

HARDIN COUNTY WATER DISTRICT NO. 2

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INDEPENDENT AUDITOR'S REPORT  
ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2014 AND 2013

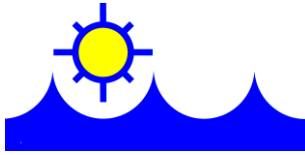
HARDIN COUNTY WATER DISTRICT NO. 2

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LETTER OF TRANSMITTAL



# Hardin County Water District No. 2

360 Ring Road • P.O. Box 970 • Elizabethtown, KY 42702

Telephone (270) 737-1056 • Fax (270) 737-2301 • [www.hardincountywater2.org](http://www.hardincountywater2.org)

Board of Commissioners: Mike Bell, Cordell Tabb, John Effinger, Morris Miller, Tim Davis

General Manager: James Jeffries

February 11, 2015

Dear Hardin County Water District No. 2 Board of Commissioners,

We are pleased to submit the Financial Report for Hardin County Water District No. 2 for the year ended December 31, 2014. This report has been prepared in accordance with generally accepted accounting principles (GAAP), as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board.

Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the District. We believe the data as presented is accurate, that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the District as measured by its continued compliance with all state, federal and local reporting and accounting regulations, and that all disclosures necessary to enable the reader to gain maximum understanding of the District's financial affairs have been included.

District management's narrative on the financial activities of the District is in the Management's Discussion and Analysis (MD&A) section of this report immediately following the Independent Auditor's Report. The letter of transmittal is written to complement the MD&A and the financial statements, and should be read from that perspective, and in conjunction with all other sections of the report.

This report is a joint effort between our staff and Stiles, Carter, and Associates, Certified Public Accountants. I would like to recognize Ms. Amber Pike for her role in leading the District in this effort. I also recognize Ms. Lea Ona Sims for her continued role in keeping the finances of the District. Mr. Brian Woosley was the lead auditor for Stiles, Carter, and Associates and our staff spent several hours working closely with Mr. Woosley to complete this report.

## *Financial Performance and Highlights*

Operating revenue finished at \$8.80 million for 2014, up 2% from \$8.53 million in 2013. The increase is driven by the Elizabethtown acquisition in which the District owned the customer base beginning November 1. There were 2 months of sales booked from the new customer base. Otherwise, the original customer base demand was flat in 2014 against 2013.

Operating expenses finished at \$7.08 million for 2014, up 15% from \$6.25 million in 2013. This increase is wholly explained by the Elizabethtown acquisition. Additional operating expenses were booked

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beginning in March of 2013 to prepare for taking possession of the Elizabethtown system on November 1. A total of 18 employees were hired, trained, and outfitted throughout the year between March and November.

The net position of the District increased from \$56.6 million to \$60.4 million, a healthy 6.7%.

## Capital Improvement and Projects

District crews laid over 8,600 feet of new water mains. Included in these activities was the completion of the West Bryan Road extension project. This 3700 foot water line represented the first effort to connect to Louisville Water Company for a supplemental water source. Crews were starting the Shepherdsville Road extension by the end of the year. These two efforts make up the District's in house effort for the 9 mile pipeline to Colesburg.

Also completed was the Cecilia Tank rehab project at a cost of \$240,000. The tank received a fresh finish to the inside of the bowl and column. The tank project represents the start of a series of rehab projects that will need to take place in the District system over the next few years.

## Water Operations

The White Mills water treatment plant treated and delivered 1.86 billion gallons during the year. This was flat against the 1.83 billion gallons delivered in 2013. Capacity utilization was an average of 67% as total gallons sold to customers finished at 1.52 billion gallons versus 1.56 billion gallons in 2013.

The distribution leak percentage did see an unfavorable move in 2014. Leak repairs totaled 269 for the year compared to 308 during 2013. The 2014 total includes repairs in the newly acquired Elizabethtown system which logged efforts in November and December. The leak percentage landed at 15.2%, up from 11.5% in 2012.

The District had no violations for water quality or reporting requirements. We experienced favorable audits in all areas including: workers compensation audit, DOW audit, PSC inspection, fire safety inspection, bacteriological laboratory inspection, and the fluoride inspection. The District did not issue any boil water advisories during the year.

District crews installed 173 new meters during the year compared to 172 new meters in 2013. The overall customer count saw epic growth with the acquisition of Elizabethtown as the active customer count rose from 17,200 to 26,932. This increase vaulted Hardin County Water District No. 2 to the second largest water district in the State of Kentucky.

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## Elizabethtown Water Works Acquisition

The due diligence for the Elizabethtown acquisition included a full hydraulic analysis by GRW Engineering of Lexington. The two distributions systems were modeled and GRW provided guidance on needed infrastructure adjustments, pressure zones, water quality, localized demand, and flow rates. GRW also completed a full evaluation of all the water assets of the City. They provided opinions on the current state of repair of each asset being acquired and a recommendation for capital expenditures going forward. This engineering analysis proved vital in the final agreement with Elizabethtown and in obtaining Public Service Commission approval for the acquisition.

The acquisition also required a financial pro forma to project the free cash flow of the agreement. Stiles, Carter, and Associates worked diligently with District staff to estimate revenue streams, operational costs, and investments required for the next five years. This analysis also proved invaluable in the application process with PSC. All told, the District spent over \$200,000 on professional accounting, engineering, and legal services to achieve due diligence for the acquisition.

