HARDIN COUNTY WATER DISTRICT NO. 2

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2018 AND 2017

HARDIN COUNTY WATER DISTRICT NO. 2

CONTENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

HARDIN COUNTY WATER DISTRICT NO. 2

CONTENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

INDEPENDENT AUDITOR'S REPORT

Chris R. Carter, CPA
Ann M. Fisher, CPA
Scott Kisselbaugh, CPA
Philip A. Logsdon, CPA
Brian S. Woosley, CPA

STILES, CARTER & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
WWW.SCACPA.COM

American Institute of CPAs
Kentucky Society 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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audits 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.

2901 Ring Road East, P.O. Box 622 · Elizabethtown, KY 42702-0622 / Phone 270-769-6371 · Fax 270-765-7934
120 West Stephen Foster Avenue, #113 · Bardstown, KY 40004 / Phone 502-348-1433 · Fax 502-349-6365

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, 2018 and 2017, 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.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the District adopted Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* Statement 85, *Omnibus 2017,* and Statement 86, *Certain Debt Extinguishment Issues*. Our opinion is 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 on pages 4 to 8, schedule of proportionate share of the net pension and OPEB liabilities on pages 36 and 37 and schedule of contributions on pages 38 and 39 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, II, IV, V, VI and VII are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Schedule III has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2019, 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.

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.
Elizabethtown, Kentucky
June 4, 2019

REQUIRED SUPPLEMENTARY INFORMATION

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, 2018. 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 $25.2 million. The balance at December 31, 2017, was $22.6 million. This reflects an increase in cash and investments during the year of $2.6 million.
- The District continued capital construction projects to improve the water system and ensure the future water supply.
- The District continued work on construction of a sewer service in the Glendale area.
- The District invested approximately $14.1 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 and deferred inflows of resources, 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 ANAYLSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by $90.1 million and $77.1 million as of December 31, 2018 and 2017.

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, 2018 and 2017

	2018	2017
Assets		
Current and Other Assets	$ 38,091,823	$ 32,508,789
Capital Assets	84,190,773	73,379,493
Total Assets	122,282,596	105,888,282
Deferred Outflows of Resources	2,683,397	3,526,676
Liabilities		
Long-term liabilities	31,017,704	28,429,700
Other Liabilities	2,811,679	3,074,597
Total Liabilities	33,829,383	31,504,297
Deferred Inflows of Resources	1,046,412	833,004
Net Position		
Net investment in capital assets	61,664,227	53,643,953
Restricted	7,186,174	6,305,579
Unrestricted	21,239,797	17,128,125
Total Net Position	$ 90,090,198	$ 77,077,657

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 $4.1 million (24.01%) at December 31, 2018. Restricted net position increased $881 thousand (13.98%). Net investment in capital assets increased by $8 million (14.95%).

(Table 2)
Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Water sales	$ 13,459,174	$ 13,040,102
Other operating income	831,911	838,780
Total operating revenues	14,291,085	13,878,882
OPERATING EXPENSES:		
Power purchased	676,266	808,028
Purchased water	772,880	302,321.00
Pumping and treatment labor	1,383,163	1,291,392
Purification supplies and expense	333,777	336,357
Transmission and distribution labor	1,887,676	1,690,446
Transmission and distribution supplies and expense	245,756	224,722
Transmission and distribution maintenance and repairs	79,388	72,390
Equipment rental	17,235	5,014
Transportation expense	185,722	151,224
Water treatment maintenance and expense	197,691	176,574
General and administrative expenses	3,065,233	2,674,988
Depreciation	3,022,902	2,935,452
Total operating expenses	11,867,689	10,668,908
OPERATING INCOME	2,423,396	3,209,974
NON-OPERATING REVENUES (EXPENSES):		
Investment income	359,866	558,735
Other income	192,026	146,768
Gain on disposal of capital assets	21,144	33,075
Bond issuance costs	(10,491)	-
Interest expense on long-term debt	(561,746)	(573,693)
Amortization of bond discount and utility acquisition	(23,837)	(27,938)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(23,038)	136,947
Capital contributions	10,612,183	631,228
Increase in net position	13,012,541	3,978,149
Net position, beginning	77,077,657	73,099,508
Net position, ending	$ 90,090,198	$ 77,077,657

Operating revenue increased 3% as compared to the prior year as new customers were added. Total operating expenses increased 11.24%, which was due to increased depreciation expense and operating costs for personnel. Interest expense on long-term debt declined 2.08 percent due to the payment of princcipal. 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, 2018 and 2017, the District had $84.2 million and $73.4 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, 2018 and 2017

	2018	2017
Non-Depreciable Assets:		
Land and land rights	$ 2,171,632	$ 2,171,632
Depreciable Assets:		
Structures and improvements	5,966,927	6,413,261
Property held for future use	1,122,724	1,143,284
Supply mains	527,992	592,263
Water treatment plant	9,631,827	9,611,628
Standpipes, tanks and foundations	7,372,512	7,667,662
Transmission and distribution mains	34,706,442	35,523,040
Services and meters	5,723,801	5,995,030
Hydrants	38,199	36,123
Office furniture and fixtures	137,288	139,949
Transportation equipment	696,960	671,562
Other property and equipment	177,947	217,759
Capital assets in service	68,274,251	70,183,193
Construction in progress	15,916,522	3,196,300
Total capital assets, net of depreciation	$ 84,190,773	$ 73,379,493

