934 MG and occurred on 24-February.

Continued

Other Significant Projects / Changes: During 2018, the City of West Point and Meade County Water District began purchasing 100% of their water from interconnects with HCWD No. 1. In turn, HCWD No.1 began routine purchasing of water from the Louisville Water Company (LWC) and Hardin County Water District No. 2 to supplement supply. All of our system interconnections to purchase and supply water hinged upon our Pirtle Spring Water Treatment Plant converting to Chloramine Disinfection in 2018.

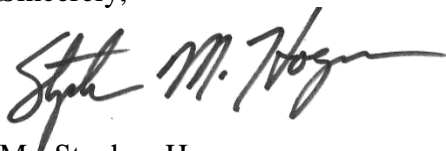
Final design is nearing completion of 17 miles of distribution water mains to achieve the 2020 goal of 100% coverage of our service area. Additional design work is in progress for a fourth filter construction at Pirtle Spring Water Treatment Plant and rehabilitation of the Grey Lane raw water pump station.

We completed numerous rehabilitation and replacement projects throughout all five utilities. Among these projects were Quiggins Lift Station, Lincoln Trail Lift Station, Hensley Lift Station, Masters Lift Station, Cement Lift Station, and Seminole Lift Station. We began construction of 4,100 lf of 30-inch gravity sewer mains, 1,800 lf of 16-inch sewer force main. At the Radcliff WWTF we constructed a new treatment plant dump station and began construction of the RAS / WAS Pump Station. All of these projects were funded through a \$9.6 million BRAC Grant. Completion of construction is expected in the third quarter of 2019.

Hardin County Water District No. 1 was awarded "Best of the Best Tasting Water" by the Kentucky/Tennessee Section of the American Water Works Association (KY/TN AWWA). We will be competing at the national level during the AWWA ACE 19 in Denver.

In closing, The District was ranked by the Kentucky Chamber of Commerce as a 2019 "Best Places to Work"!

Sincerely,



Mr. Stephen Hogan
General Manager



Mr. Scott Schmuck, CGFM
Finance & Accounting Manager

HARDIN COUNTY WATER DISTRICT No. 1
STATEMENT OF NET POSITION
December 31, 2018

	Water Total	Sewer Total	Storm Water	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 15,543,455	\$ 7,514,513	\$ 1,189,998	\$ 24,247,966
Investments	4,106,614	489,668	71,536	4,667,818
Customer accounts receivable, net	654,889	945,676	119,443	1,720,008
Interest receivable	25,137	2,147	314	27,598
Other accounts receivable	5,797	910,791	-	916,588
Note receivable - current	12,453	-	-	12,453
Due to (from) other funds	339,702	(314,081)	(25,621)	-
Inventory - materials and supplies	319,462	4,281	-	323,743
Prepaid expenses	79,153	55,742	1,002	135,897
Total current assets	<u>21,086,662</u>	<u>9,608,737</u>	<u>1,356,672</u>	<u>32,052,071</u>
Non-current assets				
Note receivable	47,807	-	-	47,807
Interfund receivable (payable)	(2,600,000)	2,600,000	-	-
Restricted investments - reserve funds	1,445,369	-	-	1,445,369
Unamortized rate case expense	-	12,824	-	12,824
Unamortized acquisition costs	-	147,501	-	147,501
Total non-current assets	<u>(1,106,824)</u>	<u>2,760,325</u>	<u>-</u>	<u>1,653,501</u>
Capital assets				
Land and easements	338,807	9,544	-	348,351
Construction in progress	2,126,778	5,019,673	638,552	7,785,003
Plant and lines	66,784,313	128,157,632	5,814,237	200,756,182
Vehicles and equipment	6,643,422	2,887,819	141,484	9,672,725
Total capital assets	75,893,320	136,074,668	6,594,273	218,562,261
Less: accumulated depreciation	(21,802,110)	(87,311,426)	(641,880)	(109,755,416)
Total capital assets, net	<u>54,091,210</u>	<u>48,763,242</u>	<u>5,952,393</u>	<u>108,806,845</u>
Total assets	<u>74,071,048</u>	<u>61,132,304</u>	<u>7,309,065</u>	<u>142,512,417</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pension	1,422,391	1,171,416	-	2,593,807
Deferred outflows of resources - OPEB	573,937	472,667	-	1,046,604
Total deferred outflows of resources	<u>1,996,328</u>	<u>1,644,083</u>	<u>-</u>	<u>3,640,411</u>
Total assets and deferred outflows of resources	<u>\$ 76,067,376</u>	<u>\$ 62,776,387</u>	<u>\$ 7,309,065</u>	<u>\$ 146,152,828</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 467,100	\$ 1,004,180	\$ -	\$ 1,471,280
Accrued expenses	80,595	43,746	722	125,063
Unearned revenue	41,421	-	-	41,421
Customers' deposits	206,205	199,509	-	405,714
Line of credit	1,832,968	-	-	1,832,968
Reserve for unclaimed funds - escheatment	11,982	-	-	11,982
Liabilities payable from restricted assets:				
Current portion of long-term debt	745,000	-	-	745,000
Accrued interest on long-term debt	17,142	-	-	17,142
Total current liabilities	<u>3,402,413</u>	<u>1,247,435</u>	<u>722</u>	<u>4,650,570</u>
Long-term liabilities				
Compensated absences	219,971	46,626	-	266,597
Bonds and notes payable	3,720,000	-	-	3,720,000
Net pension liability	4,768,668	3,927,253	-	8,695,921
Net OPEB liability	1,390,128	1,144,847	-	2,534,975
Total long-term liabilities	<u>10,098,767</u>	<u>5,118,726</u>	<u>-</u>	<u>15,217,493</u>
Total liabilities	<u>13,501,180</u>	<u>6,366,161</u>	<u>722</u>	<u>19,868,063</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension	126,981	104,577	-	231,558
Deferred inflows of resources - OPEB	260,108	214,212	-	474,320
Total deferred inflows of resources	<u>387,089</u>	<u>318,789</u>	<u>-</u>	<u>705,878</u>
NET POSITION				
Net investment in capital assets	47,776,100	48,763,242	5,952,393	102,491,735
Restricted	1,445,369	-	-	1,445,369
Unrestricted	12,957,638	7,328,195	1,355,950	21,641,783
Total net position	<u>62,179,107</u>	<u>56,091,437</u>	<u>7,308,343</u>	<u>125,578,887</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 76,067,376</u>	<u>\$ 62,776,387</u>	<u>\$ 7,309,065</u>	<u>\$ 146,152,828</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, 2018