District operations were expanded over the year in anticipation of a November 1 transaction date with Elizabethtown. The Transmission and Distribution department added equipment and personnel to mobilize a service crew. The Customer Service department added customer service clerks and service technicians to handle the expected 9,800 additional customers. The City Springs water treatment plant required the addition of seven operators to fill the staffing needs of the plant. Offers were made to the existing city employees and three accepted a move to District employment. All told, the District added 18 new employees and \$500,000 worth of equipment and tools.

## Closing Remarks

Your District continues to excel as an industry leader. While performing the usual course of business in our core operations, the District staff facilitated the addition of nearly 10,000 new customers to our utility, a growth of 57% in a single year. We are currently the second largest water district in the state of Kentucky, and still growing.



James R. Jeffries  
General Manager

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## INDEPENDENT AUDITOR'S REPORT

CHRIS R. CARTER, CPA  
SCOTT KISSELBAUGH, CPA  
BRIAN S. WOOSLEY, CPA



# STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

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OF CPAs

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Hardin County Water District No. 2  
Elizabethtown, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of Hardin County Water District No. 2 as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hardin County Water District No. 2, as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hardin County Water District No. 2's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules I and II 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, Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The letter of transmittal and Schedule III have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2015, on our consideration of Hardin County Water District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hardin County Water District No. 2's internal control over financial reporting and compliance.



Certified Public Accountants  
Elizabethtown, Kentucky  
February 11, 2015

REQUIRED SUPPLEMENTARY INFORMATION

**HARDIN COUNTY WATER DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2014**

The discussion and analysis of Hardin County Water District No. 2's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2014. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

**FINANCIAL HIGHLIGHTS**

- The ending cash and investment balance for the District was \$20.5 million. The balance at December 31, 2013, was \$20.8 million. This reflects a decrease in cash and investments during the year of \$.3 million.
- The District continued capital construction projects to improve the water system and ensure the future water supply
- The District completed the acquisition of the City of Elizabethtown, Kentucky, water system.
- Excluding the City of Elizabethtown acquisition, the District invested approximately \$1.8 million in capital assets during the year.

USING THIS ANNUAL REPORT

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements.

The **statement of net position** presents the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statement of revenues, expenses, and changes in fund net position** presents the results of the District's activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the basic financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

### ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$60.4 million and \$56.6 million as of December 31, 2014 and 2013.

The largest portion of the District's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, equipment, transmission and distribution systems and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**(Table 1)**  
**Summary of Net Position**  
**as of December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current and		
Other Assets	\$ 21,818,186	\$ 21,901,545
Capital Assets	<u>61,485,222</u>	<u>52,318,346</u>
<b>Total Assets</b>	<u>83,303,408</u>	<u>74,219,891</u>
<b>Deferred Outflows of Resources</b>	482,037	325,239
<b>Liabilities</b>		
Long-term liabilities	21,370,078	16,091,777
Other Liabilities	<u>2,012,189</u>	<u>1,851,611</u>
<b>Total Liabilities</b>	<u>23,382,267</u>	<u>17,943,388</u>
<b>Net Position</b>		
Net investment in capital assets	38,846,294	35,051,240
Restricted for debt service	2,006,032	2,342,331
Unrestricted	<u>19,550,852</u>	<u>19,208,168</u>
<b>Total Net Position</b>	<u>\$ 60,403,178</u>	<u>\$ 56,601,739</u>

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), increased \$343 thousand (1.8%) at December 31, 2014. Restricted net position decreased \$336 thousand (14.4%). Net investment in capital assets increased by \$3.8 million (10.8%).

**(Table 2)**  
**Changes in Net Position**  
**Years Ended December 31, 2014 and 2013**

	2014	2013
<b>OPERATING REVENUES:</b>		
Water sales	\$ 8,482,080	\$ 8,232,221
Other operating income	321,111	299,273
<b>Total operating revenues</b>	<b>8,803,191</b>	<b>8,531,494</b>
<b>OPERATING EXPENSES:</b>		
Power purchased	474,905	400,095
Purchased water	-	529
Pumping and treatment labor	556,230	420,741
Purification supplies and expense	448,327	464,194
Transmission and distribution labor	1,228,917	1,163,600
Transmission and distribution supplies and expense	198,600	179,915
Transmission and distribution maintenance and repairs	64,717	50,968
Equipment rental	777	991
Transportation expense	168,124	178,327
Water treatment maintenance and expense	101,866	59,317
General and administrative expenses	1,842,189	1,649,671
Depreciation	1,995,999	1,682,949
<b>Total operating expenses</b>	<b>7,080,651</b>	<b>6,251,297</b>
<b>OPERATING INCOME</b>	<b>1,722,540</b>	<b>2,280,197</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Investment income	1,178,209	(305,337)
Other income	93,878	107,191
Loss on disposal of capital assets	(131,126)	(9,862)
Interest expense on long-term debt	(562,819)	(550,960)
Interest expense on customer deposits	(528)	(512)
Amortization of bond discount and expense	(62,308)	(70,469)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>515,306</b>	<b>(829,949)</b>
Capital contributions	1,563,591	2,079,301
Increase in net position	3,801,437	3,529,549
Net position, beginning	56,601,739	53,072,190
Net position, ending	<b>\$ 60,403,176</b>	<b>\$ 56,601,739</b>

Operating revenue increased 3.2% as compared to the prior year. Total operating expenses increased 13.2%, 5% of which was due to increased depreciation expense. Interest expense on long-term debt was stable. The District continues to receive capital contributions through the State of Kentucky, the Federal government, other governments and individual developers.