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2018 and 2017

	2018	2017
Beginning balance	$ 73,379,493	$ 71,638,003
Additions	14,108,467	14,632,991
Retirements	(274,285)	(9,956,049)
Depreciation	(3,022,902)	(2,935,452)
Ending balance	$ 84,190,773	$ 73,379,493

Debt

At December 31, 2018 and 2017, the District had $16 million and $13.5 million, in revenue bonds outstanding and $5.1 million and $546 million of notes payable. A total of $1.1 million is due within the 2019 calendar year. The District also issue $3.4 million in revenue bonds during the 2018 year.

(Table 5)
Outstanding Debt
as of December 31, 2018 and 2017

	2018	2017
Revenue bonds	$ 16,005,000	$ 13,465,000
Notes payable	5,123,804	5,376,227
Unamortized discount/premium	119,575	133,969
	$ 21,248,379	$ 18,975,196

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 Amber Pike, Accounting Manager, 360 Ring Road, Elizabethtown, Kentucky 42701, (270) 737-1056.

BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,467,649	$ 3,183,375
Investments	11,906,593	13,264,952
Repurchase agreement	1,246,892	-
Accounts receivable, net	1,716,568	1,568,803
Stop loss receivable	62,246	-
State grants receivable	1,382,405	136,805
Materials and supplies	505,428	427,034
TOTAL CURRENT ASSETS	20,287,781	18,580,969
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	7,398,174	4,905,847
Restricted investments	1,207,394	1,207,394
Regulatory asset on CERS pension	6,903,036	5,647,319
Regulatory asset on CERS OPEB	2,295,438	2,167,260
Non-depreciable capital assets	18,088,154	5,367,932
Depreciable capital assets, net of accumulated depreciation	66,102,619	68,011,561
TOTAL NONCURRENT ASSETS	101,994,815	87,307,313
TOTAL ASSETS	122,282,596	105,888,282
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refundings	158,824	187,324
Deferred amount on CERS pension	1,838,898	2,609,006
Deferred amount on CERS OPEB	529,989	564,929
Utility acquisition adjustments	155,686	165,417
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,683,397	3,526,676
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	112,237	162,462
Construction projects payable	819,396	584,473
Elizabethtown sewer payable	243,026	749,478
Accrued taxes	58,471	62,754
Accrued liabilities	85,379	87,939
Accrued vacation	165,169	178,148
Customer deposits	44,192	45,713
Customer advances for construction	103,250	87,250
Bonds payable	890,000	860,000
Notes payable	259,352	252,423
Self-insurance payable	31,207	3,957
TOTAL CURRENT LIABILITIES	2,811,679	3,074,597
NONCURRENT LIABILITIES:		
Customer deposits	397,728	411,417
Net pension liability - CERS	8,146,209	7,559,254
Net OPEB liability - CERS	2,374,740	2,596,256
Bonds payable	15,234,575	12,738,969
Notes payable	4,864,452	5,123,804
TOTAL NONCURRENT LIABILITIES	31,017,704	28,429,700
TOTAL LIABILITIES	33,829,383	31,504,297
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on CERS pension	595,725	697,071
Deferred amount on CERS OPEB	450,687	135,933
TOTAL DEFERRED INFLOWS OF RESOURCES	1,046,412	833,004
NET POSITION		
Net investment in capital assets	61,664,227	53,643,953
Restricted for debt service	2,388,791	2,408,756
Restricted for capital projects	4,351,396	3,464,630
Restricted for customers	445,987	432,193
Unrestricted	21,239,797	17,128,125
TOTAL NET POSITION	$ 90,090,198	$ 77,077,657

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, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Water sales	$ 13,459,174	$ 13,040,102
Other operating income	831,911	838,780
TOTAL OPERATING REVENUES	14,291,085	13,878,882
OPERATING EXPENSES:		
Power purchased	676,266	808,028
Purchased water	772,880	302,321
Pumping and treatment labor	1,383,163	1,291,392
Purification supplies and expense	333,777	336,357
Transmission and distribution labor	1,887,676	1,690,446
Transmission and distribution supplies and expense	245,756	224,722
Transmission and distribution maintenance and repairs	79,388	72,390
Equipment rental	17,235	5,014
Transportation expense	185,722	151,224
Water treatment maintenance and expense	197,691	176,574
General and administrative expenses	3,065,233	2,674,988
Depreciation	3,022,902	2,935,452
TOTAL OPERATING EXPENSES	11,867,689	10,668,908
OPERATING INCOME	2,423,396	3,209,974
NON-OPERATING REVENUES (EXPENSES):		
Investment income	359,866	558,735
Other income	192,026	146,768
Gain on disposal of capital assets	21,144	33,075
Bond issuance costs	(10,491)	-
Interest expense on long-term debt	(561,746)	(573,693)
Amortization of bond items and utility acquisition	(23,837)	(27,938)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(23,038)	136,947
CAPITAL CONTRIBUTIONS	10,612,183	631,228
CHANGE IN NET POSITION	13,012,541	3,978,149
NET POSITION, beginning of year	77,077,657	73,099,508
NET POSITION, end of year	$ 90,090,198	$ 77,077,657