	Water Total	Sewer Total	Storm Water	Total
OPERATING REVENUE				
Metered water sales	\$ 6,526,708	\$ -	\$ -	\$ 6,526,708
Wholesale sales	902,833	-	-	902,833
Sewer billing contract revenue	49,085	-	-	49,085
Sewer service revenue	-	6,705,338	-	6,705,338
Stormwater service revenue	-	-	477,792	477,792
Penalties, service fees and reimbursements	349,962	234,652	-	584,614
Total operating revenue	7,828,588	6,939,990	477,792	15,246,370
OPERATING EXPENSES				
Treatment	1,200,103	1,492,924	-	2,693,027
Distribution	1,839,264	1,678,998	61,545	3,579,807
Customer service	409,857	915,761	938	1,326,556
General and administrative expenses	2,923,978	545,954	-	3,469,932
Purchased water	113,720	-	-	113,720
General maintenance	114,341	6,329	-	120,670
Source of supply	21,041	-	-	21,041
Stormwater	-	-	65,113	65,113
Total operating expense	6,622,304	4,639,966	127,596	11,389,866
Operating income before depreciation	1,206,284	2,300,024	350,196	3,856,504
Depreciation and amortization expense	(1,667,624)	(2,243,272)	(120,455)	(4,031,351)
OPERATING INCOME (LOSS)	(461,340)	56,752	229,741	(174,847)
Non-operating income (expenses)				
Interest income	335,610	134,712	20,801	491,123
Interest expense	(111,498)	(14,852)	-	(126,350)
Gain (loss) on disposal of equipment	9,294	(39,348)	(174)	(30,228)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS				
	(227,934)	137,264	250,368	159,698
Capital contributions				
Grants	8,986	2,138,507	-	2,147,493
Tap fees	88,679	-	-	88,679
Customer contributions	157,828	86,022	-	243,850
CHANGE IN NET POSITION	27,559	2,361,793	250,368	2,639,720
Net position, beginning of year, as restated	62,151,548	53,729,644	7,057,975	122,939,167
NET POSITION, END OF YEAR	\$ 62,179,107	\$ 56,091,437	\$ 7,308,343	\$ 125,578,887

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, 2018

	Water Total	Sewer Total	Storm Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 7,919,951	\$ 6,699,488	\$ 437,978	\$ 15,057,417
Payments to suppliers	(3,520,804)	(2,065,424)	(150,548)	(5,736,776)
Payments for employee services and benefits	<u>(2,340,125)</u>	<u>(1,673,004)</u>	<u>-</u>	<u>(4,013,129)</u>
Net cash provided by operating activities	<u>2,059,022</u>	<u>2,961,060</u>	<u>287,430</u>	<u>5,307,512</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Receipts (payments) on interfund loans	<u>(321,783)</u>	<u>408,348</u>	<u>(86,565)</u>	<u>-</u>
Net cash provided by (used in) non-capital financing activities	<u>(321,783)</u>	<u>408,348</u>	<u>(86,565)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	(745,000)	(336,365)	-	(1,081,365)
Line of credit proceeds	15,004	-	-	15,004
Payments on line of credit	(49,547)	-	-	(49,547)
Interest paid on long-term debt	(113,575)	(15,973)	-	(129,548)
Contributions in aid of construction	120,126	111,653	38,705	270,484
Grants received	141,752	1,299,485	-	1,441,237
Proceeds from sale of equipment	62,760	16,069	587	79,416
Acquisition and construction of capital assets	<u>(2,596,446)</u>	<u>(3,587,667)</u>	<u>(153,929)</u>	<u>(6,338,042)</u>
Net cash (used in) capital and related financing activities	<u>(3,164,926)</u>	<u>(2,512,798)</u>	<u>(114,637)</u>	<u>(5,792,361)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	324,800	132,565	20,487	477,852
Redemption of investments	-	342,476	-	342,476
Purchase of investments	<u>(113,678)</u>	<u>(489,668)</u>	<u>(71,536)</u>	<u>(674,882)</u>
Net cash provided by (used in) investing activities	<u>211,122</u>	<u>(14,627)</u>	<u>(51,049)</u>	<u>145,446</u>
NET INCREASE (DECREASE) IN CASH	(1,216,565)	841,983	35,179	(339,403)
Cash and cash equivalents, beginning of year	<u>16,760,020</u>	<u>6,672,530</u>	<u>1,154,819</u>	<u>24,587,369</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 15,543,455</u>	<u>\$ 7,514,513</u>	<u>\$ 1,189,998</u>	<u>\$ 24,247,966</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (461,340)	\$ 56,752	\$ 229,741	\$ (174,847)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	1,667,624	2,243,272	120,455	4,031,351
Net change in pension liability	538,156	964,844	-	1,503,000
Net change in OPEB liability	90,455	74,494	-	164,949
Change in assets and liabilities:				
Accounts receivable	87,913	(240,502)	(39,814)	(192,403)
Prepaid expenses	(9,088)	(7,226)	(850)	(17,164)
Inventory	(19,989)	(439)	-	(20,428)
Accounts payable	8,239	(64,846)	(22,102)	(78,709)
Unearned revenue	3,450	-	-	3,450
Accrued expenses	14,518	(106,790)	-	(92,272)
Compensated absences	107,701	12,379	-	120,080
Other payables	<u>31,383</u>	<u>29,122</u>	<u>-</u>	<u>60,505</u>
Net cash provided by operating activities	<u>\$ 2,059,022</u>	<u>\$ 2,961,060</u>	<u>\$ 287,430</u>	<u>\$ 5,307,512</u>
Schedule of non-cash capital and financing activities:				
Capital asset additions included in accounts payable	<u>\$ (173,007)</u>	<u>\$ 711,013</u>	<u>\$ -</u>	<u>\$ 538,006</u>

The accompanying notes are an integral part of the financial statements

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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, 2018. 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2018, 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.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 May 28, 2019, 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, 2018, have not been evaluated by the District.

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, 2018, were covered by federal depository insurance or by collateral held by the custodial banks in the District's name. At December 31, 2018, the District had \$30,574,583 in banks, of which \$4,417,818 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, 2018:

FDIC insured (or equivalent)	\$ 753,086
Collateralized by securities held by the bank in the District's name	25,403,679
Uncollateralized certificates of deposit	<u>4,417,818</u>
Total cash and investments in banks	<u>\$ 30,574,583</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments are classified as follows as of December 31, 2018:

Unrestricted:	
Cash and cash equivalents:	
Revenue fund	\$ 24,041,459
Other	<u>206,507</u>
	24,247,966
Short-term investments:	
Certificates of deposit	<u>4,667,818</u>
Total unrestricted	<u>28,915,784</u>
Restricted:	
Long-term reserved funds:	
Bond reserve fund	100,000
2016 Sinking fund interest	21,232
2016 Sinking fund principal	148,333
2016 Debt service reserve	417,762
2016 Depreciation fund	<u>758,042</u>
Total restricted	<u>1,445,369</u>
Total reported cash and investments	<u>\$ 30,361,153</u>