## Capital Assets and Debt Administration

### Capital Assets

At December 31, 2014 and 2013, the District had \$61.5 million and \$52.3 million invested in a variety of capital assets, as reflected in the following table:

**(Table 3)**  
**Capital Assets (Net of Depreciation)**  
**as of December 31, 2014 and 2013**

	2014	2013
Non-Depreciable Assets:		
Land and land rights	\$ 687,483	\$ 687,483
Depreciable Assets:		
Structures and improvements	6,059,219	2,983,240
Supply mains	794,366	838,465
Water treatment plant	7,058,960	7,286,657
Standpipes, tanks and foundations	7,008,601	6,400,390
Transmission and distribution mains	30,314,967	27,966,150
Services and meters	3,962,808	3,653,632
Hydrants	38,463	29,053
Office furniture and fixtures	213,043	175,639
Transportation equipment	652,247	353,278
Other property and equipment	260,889	159,109
Capital assets in service	57,051,046	50,533,096
Construction in progress	4,434,176	1,785,250
Total capital assets, net of depreciation	<u>\$ 61,485,222</u>	<u>\$ 52,318,346</u>

The acquisition of the City of Elizabethtown water system resulted in a net increase in capital assets of \$6.9 million.

**(Table 4)**  
**Changes in Capital Assets**  
**Years Ended December 31, 2014 and 2013**

	2014	2013
Beginning balance	\$ 52,318,346	\$ 49,623,359
Additions	11,518,799	4,396,198
Retirements	(355,924)	(18,262)
Depreciation	(1,995,999)	(1,682,949)
Ending balance	<u>\$ 61,485,222</u>	<u>\$ 52,318,346</u>

## Debt

At December 31, 2014 and 2013, the District had \$15.9 million and \$17.0 million, in revenue bonds outstanding. During 2014, the District, as part of its acquisition of the City of Elizabethtown water system incurred a note payable of \$6.1 million (after imputation of interest). A total of \$.9 million is due within the 2015 calendar year.

**(Table 5)**  
**Outstanding Debt**  
**as of December 31, 2014 and 2013**

	2014	2013
Revenue bonds	\$ 15,991,000	\$ 17,028,000
Notes payable	6,093,748	-
Unamortized discount/premium	(181,574)	(206,072)
	\$ 21,903,174	\$ 16,821,928

### District Challenges for the Future

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

### Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact James Jeffries, General Manager, 360 Ring Road, Elizabethtown, Kentucky 42701, (270) 737-1056.



## BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2STATEMENTS OF NET POSITIONDECEMBER 31, 2014 AND 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,290,894	\$ 3,483,713
Investments	14,864,389	13,733,218
Accounts receivable, net	955,844	728,121
Prepaid insurance	-	64,386
Materials and supplies	386,876	300,362
<b>TOTAL CURRENT ASSETS</b>	<b>18,498,003</b>	<b>18,309,800</b>
<b>NONCURRENT ASSETS:</b>		
Restricted cash and cash equivalents	2,341,845	2,613,407
Restricted investments	978,338	978,338
Non-depreciable capital assets	5,121,659	2,472,733
Depreciable capital assets, net of accumulated depreciation	56,363,563	49,845,613
<b>TOTAL NONCURRENT ASSETS</b>	<b>64,805,405</b>	<b>55,910,091</b>
<b>TOTAL ASSETS</b>	<b>83,303,408</b>	<b>74,219,891</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on debt refundings	287,429	325,239
Utility acquisition adjustments	194,608	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>482,037</b>	<b>325,239</b>
<u>LIABILITIES</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	143,252	129,810
Construction projects payable	735,754	445,178
Accrued taxes	25,738	26,079
Accrued liabilities	53,452	43,570
Accrued vacation	111,390	92,633
Customer deposits	38,626	34,094
Customer advances for construction	23,250	43,250
Bonds payable	648,000	1,037,000
Notes payable	232,727	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,012,189</b>	<b>1,851,614</b>
<b>NONCURRENT LIABILITIES:</b>		
Customer deposits	347,631	306,849
Bonds payable	15,161,426	15,784,928
Notes payable	5,861,021	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>21,370,078</b>	<b>16,091,777</b>
<b>TOTAL LIABILITIES</b>	<b>23,382,267</b>	<b>17,943,391</b>
<u>NET POSITION</u>		
Net investment in capital assets	38,846,294	35,051,240
Restricted for debt service	2,006,032	2,342,331
Unrestricted	19,550,852	19,208,168
<b>TOTAL NET POSITION</b>	<b>\$ 60,403,178</b>	<b>\$ 56,601,739</b>

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

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Water sales	\$ 8,482,080	\$ 8,232,221
Other operating income	321,111	299,273
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	8,803,191	8,531,494
OPERATING EXPENSES:		
Power purchased	474,905	400,095
Purchased water	-	529
Pumping and treatment labor	556,230	420,741
Purification supplies and expense	448,327	464,194
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Transmission and distribution supplies and expense	198,600	179,915
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Equipment rental	777	991
Transportation expense	168,124	178,327
Water treatment maintenance and expense	101,866	59,317
General and administrative expenses	1,842,189	1,649,671
Depreciation	1,995,999	1,682,949
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	7,080,651	6,251,297
OPERATING INCOME	1,722,540	2,280,197
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,178,209	(305,337)
Other income	93,878	107,191
Loss on disposal of capital assets	(131,126)	(9,862)
Interest expense on long-term debt	(562,819)	(550,960)
Interest expense on customer deposits	(528)	(512)
Amortization of bond discount and expense	(62,308)	(70,469)
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	515,306	(829,949)
CAPITAL CONTRIBUTIONS	<hr/> 1,563,591	<hr/> 2,079,301
CHANGE IN NET POSITION	3,801,437	3,529,549
NET POSITION, beginning of year	<hr/> 56,601,739	<hr/> 53,072,190
NET POSITION, end of year	<hr/> <u>\$ 60,403,176</u>	<hr/> <u>\$ 56,601,739</u>