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 14,143,320	$ 13,743,491
Payments to suppliers	(5,705,524)	(4,261,175)
Payments to employees	(3,657,685)	(3,317,443)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,780,111	6,164,873
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(860,000)	(855,000)
Proceeds from bonds	3,389,509	-
Principal payments on notes	(252,423)	(245,679)
Acquisition of capital assets	(13,723,690)	(4,072,151)
Contributions in aid of construction	9,382,583	980,425
Interest on long-term debt	(561,746)	(573,693)
Sale of capital assets	21,144	34,949
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,604,623)	(4,731,149)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(111,817)	(454,762)
Other income	129,780	146,768
Investment income	583,150	553,862
NET CASH PROVIDED BY INVESTING ACTIVITIES	601,113	245,868
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,776,601	1,679,592
CASH AND CASH EQUIVALENTS, beginning of year	8,089,222	6,409,630
CASH AND CASH EQUIVALENTS, end of year	$ 10,865,823	$ 8,089,222
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,423,396	$ 3,209,974
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	3,022,902	2,935,452
Provision for bad debts	46,037	48,006
(Increase) in accounts receivable	(147,765)	(135,391)
Increase (decrease) in accounts payable	(50,225)	3,709
Increase (decrease) in Elizabethtown sewer payable	(506,452)	29,121
Increase (decrease) in customer deposits	(15,210)	27,050
Increase (decrease) in accrued taxes payable	(4,283)	8,051
Increase (decrease) in accrued liabilities	(2,560)	12,041
Increase (decrease) in accrued vacation	(12,979)	22,903
Increase in self-insurance payable	27,250	3,957
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,780,111	$ 6,164,873

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

NOTES TO BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 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. During the year ended December 31, 2017, the District established a sewer division. The anticipation is that the District will supply sewer service by the end of 2019.

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. Because the District's rates are regulated by the Kentucky Public Service Commission the District accounts for the financial effects of regulation in accordance with

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Governmental Accounting Standards Board (GASB) Statement No. 62, Paragraphs 476-500, Regulated Operations. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

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, 2018 and 2017, accounts receivable was stated net of an allowance for uncollectible accounts of $80,000 and $80,000. Bad debt expense for 2018 was $46,037 and 2017 was $48,006. 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:

	Years
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.

(Continued next page)

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.

9. Net Position – Net position is divided into three components:

   a. 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.
   b. 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.
   c. 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.

15. Restatement – During the year ended December 31, 2018, the District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions of GASB Statement No. 62, Paragraphs 476-500, Regulated Operations were followed. The District presents comparative financial statements so the restatement was made through the December 31, 2017 amounts. The effect of the restatement was to record a regulatory asset of $2,167,260, deferred outflows of resources of $564,929, deferred inflows of resources of $135,933 and a net OPEB liability of $2,596,256. There was no effect on beginning net position or the change in net position.

(Continued next page)

16. Pensions and OPEB – For purposes of measuring the net pension liability, net OPEB liability, deferred outflows/inflows of resources, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

    The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

17. Impact Of Recently Issued Accounting Principles

    Recently Issued And Adopted Accounting Principles

    In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and required a restatement of the District's financial statements.

    In March 2017, the GASB issued Statement 85, *Omnibus 2017*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the District's financial statements.

    In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the District's financial statements.

(Continued next page)

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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. This amount is being amortized over 20 years at $9,730 per year. The unamortized amount at December 31, 2018 and 2017 was $155,686 and $165,417.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 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, 2018 and 2017, $12,319,028 and $9,010,424 of the District's bank balance of $12,819,028 and $9,703,422 was exposed to custodial credit risk. For 2018 and 2017, 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, 2018 and 2017, the District had the following investments and maturities:

	12/31/2018 Fair Value	Average Credit Quality/Ratings	Maturities
Bond Mutual Funds	$ 3,446,033	Unrated	6.8 years average
Bond Mutual Funds	4,756,029	Unrated	5.5 years average
Bond Mutual Funds	3,704,531	Unrated	6.1 years average
Total Investments	$ 11,906,593		
	Fair Value	Quality/Ratings	Maturities
Bond Mutual Funds	$ 4,921,889	Unrated	7.5 years average
Bond Mutual Funds	4,712,267	Unrated	5.3 years average
Bond Mutual Funds	3,630,796	Unrated	6.7 years average
Total Investments	$ 13,264,952		

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

Investment Policies

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:

- 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;
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

- 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):
- 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. No investments are reported at amortized cost. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments are level 1 inputs. The District's repurchase agreement is not exposed to custodial credit risk because it is held in the District's name.

NOTE 4 - RESTRICTED CASH

The District has restricted cash for various purposes at December 31, 2018 and 2017 as follows:

Restricted For	December 31, 2018	December 31, 2017
Debt service	$ 2,388,790	$ 2,408,756
Depreciation fund	1,010,809	1,526,305
Escrow	130,052	77,132
Construction	4,348,072	1,497,088
Health plan	252,272	171,767
Customer deposits	475,575	432,193
	$ 8,605,570	$ 6,113,241

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 follows.