3. CAPITAL ASSETS

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

	Balance			Balance
	Jan. 1, 2018	Additions	Retirements	Dec. 31, 2018
Capital assets not depreciated:				
Land and easements	\$ 348,351	\$ -	\$ -	\$ 348,351
Construction in process	14,491,985	6,276,864	(12,983,846)	7,785,003
Capital assets that are depreciated:				
Plant and lines	188,317,104	12,559,780	(120,702)	200,756,182
Vehicles and equipment	<u>8,859,075</u>	<u>1,021,133</u>	<u>(207,483)</u>	<u>9,672,725</u>
Total plant and equipment	212,016,515	19,857,777	(13,312,031)	218,562,261
Less: accumulated depreciation	<u>105,984,602</u>	<u>3,991,473</u>	<u>(220,659)</u>	<u>109,755,416</u>
Capital assets, net	<u>\$ 106,031,913</u>	<u>\$ 15,866,304</u>	<u>\$ (13,091,372)</u>	<u>\$ 108,806,845</u>

Depreciation expense for all combined funds totaled \$3,991,473 for the year ended December 31, 2018.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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 Fund consist of the following at December 31, 2018:

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.	\$ 3,265,000
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.	<u>1,200,000</u>
Total debt	4,465,000
Less: current portion	<u>745,000</u>
Total long-term debt	<u>\$ 3,720,000</u>

Debt maturities for the County Water Fund are as follows:

Fiscal Year	Principal	Interest	Total
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	475,000	24,565	499,565
2024-2025	<u>970,000</u>	<u>24,820</u>	<u>994,820</u>
	<u>\$ 4,465,000</u>	<u>\$ 325,252</u>	<u>\$ 4,790,252</u>

Changes in long-term liabilities for the District are as follows:

	Balance Jan. 1, 2018	Additions	Retirements	Balance Dec. 31, 2018	Due within one year
Long-term debt	\$ 5,546,365	\$ -	\$ (1,081,365)	\$ 4,465,000	\$ 745,000
Net pension liability	6,641,690	2,054,231	-	8,695,921	-
Net OPEB liability	2,281,115	253,860	-	2,534,975	-
Compensated absences	<u>108,951</u>	<u>157,646</u>	-	<u>266,597</u>	-
Total long-term liabilities	<u>\$ 14,578,121</u>	<u>\$ 2,465,737</u>	<u>\$ (1,081,365)</u>	<u>\$ 15,962,493</u>	<u>\$ 745,000</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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, 2018 was \$169,565.

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, 2018 was \$416,500. The amount held in the Debt Service Reserve Fund as of December 31, 2018 was \$417,762.

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, 2018, the District was fully funded with a balance of \$758,042.

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.

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, 2018, 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, 2018, the water fund ratio was 3.01.

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. 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 line of credit was renewed in September 2018 and matures in September 2019. The initial rate of interest after renewal, was 5%. The entire balance of the line of credit as of December 31, 2018 is considered short-term debt.

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

	Balance			Balance
	Jan. 1, 2018	Additions	Payments	Dec. 31, 2018
Line of credit	<u>\$ 1,867,511</u>	<u>\$ 15,004</u>	<u>\$ (49,547)</u>	<u>\$ 1,832,968</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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.

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, 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are 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, 2018, participating employers contributed 19.18% through June 30th and 21.48% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 9. Plan members contributed 14.48% to the pension trust through June 30th and 16.22%, thereafter for non-hazardous job classifications for the year ended December 31, 2018. 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, are 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.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

8. RETIREMENT PLAN (CONTINUED)

For the year ended December 31, 2018, the District contributed \$586,243 or 100% of the required contribution for non-hazardous job classifications.

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 and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 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, 2018, the District reported a liability of \$8,695,921 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and was rolled forward using generally accepted actuarial procedures. 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, 2018, the District's proportion was .142783 percent, which was an increase of .029314 percent from its proportion measured as of June 30, 2017.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

8. RETIREMENT PLAN (CONTINUED)

For the year ended December 31, 2018, the District recognized pension expense of \$2,089,248. At December 31, 2018, 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	\$ 283,637	\$ 127,290
Changes of assumptions	849,844	-
Net difference between projected and actual earnings on Plan investments	-	104,268
Changes in proportion and differences between District contributions and proportionate share of contributions	1,144,448	-
District contributions subsequent to the measurement date	315,878	-
Total	\$ 2,593,807	\$ 231,558

The \$315,878 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, 2019. 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,	
2019	\$ 1,238,096
2020	\$ 767,022
2021	\$ 87,924
2022	\$ (46,671)

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 one year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four 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 total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

8. RETIREMENT PLAN (CONTINUED)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

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 25 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%	\$ 10,947,262
Current discount rate	6.25%	\$ 8,695,921
1% increase	7.25%	\$ 6,809,689

Payable to the Pension Plan – At December 31, 2018, the District did not have a payable for outstanding contributions to the pension plan required for the year ended December 31, 2018.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

8. RETIREMENT PLAN (CONTINUED)

Pension legislation – During the 2018 Regular Session of the General Assembly, Senate Bill 151 was passed changing retirement eligibility and benefits with various effective dates for active, inactive, and future members of KRS. A lawsuit was filed regarding Senate Bill 151 asking the court to declare the new law unconstitutional and unenforceable, and on June 20, 2018, Franklin Circuit Judge Shepherd ruled that Senate Bill 151 is unenforceable because the legislative process violated certain provisions of the Kentucky Constitution. This ruling has been appealed to the Kentucky Supreme Court. An explanation and timeline of changes included in Senate Bill 151 can be found in the Kentucky Retirement Systems Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. Senate Bill 151 cannot be implemented at this time due to court proceedings.

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 8, the District participates in the County Employees' Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 8, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2018, the employer's contribution was 4.70% through June 30th and 5.26% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are 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. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2018, the District contributed \$190,193, or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

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

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Tier 3	Participation date	After December 31, 2013
	Insurance eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, the District reported a liability for its proportionate share of the net OPEB liability of \$2,534,975. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2018 was .142777 percent, which was an increase of .029308 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the District recognized OPEB expense of \$398,412. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 295,418
Changes of assumptions	500,416	-
Net difference between projected and actual earnings on Plan investments	-	174,611
Changes in proportion and differences between District contributions and proportionate share of contributions	402,857	4,291
District contributions subsequent to the measurement date	<u>143,331</u>	<u>-</u>
Total	<u>\$ 1,046,604</u>	<u>\$ 474,320</u>

The \$143,331 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 OPEB liability in the year ending December 31, 2019. This includes an adjustment of \$40,894 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending June 30,

2019	\$	84,030
2020	\$	84,030
2021	\$	84,030
2022	\$	117,943
2023	\$	52,803
2024	\$	6,117

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

Non-hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post – 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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 (setback 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 total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Discount Rate – The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous classifications. 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 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net OPEB liability calculated using the discount rate as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount rate		Proportionate share of net OPEB liability
1% decrease	4.85%	\$	3,292,530
Current discount rate	5.85%	\$	2,534,975
1% increase	6.85%	\$	1,889,682

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the District’s proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		Proportionate share of net OPEB liability
1% decrease	\$	1,887,316
Current trend rate	\$	2,534,975
1% increase	\$	3,298,384

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued financial report.