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

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 8,575,468	\$ 8,512,025
Payments to suppliers	(2,621,679)	(2,464,661)
Payments to employees	(2,283,211)	(2,010,745)
	3,670,578	4,036,619
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments on bonds	(1,037,000)	(1,040,000)
Acquisition of capital assets	(4,257,467)	(4,163,259)
Contributions in aid of construction	563,591	2,032,053
Interest on long-term debt	(562,819)	(550,960)
Sale of capital assets	18,347	7,600
Customer deposit interest	(528)	(512)
	(5,275,876)	(3,715,078)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(495,074)	(1,479,951)
Other income	93,878	107,191
Investment income	542,113	534,339
	140,917	(838,421)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,464,381)	(516,880)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	6,097,120	6,614,000
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 4,632,739	\$ 6,097,120
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 1,722,540	\$ 2,280,197
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,995,999	1,682,949
Provision for bad debts	28,322	44,627
(Increase) in accounts receivable	(227,723)	(19,469)
(Increase) decrease in prepaids	64,386	(11,836)
Increase in accounts payable	13,442	20,561
Increase in customer deposits	45,314	27,006
Increase (decrease) in accrued taxes payable	(341)	2,156
Increase (decrease) in accrued liabilities	9,882	(99)
Increase in accrued vacation	18,757	10,527
	\$ 3,670,578	\$ 4,036,619

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

NOTES TO BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Hardin County Water District No. 2 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Hardin County, Kentucky.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

**A. REPORTING ENTITY**

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

**B. BASIC FINANCIAL STATEMENTS**

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

**C. BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013

## D. FINANCIAL STATEMENT AMOUNTS

1. Cash and investments – The District’s cash balances are held at multiple financial institutions. Investments are stated at fair value based on quoted market prices.
2. Cash and cash equivalents – The District has defined cash and cash equivalents to include cash on hand and demand deposits. The District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit. The cost basis approximates market value.
4. Materials and supplies – Materials and supplies is composed of items used in the capital construction process.
5. Accounts Receivable - The allowance method is used to record uncollectible accounts. - At December 31, 2014 and 2013, accounts receivable was stated net of an allowance for uncollectible accounts of \$60,000 and \$60,000. Bad debt expense for 2014 was \$28,322 and 2013 was \$44,627. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
6. Capital Assets – Capital assets in service and construction in progress with an original cost of \$5,000 or more are recorded at historical cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers’ estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters	10-20

7. Compensated absences – The District accrues unpaid vacation when earned by the employee.
8. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenue and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013

9. Net Position – Net position is divided into three components:
- Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
  - Restricted net position – consist of net position that is restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
  - Unrestricted – all other net position is reported in this category.
10. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.
11. Amortization – Bond discounts/premiums and deferred amounts on refundings are being amortized using the interest method over the life of each respective bond issue.
12. Capital Contributions – Contributions are recognized in the Statement of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
13. Long-term Obligations – Long-term obligations are reported at face value, net of applicable premiums and discounts.
14. Use of Estimates - 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 reporting period. Actual results could differ from those estimates.

NOTE 2 – ELIZABETHTOWN WATER SYSTEM ACQUISITION

On October 23, 2014, the Kentucky Public Service Commission approved an asset purchase agreement between the District and the City of Elizabethtown, Kentucky, for the District's purchase of certain water system assets of the City. The transaction closed on October 31, 2014. The agreement requires the District to pay a note to the City of \$8,000,000 in twenty annual installments of \$400,000 beginning in 2015. The note carries no specified interest rate, but interest was imputed at a rate of 2.745 percent resulting in a net principal amount of \$6,093,748 and a resulting interest amount of \$1,906,252 over the life of the note (See note 5). The assets acquired were recorded at cost as well as the corresponding accumulated depreciation (See note 4). The transaction resulted in a \$1,000,000 capital contribution from the City and a utility acquisition adjustment of \$194,608 which is presented as a deferred outflow of resources in the Statement of Net Position.

(Continued next page)



HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 3 – DEPOSITS AND INVESTMENTS*DEPOSITS*

*Custodial Credit Risk—Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2014 and 2013, \$4,259,098 and \$5,417,630 of the District's bank balance of \$4,759,098 and \$5,917,630 was exposed to custodial credit risk. For 2014 and 2013, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

*INVESTMENTS*

At December 31, 2014 and 2013, the District had the following investments and maturities:

	12/31/2014 Fair Value	Average Credit Quality/Ratings	Maturities
Bond Mutual Funds	\$ 4,667,919	Unrated	8.3 years average
Bond Mutual Funds	1,112,787	Unrated	8.2 years average
Bond Mutual Funds	5,831,446	Unrated	5.15 years average
Bond Mutual Funds	3,252,237	Unrated	10.82 years average
Treasury Money Market Fund	841,262	Unrated	Less than 1 year
Total Investments	<u>\$ 15,705,651</u>		
	12/31/2013 Fair Value	Average Credit Quality/Ratings	Maturities
Bond Mutual Funds	\$ 4,372,395	Unrated	5.5 years average
Bond Mutual Funds	1,070,278	Unrated	9.3 years average
Bond Mutual Funds	5,417,128	Unrated	13.4 years average
Bond Mutual Funds	2,873,418	Unrated	25.0 years average
Treasury Money Market Fund	1,246,477	Unrated	Less than 1 year
Total Investments	<u>\$ 14,979,696</u>		

*The funds listed above are not rated. The individual investments within the funds are rated no lower than BBB.*

*Investment Policies**District Policy*

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the District's investing activities are under the custody of the District Commissioners. Investing policies comply with the State Statutes. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations of any corporation of the United States Government;
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency;
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Commercial paper rated in the highest category by a nationally recognized rating agency;
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics:
  1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
  2. The management company of the investment company shall have been in operation for at least five (5) years; and
  3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

**Interest Rate Risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. **Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the District's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The District does not have more than 5% or more of investments subject to the concentration of credit risk disclosure in any one issuer.