	Balance at December 31, 2017	Additions	Retirements	Balance at December 31, 2018
Non-Depreciable Assets:				
Land and land rights	$ 2,171,632	$ -	$ -	$ 2,171,632
Construction in progress	3,196,300	12,994,507	(274,285)	15,916,522
Total Capital Assets Not Being Depreciated	5,367,932	12,994,507	(274,285)	18,088,154
Capital Assets Being Depreciated:				
Structures and improvements	12,629,519	57,933	-	12,687,452
Property held for future use	1,190,404	9,200	-	1,199,604
Supply mains	1,795,159	-	-	1,795,159
Water treatment plant	11,714,552	107,301	-	11,821,853
Standpipes, tanks and foundations	11,441,433	-	-	11,441,433
Transmission and distribution mains	51,731,658	275,785	-	52,007,443
Services and meters	10,440,902	358,395	(228,298)	10,570,999
Hydrants	285,166	9,876	-	295,042
Office furniture and fixtures	569,417	53,684	-	623,101
Transportation equipment	1,946,241	228,675	(95,708)	2,079,208
Other property and equipment	673,588	13,111	-	686,699
Total Capital Assets Being Depreciated at historical cost	104,418,039	1,113,960	(324,006)	105,207,993
Less accumulated depreciation:				
Structures and improvements	6,216,258	504,267	-	6,720,525
Property held for future use	47,120	29,760	-	76,880
Supply mains	1,202,896	64,271	-	1,267,167
Water treatment plant	2,102,924	87,102	-	2,190,026
Standpipes, tanks and foundations	3,773,771	295,150	-	4,068,921
Transmission and distribution mains	16,208,618	1,092,383	-	17,301,001
Services and meters	4,445,872	629,624	(228,298)	4,847,198
Hydrants	249,043	7,800	-	256,843
Office furniture and fixtures	429,468	56,345	-	485,813
Transportation equipment	1,274,679	203,277	(95,708)	1,382,248
Other property and equipment	455,829	52,923	-	508,752
Total accumulated depreciation	36,406,478	3,022,902	(324,006)	39,105,374
Total other capital assets, net	68,011,561	(1,908,942)	-	66,102,619
Capital assets, net	$ 73,379,493	$ 11,085,565	$ (274,285)	$ 84,190,773

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Capital asset activity for the year ended December 31, 2017 follows.

	Balance at December 31, 2016	Additions	Relassifications/ Retirements	Balance at December 31, 2017
Non-Depreciable Assets:				
Land and land rights	$ 2,137,632	$ 34,000	$ -	$ 2,171,632
Construction in progress	9,444,007	3,706,468	(9,954,175)	3,196,300
Total Capital Assets Not Being Depreciated	11,581,639	3,740,468	(9,954,175)	5,367,932
Capital Assets Being Depreciated:				
Structures and improvements	10,884,254	1,745,265	-	12,629,519
Property held for future use	1,190,404	-	-	1,190,404
Supply mains	1,763,965	31,194	-	1,795,159
Water treatment plant	11,603,601	110,951	-	11,714,552
Standpipes, tanks and foundations	11,238,627	202,806	-	11,441,433
Transmission and distribution mains	43,731,894	7,999,764	-	51,731,658
Services and meters	10,109,523	421,569	(90,190)	10,440,902
Hydrants	284,920	246	-	285,166
Office furniture and fixtures	506,817	62,600	-	569,417
Transportation equipment	1,785,106	250,725	(89,590)	1,946,241
Other property and equipment	606,185	67,403	-	673,588
Total Capital Assets Being Depreciated at historical cost	93,705,296	10,892,523	(179,780)	104,418,039
Less accumulated depreciation:				
Structures and improvements	3,309,764	341,006	2,565,488	6,216,258
Property held for future use	17,360	29,760	-	47,120
Supply mains	1,057,797	44,234	100,865	1,202,896
Water treatment plant	4,521,163	248,114	(2,666,353)	2,102,924
Standpipes, tanks and foundations	3,483,408	290,363	-	3,773,771
Transmission and distribution mains	15,166,803	1,041,815	-	16,208,618
Services and meters	3,909,221	624,967	(88,316)	4,445,872
Hydrants	239,948	9,095	-	249,043
Office furniture and fixtures	373,285	56,183	-	429,468
Transportation equipment	1,166,796	197,473	(89,590)	1,274,679
Other property and equipment	403,387	52,442	-	455,829
Total accumulated depreciation	33,648,932	2,935,452	(177,906)	36,406,478
Total other capital assets, net	60,056,364	7,957,071	(1,874)	68,011,561
Capital assets, net	$ 71,638,003	$ 11,697,539	$ (9,956,049)	$ 73,379,493

During the years ended December 31, 2018 and 2017, the District capitalized no interest in either year and expensed $561,746 and $573,693 of interest.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 6 – 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:

Issue	Interest Rate	Face Amount	Bonds Due 12/31/2018	Bonds Due 12/31/2017
2010 Series A	2.0% - 4.125%	$ 5,625,000	$ 3,945,000	$ 4,180,000
2012 Series	1.0% - 3.75%	6,070,000	4,910,000	5,105,000
2016 Series A	3.875%	3,400,000	3,400,000	-
2016 Series B	2.0% - 3.0%	2,180,000	1,785,000	1,980,000
2016 Series C	2.0% - 3.0%	2,430,000	1,965,000	2,200,000
			$ 16,005,000	$ 13,465,000

On September 21, 2018, the District issued $3,400,000 in Series 2016 A Water System Revenue Bonds with an interest rate of 3.875 percent. The net proceeds of $3,389,509, after payment of $10,491 of issuance costs were deposited into the District's accounts.