Payable to the Insurance Plan – At December 31, 2018, the District did not have a payable for outstanding contributions to the insurance plan required for the year ended December 31, 2018.

10. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 75

During 2018, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

10. RESTATEMENT OF NET POSITION (CONTINUED)

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Water Funds	County Water	Ft. Knox Water	Water Total
Net position, beginning of year	\$ 29,090,229	\$ 34,047,164	\$ 63,137,393
Beginning net OPEB liability	<u>(675,982)</u>	<u>(309,863)</u>	<u>(985,845)</u>
Net position, beginning of year, as restated	<u>\$ 28,414,247</u>	<u>\$ 33,737,301</u>	<u>\$ 62,151,548</u>
Sewer Funds	Ft. Knox Sewer	Radcliff Sewer	Sewer Total
Net position, beginning of year	\$ 27,386,486	\$ 27,155,056	\$ 54,541,542
Beginning net OPEB liability	<u>(357,760)</u>	<u>(454,138)</u>	<u>(811,898)</u>
Net position, beginning of year, as restated	<u>\$ 27,028,726</u>	<u>\$ 26,700,918</u>	<u>\$ 53,729,644</u>

11. SUBSEQUENT EVENTS

The District has been in contract with the U.S. Government for water system ownership and operations since 2012. An Initial System Deficiency Correction (ISDC) project list was part of the original contract. The District has been working towards the completion of the Revised ISDC Projects with the Defense Logistics Agency Energy (DLA). An Amendment to the project list was executed on August 10, 2016, thereby setting a proposed project completion date of August 10, 2019. The majority of the Amendment is related to the construction of two new 1.5-million-gallon elevated water storage tanks and major improvements and complete renovation to the Muldraugh Water Treatment Plant (WTP). The Muldraugh WTP design is nearing completion. The proposed tanks provide the majority of the benefits to the water quality (due to their strategic location to promote improved circulation) and pressure and fire flow (due to their higher elevation).

Design of the two tanks has been nearly complete since May 2017. However, Fort Knox has disapproved the tank sites and no suitable location was identified. As a result, the District was not be able to meet the schedule requirements in the Amendment.

Further, design of the Muldraugh WTP could not be completed until the tank's sites were established. The construction schedule was impacted by the long lead time required for manufacture of key components, namely, the high service pumps. Final design of the high service pumps could not be completed until the elevation of the tanks sites was known. Further, closure of the Central WTP cannot be completed until Muldraugh WTP is rehabilitated. As a result of the delays, the District continued to operate both WTP's. However, the contract had only a 5-year funding of operating the Central WTP until February 2017. The District continued to operate both WTP's in order to meet the water demand of Fort Knox while working to secure an appropriate tank site. Approval for the tank site was received in March 2019. Additionally, a modification to the Contract (MOD) was approved by DLA for continued operations of the two WTP's in May 2019.

In order to seek payment for operating the two WTP's between February 2017 and March 2019, the District filed a Request for Equitable Adjustment (REA) with the Government through DLA on May 20, 2019, in the amount of \$2,801,577.89. This amount is subject to negotiations with DLA and the actual amount that will be received is unknown. Negotiations may take up to 6 months to complete.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2014	2015	2016	2017	2018
District's proportion of the net pension liability	0.087998%	0.087805%	0.112389%	0.113469%	0.142783%
District's proportionate share of the net pension liability (asset)	\$ 2,855,000	\$ 3,775,211	\$ 5,533,595	\$ 6,641,690	\$ 8,695,921
District's covered employee payroll	\$ 2,018,811	\$ 2,045,178	\$ 2,675,993	\$ 2,758,851	\$ 3,538,859
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	141.42%	184.59%	206.79%	240.74%	245.73%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%

Notes:

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

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.

The measurement date of the net pension liability is 6 months preceding the fiscal year of the District.

The above schedule will present 10 years of historical data, once available.

HARDIN COUNTY WATER DISTRICT No. 1
REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS - PENSION
Last Six Fiscal Years

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 244,914	\$ 278,406	\$ 275,816	\$ 350,063	\$ 438,748	\$ 586,243
Contributions relative to contractually required employer contribution	<u>244,914</u>	<u>278,406</u>	<u>275,816</u>	<u>350,063</u>	<u>438,748</u>	<u>586,243</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,981,572	\$ 2,097,077	\$ 2,291,730	\$ 2,696,840	\$ 3,066,388	\$ 3,814,416
Employer contributions as a percentage of covered-employee payroll	12.36%	13.28%	12.04%	12.98%	14.31%	15.37%

Notes:

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

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

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.

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

	2016	2017	2018
District's proportion of the net OPEB liability	0.113469%	0.113469%	0.142777%
District's proportionate share of the net OPEB liability (asset)	\$ 1,789,239	\$ 2,281,115	\$ 2,534,975
District's covered employee payroll	\$ 2,675,993	\$ 2,758,851	\$ 3,538,859
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	66.86%	82.68%	71.63%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%

Notes:

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

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

The measurement date of the net OPEB liability is 6 months preceding the fiscal year of the District.

The above schedule will present 10 years of historical data, once available.

HARDIN COUNTY WATER DISTRICT No. 1
REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS - OPEB
Last Six Fiscal Years

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 134,489	\$ 104,351	\$ 110,888	\$ 132,117	\$ 147,156	\$ 190,193
Contributions relative to contractually required employer contribution	<u>134,489</u>	<u>104,351</u>	<u>110,888</u>	<u>132,117</u>	<u>147,156</u>	<u>190,193</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,981,572	\$ 2,097,077	\$ 2,291,730	\$ 2,696,840	\$ 3,066,388	\$ 3,814,416
Employer contributions as a percentage of covered-employee payroll	6.79%	4.98%	4.84%	4.90%	4.80%	4.99%

Notes:

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

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

The above schedule will present 10 years of historical data, once available.