**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 its investments or collateral securities that are in the possession of an outside party. The District did not have any investments in securities at December 31, 2014 and 2013.

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 3 - RESTRICTED CASH

The District has restricted cash for various purposes at December 31, 2014 and 2013 as follows:

<u>Restricted For</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Debt service	\$ 1,164,770	\$ 1,095,853
Depreciation fund	338,560	205,285
Escrow	10,735	30,635
Construction	644,976	707,421
Customer deposits	319,880	306,073
	<u>\$ 2,478,921</u>	<u>\$ 2,345,267</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 follows.

	<u>Balance at</u>	<u>Elizabethtown</u>	<u>Other</u>	<u>Retirements</u>	<u>Balance at</u>
	<u>December 31, 2013</u>	<u>Water System</u>	<u>Additions</u>		<u>December 31, 2014</u>
		<u>Addition</u>			
Non-Depreciable Assets:					
Land and land rights	\$ 687,483	\$ -	\$ -	\$ -	\$ 687,483
Construction in progress	1,785,250	-	2,855,377	(206,451)	4,434,176
Total Capital Assets Not Being Depreciated	2,472,733	-	2,855,377	(206,451)	5,121,659
Capital Assets Being Depreciated:					
Structures and improvements	4,195,964	4,530,650	58,074	-	8,784,688
Supply mains	1,763,965	-	-	-	1,763,965
Water treatment plant	11,108,519	-	4,770	-	11,113,289
Standpipes, tanks and foundations	8,691,805	1,438,024	89,854	(270,149)	9,949,534
Transmission and distribution mains	37,467,925	5,775,955	312,087	-	43,555,967
Services and meters	6,106,059	439,380	624,421	(103,752)	7,066,108
Hydrants	243,280	-	18,495	-	261,775
Office furniture and fixtures	396,462	-	83,240	-	479,702
Transportation equipment	1,210,610	-	435,878	(65,653)	1,580,835
Communication equipment	-	-	-	-	-
Other property and equipment	431,963	-	137,462	(795)	568,630
Total Capital Assets Being Depreciated at historical cost	71,616,552	12,184,009	1,764,281	(440,349)	85,124,493
Less accumulated depreciation:					
Structures and improvements	1,212,724	1,379,646	133,099	-	2,725,469
Supply mains	925,500	-	44,099	-	969,599
Water treatment plant	3,821,862	-	232,467	-	4,054,329
Standpipes, tanks and foundations	2,291,415	552,442	224,514	(127,438)	2,940,933
Transmission and distribution mains	9,501,775	2,947,712	791,513	-	13,241,000
Services and meters	2,452,427	405,068	349,557	(103,752)	3,103,300
Hydrants	214,227	-	9,085	-	223,312
Office furniture and fixtures	220,823	-	45,836	-	266,659
Transportation equipment	857,332	-	130,147	(58,891)	928,588
Communication equipment	-	-	-	-	-
Other property and equipment	272,854	-	35,682	(795)	307,741
Total accumulated depreciation	21,770,939	5,284,868	1,995,999	(290,876)	28,760,930
Total other capital assets, net	49,845,613	6,899,141	(231,718)	(149,473)	56,363,563
Capital assets, net	\$ 52,318,346	\$ 6,899,141	\$ 2,623,659	\$ (355,924)	\$ 61,485,222

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Capital asset activity for the year ended December 31, 2013 follows.

	Balance at December 31, 2012	Additions	Retirements	Balance at December 31, 2013
<b>Non-Depreciable Assets:</b>				
Land and land rights	\$ 600,983	\$ 86,500	\$ -	\$ 687,483
Construction in progress	4,847,128	3,583,811	(6,645,689)	1,785,250
<b>Total Capital Assets Not Being Depreciated</b>	<b>5,448,111</b>	<b>3,670,311</b>	<b>(6,645,689)</b>	<b>2,472,733</b>
<b>Capital Assets Being Depreciated:</b>				
Structures and improvements	3,453,751	742,213	-	4,195,964
Supply mains	1,763,965	-	-	1,763,965
Water treatment plant	10,979,100	129,419	-	11,108,519
Standpipes, tanks and foundations	6,404,603	2,287,202	-	8,691,805
Transmission and distribution mains	33,915,215	3,552,710	-	37,467,925
Services and meters	5,807,135	336,426	(37,502)	6,106,059
Hydrants	307,738	-	(64,458)	243,280
Office furniture and fixtures	330,754	164,958	(99,250)	396,462
Transportation equipment	1,188,971	59,905	(38,266)	1,210,610
Communication equipment	55,270	-	(55,270)	-
Other property and equipment	365,868	98,743	(32,648)	431,963
<b>Total Capital Assets Being Depreciated at historical cost</b>	<b>64,572,370</b>	<b>7,371,576</b>	<b>(327,394)</b>	<b>71,616,552</b>
<b>Less accumulated depreciation:</b>				
Structures and improvements	1,124,802	87,922	-	1,212,724
Supply mains	881,401	44,099	-	925,500
Water treatment plant	3,595,107	226,755	-	3,821,862
Standpipes, tanks and foundations	2,130,134	161,281	-	2,291,415
Transmission and distribution mains	8,815,210	686,565	-	9,501,775
Services and meters	2,188,286	301,643	(37,502)	2,452,427
Hydrants	245,995	14,428	(46,196)	214,227
Office furniture and fixtures	297,901	22,172	(99,250)	220,823
Transportation equipment	779,847	115,751	(38,266)	857,332
Communication equipment	55,270	-	(55,270)	-
Other property and equipment	283,169	22,333	(32,648)	272,854
<b>Total accumulated depreciation</b>	<b>20,397,122</b>	<b>1,682,949</b>	<b>(309,132)</b>	<b>21,770,939</b>
<b>Total other capital assets, net</b>	<b>44,175,248</b>	<b>5,688,627</b>	<b>(18,262)</b>	<b>49,845,613</b>
<b>Capital assets, net</b>	<b>\$ 49,623,359</b>	<b>\$ 9,358,938</b>	<b>\$ (6,663,951)</b>	<b>\$ 52,318,346</b>