Long-term liability activity for the year ended December 31, 2018, was as follows:

	Balance at December 31, 2017	Additions	Reductions	Balance at December 31, 2018	Amount Due Within One Year
Bonds and notes payable:					
Revenue bonds	$ 13,465,000	$ 3,400,000	$ (860,000)	$ 16,005,000	$ 890,000
Notes	5,376,227	-	(252,423)	5,123,804	259,352
Unamortized bond premium/discount	133,969	-	(14,394)	119,575	-
Total bonds and notes payable	18,975,196	3,400,000	(1,126,817)	21,248,379	1,149,352
Other liabilities:					
Customer deposits	457,130	122,340	(137,550)	441,920	44,192
Accrued vacation	178,148	165,169	(178,148)	165,169	165,169
Customer advances for construction	87,250	48,000	(32,000)	103,250	103,250
Total other liabilities	722,528	335,509	(347,698)	710,339	312,611
Long-term liabilities	$ 19,697,724	$ 3,735,509	$ (1,474,515)	$ 21,958,718	$ 1,461,963

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Balance at December 31, 2016	Additions	Reductions	Balance at December 31, 2017	Amount Due Within One Year
Bonds and notes payable:					
Revenue bonds	$ 14,320,000	$ -	$ (855,000)	$ 13,465,000	$ 860,000
Notes	5,621,906	-	(245,679)	5,376,227	252,423
Unamortized bond premium/discount	146,786	-	(12,817)	133,969	-
Total bonds and notes payable	20,088,692	-	(1,113,496)	18,975,196	1,112,423
Other liabilities:					
Customer deposits	430,080	56,750	(29,700)	457,130	45,713
Accrued vacation	155,245	178,148	(155,245)	178,148	178,148
Customer advances for construction	77,250	40,000	(30,000)	87,250	87,250
Total other liabilities	662,575	274,898	(214,945)	722,528	311,111
Long-term liabilities	$ 20,751,267	$ 274,898	$ (1,328,441)	$ 19,697,724	$ 1,423,534

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 2010 Series A, 2012 Series, 2016 Series A, 2016 Series B and 2016 Series C and 1/12 of the next ensuing principal and interest payment on the note payable.

Depreciation Fund
The District is required to transfer $20,295 per month until the fund balance reaches $272,400 (was fully funded at December 31, 2018). Also, $4,000 per month is deposited for replacement or purchase of short-term assets. 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.

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.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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, 2018:

	Revenue Bonds			Notes		
Year	Principal	Interest	Totals	Principal	Interest	Totals
2019	$ 890,000	$ 496,640	$ 1,386,640	$ 259,352	$ 140,648	$ 400,000
2020	946,500	500,153	1,446,653	266,471	133,529	400,000
2021	988,000	471,312	1,459,312	273,785	126,215	400,000
2022	1,019,500	441,314	1,460,814	281,301	118,699	400,000
2023	1,056,500	409,974	1,466,474	289,022	110,978	400,000
2024-2028	4,358,000	1,578,155	5,936,155	1,568,564	431,436	2,000,000
2029-2033	2,780,500	978,992	3,759,492	1,795,997	204,003	2,000,000
2034-2038	1,494,500	630,210	2,124,710	389,312	10,688	400,000
2039-2043	523,000	428,603	951,603	-	-	-
2044-2048	524,000	333,405	857,405	-	-	-
2049-2053	641,500	219,087	860,587	-	-	-
2054-2058	783,000	79,445	862,445	-	-	-
Total	$ 16,005,000	$ 6,567,290	$ 22,572,290	$ 5,123,804	$ 1,276,196	$ 6,400,000

Year	Sinking Fund Requirements
2019	$ 1,786,640
2020	1,846,653
2021	1,859,312
2022	1,860,814
2023	1,866,474
2024-2028	7,936,155
2029-2033	5,759,492
2034-2038	2,524,710
2039-2043	951,603
2044-2048	857,405
2049-2053	860,587
2054-2058	862,445
Total	$ 28,972,290

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 7 - RETIREMENT PLAN

Plan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements, required supplementary information and detailed information about CERS' fiduciary net position. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly has the authority to increase, suspend or reduce COLAs. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

Contributions

For the calendar year ended December 31, 2018, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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 bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2018, was 14.48 percent of creditable compensation from January 1 to June 30 and 16.22 percent of creditable compensation from July 1 to December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2017, was 13.95 percent of creditable compensation from January 1 to June 30 and 14.48 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan for the years ended December 31, 2018 and 2017 from the District were $539,096 and $456,294. At December 31, 2018 and 2017, the District owed $64,417 and $64,216 to the plan for employer and member contributions for December.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the District reported a liability of $8,146,209 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 using standard roll-forward techniques. The District's 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, actuarially determined. At June 30, 2018, the District's proportion was 0.133757 percent, which was an increase of .004612 percent from its proportion measured as of June 30, 2017.