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, 2018

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 3,471,355	\$ 3,471,355	\$ 3,537,185	\$ 65,830
Wholesale sales	837,100	837,100	902,833	65,733
Sewer billing contract revenue	48,500	48,500	49,085	585
Penalties, service fees and reimbursements	<u>321,600</u>	<u>321,600</u>	<u>349,941</u>	<u>28,341</u>
Total operating revenue	<u>4,678,555</u>	<u>4,678,555</u>	<u>4,839,044</u>	<u>160,489</u>
OPERATING EXPENSES				
Treatment	1,235,390	1,235,390	1,200,103	(35,287)
Transmission and distribution	938,331	938,331	992,881	54,550
Customer service	364,322	364,322	409,857	45,535
General and administrative expenses	599,316	599,316	621,178	21,862
Purchased water	225,100	225,100	113,720	(111,380)
General maintenance	154,724	154,724	114,341	(40,383)
Source of supply	<u>15,500</u>	<u>15,500</u>	<u>21,041</u>	<u>5,541</u>
Total operating expense	<u>3,532,683</u>	<u>3,532,683</u>	<u>3,473,121</u>	<u>(59,562)</u>
Operating income before depreciation	1,145,872	1,145,872	1,365,923	220,051
Depreciation and amortization expense	<u>(1,211,819)</u>	<u>(1,211,819)</u>	<u>(1,118,356)</u>	<u>93,463</u>
OPERATING INCOME (LOSS)	(65,947)	(65,947)	247,567	313,514
Non-operating income (expenses)				
Interest income	19,400	19,400	29,880	10,480
Interest expense	(96,800)	(96,800)	(111,498)	(14,698)
Loss on sale of equipment	<u>-</u>	<u>-</u>	<u>(22,536)</u>	<u>(22,536)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(143,347)	(143,347)	143,413	286,760
Capital contributions				
Grants	-	-	8,986	8,986
Tap fees	26,500	26,500	82,866	56,366
Customer contributions	<u>-</u>	<u>-</u>	<u>126,381</u>	<u>126,381</u>
CHANGE IN NET POSITION	<u>\$ (116,847)</u>	<u>\$ (116,847)</u>	<u>\$ 361,646</u>	<u>\$ 478,493</u>

Note 1: Adjustments to account for the changes in the net pension and net OPEB liabilities resulted in an increase in pension expense of \$381,790. Due to the uncertainty of the impact of the required net pension and OPEB liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension and OPEB liability.

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX WATER FUND
for the year ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 3,103,800	\$ 3,103,800	\$ 2,989,523	\$ (114,277)
Penalties, service fees and reimbursements	<u>500</u>	<u>500</u>	<u>21</u>	<u>(479)</u>
Total operating revenue	<u>3,104,300</u>	<u>3,104,300</u>	<u>2,989,544</u>	<u>(114,756)</u>
OPERATING EXPENSES				
Transmission and distribution	694,399	694,399	846,383	151,984
General and administrative expenses	<u>2,235,629</u>	<u>2,235,629</u>	<u>2,302,800</u>	<u>67,171</u>
Total operating expense	<u>2,930,028</u>	<u>2,930,028</u>	<u>3,149,183</u>	<u>219,155</u>
Operating income (loss) before depreciation	174,272	174,272	(159,639)	(333,911)
Depreciation and amortization expense	<u>(515,600)</u>	<u>(515,600)</u>	<u>(549,268)</u>	<u>(33,668)</u>
OPERATING (LOSS)	(341,328)	(341,328)	(708,907)	(367,579)
Non-operating income				
Interest income	205,800	205,800	305,730	99,930
Gain on disposal of equipment	<u>-</u>	<u>-</u>	<u>31,830</u>	<u>31,830</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(135,528)	(135,528)	(371,347)	(235,819)
Capital contributions				
Tap fees	-	-	5,813	5,813
Customer contribution	<u>-</u>	<u>-</u>	<u>31,447</u>	<u>31,447</u>
CHANGE IN NET POSITION	<u>\$ (135,528)</u>	<u>\$ (135,528)</u>	<u>\$ (334,087)</u>	<u>\$ (198,559)</u>

Note 1: Adjustments to account for the changes in the net pension and net OPEB liabilities resulted in an increase in pension expense of \$246,821. Due to the uncertainty of the impact of the required net pension and OPEB liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension and OPEB liability.

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX SEWER FUND
for the year ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 2,905,327	\$ 2,905,327	\$ 2,910,219	\$ 4,892
Penalties, service fees and reimbursements	<u>500</u>	<u>500</u>	<u>-</u>	<u>(500)</u>
Total operating revenue	<u>2,905,827</u>	<u>2,905,827</u>	<u>2,910,219</u>	<u>4,392</u>
OPERATING EXPENSES				
Treatment	617,708	617,708	846,761	229,053
Transmission and distribution	409,455	409,455	572,705	163,250
Sewer administration	99,442	99,442	149,531	50,089
Professional services	48,194	48,194	40,408	(7,786)
Insurance	26,300	26,300	26,838	538
Customer service	90,983	90,983	299,441	208,458
Other	<u>23,334</u>	<u>23,334</u>	<u>32,401</u>	<u>9,067</u>
Total operating expense	<u>1,315,416</u>	<u>1,315,416</u>	<u>1,968,085</u>	<u>652,669</u>
Operating income before depreciation	1,590,411	1,590,411	942,134	(648,277)
Depreciation and amortization expense	<u>(909,269)</u>	<u>(909,269)</u>	<u>(977,528)</u>	<u>(68,259)</u>
OPERATING INCOME (LOSS)	681,142	681,142	(35,394)	(716,536)
Non-operating income (expenses)				
Interest income	42,300	42,300	81,467	39,167
Interest expense	(900)	(900)	(1,181)	(281)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(9,234)</u>	<u>(9,234)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	722,542	722,542	35,658	(686,884)
Capital contributions				
Customer contributions	<u>17,000</u>	<u>17,000</u>	<u>86,022</u>	<u>69,022</u>
CHANGE IN NET POSITION	<u>\$ 739,542</u>	<u>\$ 739,542</u>	<u>\$ 121,680</u>	<u>\$ (617,862)</u>

Note 1: Adjustments to account for the changes in the net pension and net OPEB liabilities resulted in an increase in pension expense of \$690,199. Due to the uncertainty of the impact of the required net pension and OPEB liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension and OPEB liability.