During the years ended December 31, 2014 and 2013, the District capitalized no interest in either year and expensed \$563,347 and \$551,472 of interest.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 5 – LONG-TERM OBLIGATIONS

The construction costs of the District's water facilities have been financed by issuance of revenue bonds authorized under Kentucky Revised. All assets of the District are pledged as collateral for these bonds. Information relating to the outstanding bond issues is summarized below:

<u>Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Bonds Due 12/31/2014</u>	<u>Bonds Due 12/31/2013</u>
2002 Series C	2.0% - 3.75%	\$3,020,000	\$ -	\$ 405,000
2004 Series A	2.0% - 4.0%	2,940,000	1,890,000	2,015,000
2005 Series B	4.1%	1,775,000	1,210,000	1,290,000
2007 Series A	4.00%	2,480,000	2,361,000	2,393,000
2010 Series A	2.0% - 4.125%	5,625,000	4,855,000	5,070,000
2012 Series	1.0% - 3.75%	6,070,000	5,675,000	5,855,000
			<u>\$ 15,991,000</u>	<u>\$ 17,028,000</u>

The District requires new customers to provide a \$60 deposit for initial water service. Current customers in good standing who add additional service locations are not required to pay an additional deposit.

Long-term liability activity for the year ended December 31, 2014, was as follows:

	<u>Balance at December 31, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2014</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
Revenue bonds	\$ 17,028,000	\$ -	\$ (1,037,000)	\$ 15,991,000	\$ 648,000
Notes	-	6,093,748	-	6,093,748	232,727
Unamortized bond premium/discount	(206,072)	-	24,498	(181,574)	
Total bonds and notes payable	16,821,928	6,093,748	(1,012,502)	21,903,174	880,727
Other liabilities:					
Customer deposits	340,943	101,460	(56,146)	386,257	38,626
Accrued vacation	92,633	111,390	(92,633)	111,390	111,390
Customer advances for construction	43,250	-	(20,000)	23,250	23,250
Total other liabilities	476,826	212,850	(168,779)	520,897	173,266
Long-term liabilities	<u>\$ 17,298,754</u>	<u>\$ 6,306,598</u>	<u>\$ (1,181,281)</u>	<u>\$ 22,424,071</u>	<u>\$ 1,053,993</u>

Long-term liability activity for the year ended December 31, 2013, was as follows:

	<u>Balance at December 31, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2013</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
Revenue bonds	\$ 18,068,000	\$ -	\$ (1,040,000)	\$ 17,028,000	\$ 1,037,000
Notes	-	-	-	-	-
Unamortized bond premium/discount	(233,337)	-	27,265	(206,072)	
Total bonds and notes payable	17,834,663	-	(1,012,735)	16,821,928	1,037,000
Other liabilities:					
Customer deposits	313,937	99,051	(72,045)	340,943	34,094
Accrued vacation	82,106	92,633	(82,106)	92,633	92,633
Customer advances for construction	48,250	10,000	(15,000)	43,250	43,250
Total other liabilities	444,293	201,684	(169,151)	476,826	169,977
Long-term liabilities	<u>\$ 18,278,956</u>	<u>\$ 201,684</u>	<u>\$ (1,181,886)</u>	<u>\$ 17,298,754</u>	<u>\$ 1,206,977</u>

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013

Bond and note maturities and Sinking Fund requirements in each of the next five years and in five year increments thereafter are as follows at December 31, 2014:

Year	Revenue Bonds			Notes		
	Principal	Interest	Totals	Principal	Interest	Totals
2015	\$ 648,000	\$ 538,325	\$ 1,186,325	\$ 232,727	\$ 167,273	\$ 400,000
2016	669,000	520,328	1,189,328	239,115	160,885	400,000
2017	696,000	500,611	1,196,611	245,679	154,321	400,000
2018	717,000	479,515	1,196,515	252,423	147,577	400,000
2019	749,000	457,050	1,206,050	259,352	140,648	400,000
2020-2024	4,194,000	1,888,526	6,082,526	1,407,535	592,465	2,000,000
2025-2029	3,498,000	1,190,083	4,688,083	1,611,621	388,379	2,000,000
2030-2034	2,423,000	639,861	3,062,861	1,845,296	154,704	2,000,000
2035-2039	1,422,000	322,370	1,744,370	-	-	-
2040-2044	501,000	145,608	646,608	-	-	-
2045-2048	474,000	39,049	513,049	-	-	-
Total	<u>\$ 15,991,000</u>	<u>\$6,721,326</u>	<u>\$ 22,712,326</u>	<u>\$ 6,093,748</u>	<u>\$ 1,906,252</u>	<u>\$ 8,000,000</u>
	Sinking Fund Requirements					
Year						
2015	\$ 1,186,325					
2016	1,189,328					
2017	1,196,611					
2018	1,196,515					
2019	1,206,050					
2020-2024	6,082,526					
2025-2029	4,688,083					
2030-2034	3,062,861					
2035-2039	1,744,370					
2040-2044	646,608					
2045-2048	513,049					
Total	<u>\$ 22,712,326</u>					