For the years ended December 31, 2018 and 2017, the District recognized pension expense of $539,096 and $456,294. At December 31, 2018 and 2017, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 265,707	$ 119,243
Changes in actuarial assumptions	796,122	-
Difference between projected and actual investment earnings	378,805	476,482
Changes in proportion and proportionate share of contributions	398,264	-
	$ 1,838,898	$ 595,725

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 9,376	$ 191,886
Changes in actuarial assumptions	1,394,887	-
Difference between projected and actual investment earnings	598,684	505,185
Changes in proportion and proportionate share of contributions	606,059	-
	$ 2,609,006	$ 697,071

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	$ 903,602
2020	448,016
2021	(64,724)
2022	(43,721)
	$ 1,243,173

The total pension liability in the June 30, 2018 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is 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 for 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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 table below.

(Continued next page)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	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%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) 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. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued next page)

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:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	$ 10,255,233	$ 8,146,209	$ 6,379,216

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLAN

Plan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky and is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov.The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Benefits provided

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be $10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Contributions

For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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 bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2018, was 4.70 percent of creditable compensation from January 1 to June 30 and 5.26 percent of creditable compensation from July 1 to December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2017, was 4.73 percent of creditable compensation from January 1 to June 30 and 4.70 percent of creditable compensation from July 1 to December 31. Contributions to the OPEB plan from the District were $174,895 for the period ended December 31, 2018 and $151,247 for the year ended December 31, 2017. At December 31, 2018 and 2017, the District owed $20,904 and $20,838 to the plan for contributions for December.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2018, the District reported a liability of $2,374,740 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. 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 school districts, actuarially determined. At June 30, 2018, the District's proportion was 0.133752 percent, which was an increase of .004607 percent from its proportion measured as of June 30, 2017.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

For the years ended December 31, 2018 and 2017, the District recognized OPEB expense of $174,895 and $151,247. At December 31, 2018 and 2017, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 276,744
Changes in actuarial assumptions	474,271	5,487
Difference between projected and actual investment earnings	-	163,573
Changes in proportion and proportionate share of contributions	55,718	4,883
	$ 529,989	$ 450,687

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 7,211
Changes in actuarial assumptions	564,929	-
Difference between projected and actual investment earnings	-	122,698
Changes in proportion and proportionate share of contributions	-	6,024
	$ 564,929	$ 135,933

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending December 31	OPEB Expense Amount
2019	$ 17,824
2020	17,824
2021	17,824
2022	49,593
2023	(11,285)
Thereafter	(12,478)
	$ 79,302

(Continued next page)

Actuarial assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05%, average
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
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.
Municipal Bond Index Rate	3.62%
Discount Rate	5.85%

The mortality table used for active members is 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 for 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 — June 30, 2013.

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 table below.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	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%	

The projection of cash flows used to determine the discount rate of 5.85% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) 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. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.85%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage- point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 1,768,018	$ 2,374,740	$3,089,891

(Continued next page)

Sensitivity Of The District's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates

The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 479,321	$ 643,807	$ 837,689

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

NOTE 9 - SELF-INSURANCE

In January 2017, the District implemented a self-insured health insurance plan. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. Liabilities for unpaid claims are estimated based on a review of claims incurred during the fiscal year but not paid until the following fiscal year. Changes in claims liability during the years ended December 31, 2018 and 2017, were as follows:

Year Ended December 31,	Balance at beginning of year	Current-year claims and changes in estimates	Claim payments and transfers	Balance at end year
2018	$ 3,957	$ 593,071	$ 565,821	$ 31,207
2017	$ -	$ 578,881	$ 574,924	$ 3,957

Claims due within one year at December 31, 2018 and 2017 were $31,207 and $3,957. The health care coverage program maintains a policy with a commercial insurance company that covers any claims greater than $35,000 per year per employee and also covers any aggregate claims greater than $653,164 per year. For the years ended December 31, 2018 and 2017, no settlements exceeded insurance coverage.

(Continued next page)

NOTE 10 – INTERDIVISION ACTIVITIES

During the year ended December 31, 2017, the Water Division transferred $2,218,669 of capital asset construction in progress to the Sewer Division. On October 17, 2017, the Water Division loaned the Sewer Division $500,000 at no interest. The amount is due October 1, 2019. On January 16, 2018, the Water Division loaned the Sewer Division $1,500,000 at no interest. The amount is due January 1, 2020.

NOTE 11 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2018 and 2017:

Source	2018	2017
State of Kentucky	$ 9,968,443	$ 240,006
Relocation	430,224	108,031
Tap Fees	211,119	277,098
Developers	2,397	6,093
	$ 10,612,183	$ 631,228

NOTE 12 – 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, 2018 and 2017 was $92,750 and $101,210. 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.