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
RADCLIFF SEWER FUND
for the year ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 3,831,025	\$ 3,831,025	\$ 3,795,119	\$ (35,906)
Penalties, service fees and reimbursements	<u>240,200</u>	<u>240,200</u>	<u>234,652</u>	<u>(5,548)</u>
Total operating revenue	<u>4,071,225</u>	<u>4,071,225</u>	<u>4,029,771</u>	<u>(41,454)</u>
OPERATING EXPENSES				
Treatment	567,389	567,389	646,163	78,774
Transmission and distribution	936,807	936,807	1,106,293	169,486
Professional services	17,622	17,622	16,035	(1,587)
Insurance	33,800	33,800	33,903	103
Customer service	591,213	591,213	616,320	25,107
Sewer administration	200,280	200,280	223,157	22,877
Sewer commission	20,069	20,069	23,681	3,612
System maintenance	<u>8,233</u>	<u>8,233</u>	<u>6,329</u>	<u>(1,904)</u>
Total operating expense	<u>2,375,413</u>	<u>2,375,413</u>	<u>2,671,881</u>	<u>296,468</u>
Operating income before depreciation	1,695,812	1,695,812	1,357,890	(337,922)
Depreciation and amortization expense	<u>(1,197,900)</u>	<u>(1,197,900)</u>	<u>(1,265,744)</u>	<u>(67,844)</u>
OPERATING INCOME (LOSS)	497,912	497,912	92,146	(405,766)
Non-operating income (expenses)				
Interest income	20,500	20,500	53,245	32,745
Interest expense	(12,300)	(12,300)	(13,671)	(1,371)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(30,114)</u>	<u>(30,114)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	506,112	506,112	101,606	(404,506)
Capital contributions				
Grants	5,780,000	5,780,000	2,138,507	(3,641,493)
Tap fees	<u>750</u>	<u>750</u>	<u>-</u>	<u>(750)</u>
CHANGE IN NET POSITION	<u>\$ 6,286,862</u>	<u>\$ 6,286,862</u>	<u>\$ 2,240,113</u>	<u>\$ (4,046,749)</u>

Note 1: Adjustments to account for the changes in the net pension and net OPEB liabilities resulted in an increase in pension expense of \$349,139. Due to the uncertainty of the impact of the required net pension and OPEB liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension and OPEB liability.

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
STORMWATER FUND
for the year ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Stormwater service revenue	\$ 477,800	\$ 477,800	\$ 477,792	\$ (8)
Total operating revenue	<u>477,800</u>	<u>477,800</u>	<u>477,792</u>	<u>(8)</u>
OPERATING EXPENSES				
Transmission and distribution	88,623	88,623	61,545	(27,078)
Professional services	4,626	4,626	4,309	(317)
Insurance	7,200	7,200	7,183	(17)
Customer service	1,013	1,013	938	(75)
Other	63,439	63,439	53,621	(9,818)
Total operating expense	<u>164,901</u>	<u>164,901</u>	<u>127,596</u>	<u>(37,305)</u>
Operating income before depreciation	312,899	312,899	350,196	37,297
Depreciation and amortization expense	<u>(108,500)</u>	<u>(108,500)</u>	<u>(120,455)</u>	<u>(11,955)</u>
OPERATING INCOME	<u>204,399</u>	<u>204,399</u>	<u>229,741</u>	<u>25,342</u>
Non-operating income (expenses)				
Interest income	10,200	10,200	20,801	10,601
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(174)</u>	<u>(174)</u>
Total non-operating income (expenses)	<u>10,200</u>	<u>10,200</u>	<u>20,627</u>	<u>10,427</u>
CHANGE IN NET POSITION	<u>\$ 214,599</u>	<u>\$ 214,599</u>	<u>\$ 250,368</u>	<u>\$ 35,769</u>

COMBINING FUND STATEMENTS

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF NET POSITION
December 31, 2018

	County Water	Ft. Knox Water	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,025,453	\$ 14,518,002	\$ 15,543,455
Investments	819,000	3,287,614	4,106,614
Customer accounts receivable, net	405,500	249,389	654,889
Interest receivable	3,872	21,265	25,137
Other accounts receivable	5,797	-	5,797
Note receivable - current	12,453	-	12,453
Due from other funds	175,512	164,190	339,702
Inventory - materials and supplies	260,502	58,960	319,462
Prepaid expenses	61,797	17,356	79,153
Total current assets	<u>2,769,886</u>	<u>18,316,776</u>	<u>21,086,662</u>
Other assets			
Note receivable	47,807	-	47,807
Restricted investments - reserve funds	1,445,369	-	1,445,369
Total other assets	<u>1,493,176</u>	<u>-</u>	<u>1,493,176</u>
Capital assets			
Land and easements	338,807	-	338,807
Construction in progress	320,634	1,806,144	2,126,778
Plant and lines	51,159,400	15,624,913	66,784,313
Vehicles and equipment	4,415,139	2,228,283	6,643,422
Total capital assets	56,233,980	19,659,340	75,893,320
Less: accumulated depreciation	<u>(18,837,353)</u>	<u>(2,964,757)</u>	<u>(21,802,110)</u>
Total capital assets, net	<u>37,396,627</u>	<u>16,694,583</u>	<u>54,091,210</u>
Total assets	<u>41,659,689</u>	<u>35,011,359</u>	<u>76,671,048</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension	975,311	447,080	1,422,391
Deferred outflows of resources - OPEB	393,540	180,397	573,937
Total deferred outflows of resources	<u>1,368,851</u>	<u>627,477</u>	<u>1,996,328</u>
Total assets and deferred outflows of resources	<u>\$ 43,028,540</u>	<u>\$ 35,638,836</u>	<u>\$ 78,667,376</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 336,545	\$ 130,555	\$ 467,100
Accrued expenses	63,614	16,981	80,595
Unearned revenue	41,421	-	41,421
Customers' deposits	206,205	-	206,205
Line of credit	1,832,968	-	1,832,968
Reserve for unclaimed funds - escheatment	11,982	-	11,982
Liabilities payable from restricted assets:			
Current portion of long-term debt	745,000	-	745,000
Accrued interest on long-term debt	17,142	-	17,142
Total current liabilities	<u>3,254,877</u>	<u>147,536</u>	<u>3,402,413</u>
Long-term liabilities			
Compensated absences	189,358	30,613	219,971
Bonds payable	3,720,000	-	3,720,000
Net pension liability	3,269,801	1,498,867	4,768,668
Net OPEB liability	953,190	436,938	1,390,128
Interfund loan	2,600,000	-	2,600,000
Total long-term liabilities	<u>10,732,349</u>	<u>1,966,418</u>	<u>12,698,767</u>
Total liabilities	<u>13,987,226</u>	<u>2,113,954</u>	<u>16,101,180</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	87,069	39,912	126,981
Deferred inflows of resources - OPEB	178,352	81,756	260,108
Total deferred inflows of resources	<u>265,421</u>	<u>121,668</u>	<u>387,089</u>
NET POSITION			
Net investment in capital assets	31,081,517	16,694,583	47,776,100
Restricted	1,445,369	-	1,445,369
Unrestricted	<u>(3,750,993)</u>	<u>16,708,631</u>	<u>12,957,638</u>
Total net position	<u>28,775,893</u>	<u>33,403,214</u>	<u>62,179,107</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 43,028,540</u>	<u>\$ 35,638,836</u>	<u>\$ 78,667,376</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2018