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013

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

Revenue Fund

All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond and Interest Redemption Funds

There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2002 Series C, 2004 Series A, 2005 B, 2007 Series A, and 2010 Series A and 2012 Series.

Depreciation Fund

This fund receives, on a monthly basis, \$18,700. This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

Operation and Maintenance Fund

This fund receives, on a monthly basis, sufficient amounts to pay current expenses from the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Bond and Interest Redemption Fund.

NOTE 6 - RETIREMENT PLAN

**Plan Description** - The District participates in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System's Board of Trustees. CERS provides benefits to its participants upon retirement. CERS issues a publicly available financial report that includes financial statements and required supplementary information for the retirement plan. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 502-564-4646.

**Funding Policy** - Plan members employed before September 1, 2008, are required to contribute 5% of their annual covered salary and those hired on or after September 1, 2008, are required to contribute 6% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The rates at December 31, 2014, 2013 and 2012 were 17.67%, 18.89% and 19.55% of covered payroll. The contribution requirements of the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended December 31, 2014, 2013 and 2012 were \$390,510, \$380,314, and \$364,924. Employee contributions were \$113,195, \$101,794 and \$96,359 and covered payroll was \$2,283,211, \$2,010,746 and \$1,959,853. All payments were made to the retirement system in the amount of the annually required contributions.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid By Insurance Fund	% Paid By Member Through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2014 and 2013:

Source	2014	2013
State of Kentucky	\$ 425,318	\$ 1,973,710
City of Elizabethtown, Kentucky	1,000,000	-
Tap Fees	123,783	95,591
Developers	14,490	10,000
	<u>\$ 1,563,591</u>	<u>\$ 2,079,301</u>

(Continued next page)



HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013(CONCLUDED)NOTE 9 – RENTAL AGREEMENTS

The District has entered into agreements to lease space on its water towers to various customers. Rental income during the years ended December 31, 2014 and 2013 was \$81,787 and \$98,545. The following schedule represents future payments to be received. Each agreement provides for optional renewals. The schedule below reflects payments to be received under current agreements and does not include renewals after the current term.

2015	\$ 82,577
2016	82,577
2017	82,577
2018	<u>28,566</u>
Total	<u>\$ 276,297</u>

NOTE 10 – COMMITMENTS

The District has entered into construction commitments toward its construction projects. Also, the District has received certain funding commitments from governmental agencies for current and planned construction projects.

NOTE 11 – 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; and natural disasters. The District was insured for workers' compensation, general liability and automobile liability coverage under a retrospectively rated commercial policy.

NOTE 12 – CORRECTION OF AN ERROR

During the year ended December 31, 2014, the District made a correction affecting the Statement of Net Position to present the deferred amount on debt refundings in the amount of \$325,329 as a deferred outflow of resources instead of an offset to noncurrent bonds payable. The correction resulted in noncurrent bonds payable being adjusted to \$15,784,928, net investment in capital assets being adjusted to \$35,051,240 and unrestricted net position being adjusted to \$19,208,168. There was no effect on the Statement of Revenues, Expenses and Changes in Fund Net Position.

OTHER SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2  
SCHEDULE I - BOND AND INTEREST REQUIREMENTS  
DECEMBER 31, 2014

	<u>\$ 2,940,000</u>		<u>\$ 1,775,000</u>	
	<u>2004 SERIES A</u>		<u>2005 SERIES B</u>	
	<u>BOND</u>	<u>INTEREST</u>	<u>BOND</u>	<u>INTEREST</u>
2015	\$ 125,000	\$ 70,708	\$ 85,000	\$ 47,868
2016	135,000	66,158	85,000	44,383
2017	145,000	61,113	90,000	40,795
2018	155,000	55,563	95,000	37,003
2019	160,000	49,575	105,000	32,903
2020	170,000	43,140	105,000	28,598
2021	175,000	36,413	115,000	24,088
2022	190,000	29,200	120,000	19,270
2023	200,000	21,400	130,000	14,145
2024	215,000	13,100	135,000	8,713
2025	220,000	4,400	145,000	2,973
2026				
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	<u>\$ 1,890,000</u>	<u>\$ 450,770</u>	<u>\$ 1,210,000</u>	<u>\$ 300,739</u>

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2  
SCHEDULE I - BOND AND INTEREST REQUIREMENTS  
DECEMBER 31, 2014  
(CONTINUED)