2019	$ 94,135
2020	94,135
2021	94,135
2022	94,135
2023	32,851
Total	$ 409,391

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The District is subject to various legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of the cases presently in progress.

The District has construction commitments for ongoing projects.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss.

NOTE 14 – 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.

REQUIRED SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

December 31, 2018

Last 10 Years *

	2018	2017	2016	2015
Proportion of the net pension liability	0.133757%	0.129145%	0.119917%	0.104554%
Proportionate share of the net pension liability	$ 8,146,209	$ 7,559,254	$ 5,904,253	$ 4,495,343
Covered - employee payroll	$ 3,313,033	$ 3,233,237	$ 2,993,522	$ 2,638,530
Proportionate share of the net pension liability as percentage of covered payroll	245.9%	233.8%	197.2%	170.4%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.32%	55.50%	59.97%

* Calendar year 2015 was the first year of implementation, therefore, only four years are shown.

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

December 31, 2018

Last 10 Years *

	2018
Proportion of the net pension liability	0.133752%
Proportionate share of the net OPEB liability	$ 2,374,740
Covered - employee payroll	$ 3,313,033
Proportionate share of the net OPEB liability as percentage of covered payroll	71.7%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%

* Calendar year 2018 was the year of implementation, therefore, only one year is shown.

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2018

Last 10 Years *

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 539,096	$ 456,294	$ 412,832	$ 312,163
Contribution in relation to the actuarially determined contributions	539,096	456,294	412,832	312,163
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered employee payroll	$ 3,501,613	$ 3,208,084	$ 3,117,060	$ 2,939,133
Contributions as a percentage of covered employee payroll	15.40%	14.22%	13.24%	10.62%

* Calendar year 2015 was the first year of implementation, therefore, only four years are shown.

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2018

Last 10 Years *

	2018
Contractually required contribution (actuarially determined)	$ 174,895
Contribution in relation to the actuarially determined contributions	174,895
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 3,501,613
Contributions as a percentage of covered employee payroll	5.00%

* Calendar year 2018 was the year of implementation, therefore, only one year is shown.

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2018

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2018.

2015

The assumed investment rate of return was decreased from 7.75% to 7.50%.
The assumed rate of inflation was reduced from 3.50% to 3.25%.
The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
Payroll growth assumption was reduced from 4.50% to 4.00%.
The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016 and 2017

No changes.

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018.

Changes of assumptions:

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

OTHER SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE I - BOND AND INTEREST REQUIREMENTS

DECEMBER 31, 2018

	$ 5,625,000 2010 SERIES A		$ 6,070,000 2012 SERIES	
	BOND	INTEREST	BOND	INTEREST
2019	$ 245,000	$ 142,987	$ 200,000	$ 143,525
2020	250,000	135,250	205,000	139,347
2021	260,000	126,800	210,000	134,806
2022	265,000	117,940	215,000	129,891
2023	275,000	108,656	220,000	124,725
2024	290,000	98,588	230,000	119,238
2025	300,000	87,707	235,000	113,425
2026	310,000	76,075	245,000	107,119
2027	325,000	63,772	245,000	100,381
2028	340,000	50,676	255,000	93,506
2029	345,000	36,976	265,000	86,356
2030	360,000	22,876	270,000	78,663
2031	380,000	7,833	280,000	70,063
2032			295,000	60,719
2033			300,000	50,675
2034			210,000	41,750
2035			220,000	34,225
2036			230,000	26,063
2037			235,000	17,344
2038			250,000	8,250
2039			85,000	1,969
2040			10,000	188
2041				
2042				
2043				
2044				
2045				
2046				
2047				
2048				
2049				
2050				
2051				
2052				
2053				
2054				
2055				
2056				
2057				
2058				
	$ 3,945,000	$ 1,076,136	$ 4,910,000	$ 1,682,228

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE I - BOND AND INTEREST REQUIREMENTS

DECEMBER 31, 2018

(CONTINUED)

	$ 3,400,000 2016 SERIES A		$ 2,180,000 2016 SERIES B	
	BOND	INTEREST	BOND	INTEREST
2019	$ -	$ 104,302	$ 200,000	$ 50,550
2020	36,500	133,231	205,000	44,475
2021	38,000	131,406	215,000	38,175
2022	39,500	129,883	220,000	31,650
2023	41,500	128,292	225,000	24,975
2024	43,000	126,977	235,000	18,075
2025	44,500	124,914	240,000	10,950
2026	46,500	123,127	245,000	3,675
2027	48,500	121,261		
2028	50,500	119,641		
2029	52,500	117,294		
2030	54,500	115,192		
2031	57,000	113,002		
2032	59,500	111,014		
2033	62,000	108,328		
2034	64,500	105,843		
2035	67,000	103,260		
2036	70,000	100,841		
2037	72,500	97,771		
2038	75,500	94,864		
2039	79,000	91,829		
2040	82,000	88,906		
2041	85,500	85,377		
2042	89,000	81,950		
2043	92,500	78,385		
2044	96,500	74,872		
2045	100,500	70,804		
2046	104,500	66,777		
2047	109,000	62,584		
2048	113,500	58,367		
2049	118,000	53,667		
2050	123,000	48,934		
2051	128,000	44,004		
2052	133,500	38,967		
2053	139,000	33,516		
2054	144,500	27,947		
2055	150,500	22,153		
2056	156,500	16,159		
2057	163,000	9,848		
2058	168,500	3,337		
	$ 3,400,000	$ 3,368,826	$ 1,785,000	$ 222,525