	County Water	Fort Knox Water	Total
OPERATING REVENUE			
Metered water sales	\$ 3,537,185	\$ 2,989,523	\$ 6,526,708
Wholesale sales	902,833	-	902,833
Sewer billing contract revenue	49,085	-	49,085
Penalties, service fees and reimbursements	<u>349,941</u>	<u>21</u>	<u>349,962</u>
Total operating revenue	<u>4,839,044</u>	<u>2,989,544</u>	<u>7,828,588</u>
OPERATING EXPENSES			
Treatment	1,200,103	-	1,200,103
Distribution	992,881	846,383	1,839,264
Customer service	409,857	-	409,857
General and administrative expenses	621,178	2,302,800	2,923,978
Purchased water	113,720	-	113,720
General maintenance	114,341	-	114,341
Source of supply	<u>21,041</u>	<u>-</u>	<u>21,041</u>
Total operating expense	<u>3,473,121</u>	<u>3,149,183</u>	<u>6,622,304</u>
Operating income (loss) before depreciation	1,365,923	(159,639)	1,206,284
Depreciation and amortization expense	<u>(1,118,356)</u>	<u>(549,268)</u>	<u>(1,667,624)</u>
OPERATING INCOME (LOSS)	247,567	(708,907)	(461,340)
Non-operating income (expenses)			
Interest income	29,880	305,730	335,610
Interest expense	(111,498)	-	(111,498)
Gain (loss) on sale of equipment	<u>(22,536)</u>	<u>31,830</u>	<u>9,294</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	143,413	(371,347)	(227,934)
Capital Contributions			
Grants	8,986	-	8,986
Tap fees	82,866	5,813	88,679
Customer contributions	<u>126,381</u>	<u>31,447</u>	<u>157,828</u>
CHANGE IN NET POSITION	361,646	(334,087)	27,559
Net position, beginning of year, as restated	<u>28,414,247</u>	<u>33,737,301</u>	<u>62,151,548</u>
NET POSITION, END OF YEAR	<u>\$ 28,775,893</u>	<u>\$ 33,403,214</u>	<u>\$ 62,179,107</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF CASH FLOWS
for the year ended December 31, 2018

	County Water	Ft. Knox Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 4,689,029	\$ 3,230,922	\$ 7,919,951
Payments to suppliers	(1,263,487)	(2,257,317)	(3,520,804)
Payments for employee services and benefits	<u>(1,671,088)</u>	<u>(669,037)</u>	<u>(2,340,125)</u>
Net cash provided by operating activities	<u>1,754,454</u>	<u>304,568</u>	<u>2,059,022</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Receipts (payments) on interfund loans	<u>(93,201)</u>	<u>(228,582)</u>	<u>(321,783)</u>
Net cash (used in) non-capital financing activities	<u>(93,201)</u>	<u>(228,582)</u>	<u>(321,783)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	(745,000)	-	(745,000)
Line of credit proceeds	15,004	-	15,004
Payments on line of credit	(49,547)	-	(49,547)
Interest paid on long-term debt	(113,575)	-	(113,575)
Contributions in aid of construction	82,866	37,260	120,126
Grants received	141,752	-	141,752
Proceeds from sale of equipment	24,590	38,170	62,760
Acquisition and construction of capital assets	<u>(1,203,655)</u>	<u>(1,392,791)</u>	<u>(2,596,446)</u>
Net cash (used in) capital and related financing activities	<u>(1,847,565)</u>	<u>(1,317,361)</u>	<u>(3,164,926)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	28,373	296,427	324,800
Purchase of investments	<u>(11,177)</u>	<u>(102,501)</u>	<u>(113,678)</u>
Net cash provided by investing activities	<u>17,196</u>	<u>193,926</u>	<u>211,122</u>
NET (DECREASE) IN CASH	(169,116)	(1,047,449)	(1,216,565)
Cash and cash equivalents, beginning of year	<u>1,194,569</u>	<u>15,565,451</u>	<u>16,760,020</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,025,453</u>	<u>\$ 14,518,002</u>	<u>\$ 15,543,455</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 247,567	\$ (708,907)	\$ (461,340)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,118,356	549,268	1,667,624
Net change in pension liability	319,766	218,390	538,156
Net change in OPEB liability	62,024	28,431	90,455
Change in assets and liabilities:			
Accounts receivable	(153,465)	241,378	87,913
Prepaid expenses	(1,736)	(7,352)	(9,088)
Inventory	(19,376)	(613)	(19,989)
Accounts payable	47,084	(38,845)	8,239
Unearned revenue	3,450	-	3,450
Accrued expenses	11,077	3,441	14,518
Compensated absences	107,701	-	107,701
Other payables	<u>12,006</u>	<u>19,377</u>	<u>31,383</u>
Net cash provided by operating activities	<u>\$ 1,754,454</u>	<u>\$ 304,568</u>	<u>\$ 2,059,022</u>
Schedule of non-cash capital and financing activities:			
Capital asset additions included in accounts payable	<u>\$ (7,511)</u>	<u>\$ (165,496)</u>	<u>\$ (173,007)</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF NET POSITION
December 31, 2018