	\$ 2,480,000 2007 SERIES A		\$ 5,625,000 2010 SERIES A	
	<u>BOND</u>	<u>INTEREST</u>	<u>BOND</u>	<u>INTEREST</u>
2015	\$ 33,000	\$ 93,780	\$ 220,000	\$ 166,994
2016	34,000	92,440	225,000	162,122
2017	36,000	91,040	230,000	156,288
2018	37,000	89,580	235,000	149,894
2019	39,000	88,060	245,000	142,987
2020	40,000	86,480	250,000	135,250
2021	42,000	84,840	260,000	126,800
2022	44,000	83,120	265,000	117,940
2023	46,000	81,320	275,000	108,656
2024	47,000	79,460	290,000	98,588
2025	49,000	77,540	300,000	87,707
2026	51,000	75,540	310,000	76,075
2027	54,000	73,440	325,000	63,772
2028	56,000	71,240	340,000	50,676
2029	58,000	68,960	345,000	36,976
2030	60,000	66,600	360,000	22,876
2031	63,000	64,140	380,000	7,838
2032	66,000	61,560		
2033	68,000	58,880		
2034	71,000	56,100		
2035	74,000	53,200		
2036	77,000	50,180		
2037	80,000	47,040		
2038	84,000	43,760		
2039	87,000	40,340		
2040	91,000	36,780		
2041	94,000	33,080		
2042	98,000	29,240		
2043	102,000	25,240		
2044	106,000	21,080		
2045	111,000	16,740		
2046	115,000	12,220		
2047	120,000	7,520		
2048	128,000	2,560		
	<u>\$ 2,361,000</u>	<u>\$ 1,963,100</u>	<u>\$ 4,855,000</u>	<u>\$ 1,711,439</u>

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2  
SCHEDULE I - BOND AND INTEREST REQUIREMENTS  
DECEMBER 31, 2014  
(CONTINUED)

	\$ 6,070,000 2012 SERIES		TOTAL ALL ISSUES	
	BOND	INTEREST	BOND	INTEREST
2015	\$ 185,000	\$ 158,975	\$ 648,000	\$ 538,325
2016	190,000	155,225	669,000	520,328
2017	195,000	151,375	696,000	500,611
2018	195,000	147,475	717,000	479,515
2019	200,000	143,525	749,000	457,050
2020	205,000	139,347	770,000	432,815
2021	210,000	134,806	802,000	406,947
2022	215,000	129,891	834,000	379,421
2023	220,000	124,725	871,000	350,246
2024	230,000	119,238	917,000	319,099
2025	235,000	113,425	949,000	286,045
2026	245,000	107,119	606,000	258,734
2027	245,000	100,381	624,000	237,593
2028	255,000	93,506	651,000	215,422
2029	265,000	86,356	668,000	192,292
2030	270,000	78,663	690,000	168,139
2031	280,000	70,063	723,000	142,041
2032	295,000	60,719	361,000	122,279
2033	300,000	50,675	368,000	109,555
2034	210,000	41,750	281,000	97,850
2035	220,000	34,225	294,000	87,425
2036	230,000	26,063	307,000	76,243
2037	235,000	17,344	315,000	64,384
2038	250,000	8,250	334,000	52,010
2039	85,000	1,969	172,000	42,309
2040	10,000	188	101,000	36,968
2041			94,000	33,080
2042			98,000	29,240
2043			102,000	25,240
2044			106,000	21,080
2045			111,000	16,740
2046			115,000	12,220
2047			120,000	7,520
2048			128,000	2,560
	<u>\$ 5,675,000</u>	<u>\$ 2,295,278</u>	<u>\$ 15,991,000</u>	<u>\$ 6,721,326</u>

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSESYEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Salaries	\$ 886,496	\$ 779,806
Commissioner's salaries	30,276	30,289
Employee benefits	406,356	368,534
Materials and supplies	55,335	43,717
Professional fees and contractual services	79,308	48,801
Insurance	94,573	86,078
Advertising	6,501	1,945
Provision for bad debts	28,322	44,627
Other general and administrative	255,022	245,874
	<u>\$ 1,842,189</u>	<u>\$ 1,649,671</u>

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2014

WATER COMMISSIONERS

Michael Bell - Chairman  
Morris Miller - Secretary/Treasurer  
Cordell Tabb - Member  
John Effinger - Member  
Tim Davis - Member

ATTORNEY

Damon R. Talley - Hodgenville, Kentucky

GENERAL MANAGER

James Jeffries

CALENDAR YEAR

January 1 to December 31

## INTERNAL CONTROL AND FISCAL COMPLIANCE



CHRIS R. CARTER, CPA  
SCOTT KISSELBAUGH, CPA  
BRIAN S. WOOSLEY, CPA



**STILES, CARTER & ASSOCIATES, P.S.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S 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. 2  
Elizabethtown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hardin County Water District No. 2, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Hardin County Water District No. 2's basic financial statements and have issued our report thereon dated February 11, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hardin County Water District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hardin County Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Hardin County Water District No. 2's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2014-001 to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hardin County Water District No. 2's financial statements are free of 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*.

## **Hardin County Water District No. 2's Response to Findings**

Hardin County Water District No. 2's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Hardin County Water District No. 2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 District'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.



Certified Public Accountants  
Elizabethtown, Kentucky  
February 11, 2015

## SCHEDULE OF FINDINGS AND RESPONSES

HARDIN COUNTY WATER DISTRICT NO. 2  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2014

**MATERIAL WEAKNESSES**

**REFERENCE NUMBER 2014-001 FINANCIAL STATEMENT PRESENTATION**

**Criteria:** The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

**Condition:** As part of the audit, we noted that material adjustments were required in order to prevent the financial statements from being materially misstated.

**Cause:** The District did not make all necessary adjustments when closing the year.

**Effect:** The financial statements required adjustment of significant items.

**Recommendation:** We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

**Management Response:** Management will improve operations to ensure that necessary adjustments are made in accordance with the normal closing process.