	Ft. Knox Sewer	Radcliff Sewer	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,773,230	\$ 2,741,283	\$ 7,514,513
Investments	82,619	407,049	489,668
Customer accounts receivable, net	709,462	236,214	945,676
Interest receivable	362	1,785	2,147
Other accounts receivable	11,650	899,141	910,791
Inventory - material and supplies	2,565	1,716	4,281
Prepaid expenses	<u>10,886</u>	<u>44,856</u>	<u>55,742</u>
Total current assets	<u>5,590,774</u>	<u>4,332,044</u>	<u>9,922,818</u>
Other assets			
Interfund receivable	-	2,600,000	2,600,000
Unamortized rate case expense	-	12,824	12,824
Unamortized Radcliff acquisition costs, net	<u>-</u>	<u>147,501</u>	<u>147,501</u>
Total other assets	<u>-</u>	<u>2,760,325</u>	<u>2,760,325</u>
Capital assets			
Land and easements	-	9,544	9,544
Construction in progress	725,647	4,294,026	5,019,673
Plant and lines	88,338,142	39,819,490	128,157,632
Vehicles and equipment	<u>1,264,695</u>	<u>1,623,124</u>	<u>2,887,819</u>
Total capital assets	90,328,484	45,746,184	136,074,668
Less: accumulated depreciation	<u>(66,686,200)</u>	<u>(20,625,226)</u>	<u>(87,311,426)</u>
Total capital assets, net	<u>23,642,284</u>	<u>25,120,958</u>	<u>48,763,242</u>
Total assets	<u>29,233,058</u>	<u>32,213,327</u>	<u>61,446,385</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension	516,185	655,231	1,171,416
Deferred outflows of resources - OPEB	<u>208,281</u>	<u>264,386</u>	<u>472,667</u>
Total deferred outflows of resources	<u>724,466</u>	<u>919,617</u>	<u>1,644,083</u>
Total assets and deferred outflows of resources	<u>\$ 29,957,524</u>	<u>\$ 33,132,944</u>	<u>\$ 63,090,468</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 95,056	\$ 909,124	\$ 1,004,180
Accrued expenses	18,714	25,032	43,746
Due to other funds	293,104	20,977	314,081
Customers' deposits	<u>-</u>	<u>199,509</u>	<u>199,509</u>
Total current liabilities	<u>406,874</u>	<u>1,154,642</u>	<u>1,561,516</u>
Long-term liabilities			
Compensated absences	24,745	21,881	46,626
Net pension liability	1,730,547	2,196,706	3,927,253
Net OPEB liability	<u>504,477</u>	<u>640,370</u>	<u>1,144,847</u>
Total long-term liabilities	<u>2,259,769</u>	<u>2,858,957</u>	<u>5,118,726</u>
Total liabilities	<u>2,666,643</u>	<u>4,013,599</u>	<u>6,680,242</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	46,082	58,495	104,577
Deferred inflows of resources - OPEB	<u>94,393</u>	<u>119,819</u>	<u>214,212</u>
Total deferred inflows of resources	<u>140,475</u>	<u>178,314</u>	<u>318,789</u>
NET POSITION			
Net investment in capital assets	23,642,284	25,120,958	48,763,242
Unrestricted	<u>3,508,122</u>	<u>3,820,073</u>	<u>7,328,195</u>
Total net position	<u>27,150,406</u>	<u>28,941,031</u>	<u>56,091,437</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 29,957,524</u>	<u>\$ 33,132,944</u>	<u>\$ 63,090,468</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2018

	Ft. Knox Sewer	Radcliff Sewer	Total
OPERATING REVENUE			
Sewer service revenue	\$ 2,910,219	\$ 3,795,119	\$ 6,705,338
Penalties, service fees and reimbursements	<u>-</u>	<u>234,652</u>	<u>234,652</u>
Total operating revenue	<u>2,910,219</u>	<u>4,029,771</u>	<u>6,939,990</u>
OPERATING EXPENSES			
Treatment	846,761	646,163	1,492,924
Distribution	572,705	1,106,293	1,678,998
Customer service	299,441	616,320	915,761
General and administrative expenses	249,178	296,776	545,954
General maintenance	<u>-</u>	<u>6,329</u>	<u>6,329</u>
Total operating expense	<u>1,968,085</u>	<u>2,671,881</u>	<u>4,639,966</u>
Operating income before depreciation	942,134	1,357,890	2,300,024
Depreciation and amortization expense	<u>(977,528)</u>	<u>(1,265,744)</u>	<u>(2,243,272)</u>
OPERATING INCOME (LOSS)	(35,394)	92,146	56,752
Non-operating income (expenses)			
Interest income	81,467	53,245	134,712
Interest expense	(1,181)	(13,671)	(14,852)
(Loss) on sale of equipment	<u>(9,234)</u>	<u>(30,114)</u>	<u>(39,348)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	35,658	101,606	137,264
Capital Contributions			
Grants	-	2,138,507	2,138,507
Customer contributions	<u>86,022</u>	<u>-</u>	<u>86,022</u>
CHANGE IN NET POSITION	121,680	2,240,113	2,361,793
Net position, beginning of year, as restated	<u>27,028,726</u>	<u>26,700,918</u>	<u>53,729,644</u>
NET POSITION, END OF YEAR	<u>\$ 27,150,406</u>	<u>\$ 28,941,031</u>	<u>\$ 56,091,437</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF CASH FLOWS
for the year ended December 31, 2018

	Ft. Knox Sewer	Radcliff Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,673,732	\$ 4,025,756	\$ 6,699,488
Payments to suppliers	(984,974)	(1,080,450)	(2,065,424)
Payments for employee services and benefits	<u>(524,731)</u>	<u>(1,148,273)</u>	<u>(1,673,004)</u>
Net cash provided by operating activities	<u>1,164,027</u>	<u>1,797,033</u>	<u>2,961,060</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Receipts (payments) on interfund loans	<u>425,340</u>	<u>(16,992)</u>	<u>408,348</u>
Net cash provided (used) by non-capital financing activities	<u>425,340</u>	<u>(16,992)</u>	<u>408,348</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	-	(336,365)	(336,365)
Interest paid on long-term debt	(1,181)	(14,792)	(15,973)
Contributions in aid of construction	99,105	12,548	111,653
Grants received	-	1,299,485	1,299,485
Proceeds from sale of equipment	9,106	6,963	16,069
Acquisition and construction of capital assets	<u>(892,002)</u>	<u>(2,695,665)</u>	<u>(3,587,667)</u>
Net cash (used in) capital and related financing activities	<u>(784,972)</u>	<u>(1,727,826)</u>	<u>(2,512,798)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	81,105	51,460	132,565
Redemption of investments	-	342,476	342,476
Purchase of investments	<u>(82,619)</u>	<u>(407,049)</u>	<u>(489,668)</u>
Net cash (used in) investing activities	<u>(1,514)</u>	<u>(13,113)</u>	<u>(14,627)</u>
NET INCREASE (DECREASE) IN CASH	802,881	39,102	841,983
Cash and cash equivalents, beginning of year	<u>3,970,349</u>	<u>2,702,181</u>	<u>6,672,530</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,773,230</u>	<u>\$ 2,741,283</u>	<u>\$ 7,514,513</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (35,394)	\$ 92,146	\$ 56,752
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	977,528	1,265,744	2,243,272
Net change in pension liability	657,373	307,471	964,844
Net change in OPEB liability	32,826	41,668	74,494
Change in assets and liabilities:			
Accounts receivable	(236,487)	(4,015)	(240,502)
Prepaid expenses	(1,234)	(5,992)	(7,226)
Inventory	(655)	216	(439)
Accounts payable	(138,968)	74,122	(64,846)
Accrued expenses	(109,152)	2,362	(106,790)
Compensated absences	-	12,379	12,379
Other payables	<u>18,190</u>	<u>10,932</u>	<u>29,122</u>
Net cash provided by operating activities	<u>\$ 1,164,027</u>	<u>\$ 1,797,033</u>	<u>\$ 2,961,060</u>
Schedule of non-cash capital and financing activities:			
Fixed asset additions included in accounts payable	<u>\$ 31,305</u>	<u>\$ 679,708</u>	<u>\$ 711,013</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 each major fund of the Hardin County Water District No. 1, as of and for the year ended December 31, 2018, 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 May 28, 2019.

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
May 28, 2019