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE I - BOND AND INTEREST REQUIREMENTS

DECEMBER 31, 2018

(CONTINUED)

	$ 2,430,000 2016 SERIES C		TOTAL ALL ISSUES	
	BOND	INTEREST	BOND	INTEREST
2019	$ 245,000	$ 55,275	$ 890,000	$ 496,639
2020	250,000	47,850	946,500	500,153
2021	265,000	40,125	988,000	471,312
2022	280,000	31,950	1,019,500	441,314
2023	295,000	23,325	1,056,500	409,973
2024	310,000	14,250	1,108,000	377,128
2025	320,000	4,800	1,139,500	341,796
2026			846,500	309,996
2027			618,500	285,414
2028			645,500	263,823
2029			662,500	240,626
2030			684,500	216,731
2031			717,000	190,898
2032			354,500	171,733
2033			362,000	159,003
2034			274,500	147,593
2035			287,000	137,485
2036			300,000	126,904
2037			307,500	115,115
2038			325,500	103,114
2039			164,000	93,798
2040			92,000	89,094
2041			85,500	85,377
2042			89,000	81,950
2043			92,500	78,385
2044			96,500	74,872
2045			100,500	70,804
2046			104,500	66,777
2047			109,000	62,584
2048			113,500	58,367
2049			118,000	53,667
2050			123,000	48,934
2051			128,000	44,004
2052			133,500	38,967
2053			139,000	33,516
2054			144,500	27,947
2055			150,500	22,153
2056			156,500	16,159
2057			163,000	9,848
2058			168,500	3,337
	$ 1,965,000	$ 217,575	$ 16,005,000	$ 6,567,290

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Salaries	$ 1,417,696	$ 1,258,773
Commissioner's salaries	30,193	30,324
Employee benefits	771,012	611,072
Materials and supplies	76,161	85,416
Professional fees and contractual services	150,989	108,302
Insurance	157,669	144,931
Advertising	2,286	4,476
Provision for bad debts	46,037	48,006
Other general and administrative	413,190	383,688
	$ 3,065,233	$ 2,674,988

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2018

WATER COMMISSIONERS

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

ATTORNEY

Stoll, Keenon, Ogden, PLLC

GENERAL MANAGER

James Jeffries

CALENDAR YEAR

January 1 to December 31

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE IV - SCHEDULE OF NET POSITION - WATER DIVISION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,444,872	$ 3,183,242
Investments	13,153,485	13,264,952
Accounts receivable, net	1,716,568	1,568,803
Stop loss receivable	62,246	-
Materials and supplies	505,428	427,034
TOTAL CURRENT ASSETS	18,882,599	18,444,031
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	6,441,778	4,404,937
Restricted investments	1,207,394	1,207,394
Regulatory asset on CERS pension	6,903,036	5,647,319
Regulatory asset on CERS OPEB	2,295,438	2,167,260
Due from sewer division	2,000,000	500,000
Non-depreciable capital assets	5,442,718	3,149,263
Depreciable capital assets, net of accumulated depreciation	66,102,619	68,011,561
TOTAL NONCURRENT ASSETS	90,392,983	85,087,734
TOTAL ASSETS	109,275,582	103,531,765
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refundings	158,824	187,324
Deferred amount on CERS pension	1,838,898	2,609,006
Deferred amount on CERS OPEB	529,989	564,929
Utility acquisition adjustments	155,686	165,417
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,683,397	3,526,676
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	112,237	166,419
Construction projects payable	118,202	584,473
Due to sewer division	43,311	191
Elizabethtown sewer payable	243,026	749,478
Accrued taxes	58,471	62,754
Accrued liabilities	85,379	87,939
Accrued vacation	165,169	178,148
Customer deposits	44,192	45,713
Customer advances for construction	103,250	87,250
Bonds payable	890,000	860,000
Notes payable	259,352	252,423
Self-insurance	31,207	-
TOTAL CURRENT LIABILITIES	2,153,796	3,074,788
NONCURRENT LIABILITIES:		
Customer deposits	397,728	411,417
Net pension liability - CERS	8,146,209	7,559,254
Net OPEB liability - CERS	2,374,740	2,596,256
Bonds payable	15,234,575	12,738,969
Notes payable	4,864,452	5,123,804
TOTAL NONCURRENT LIABILITIES	31,017,704	28,429,700
TOTAL LIABILITIES	33,171,500	31,504,488
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on CERS pension	595,725	697,071
Deferred amount on CERS OPEB	450,687	135,933
TOTAL DEFERRED INFLOWS OF RESOURCES	1,046,412	833,004
NET POSITION		
Net investment in capital assets	50,337,580	51,788,479
Restricted for debt service	2,388,791	2,408,756
Restricted for capital projects	3,395,000	2,963,720
Restricted for customers	445,987	432,193
Unrestricted	21,173,709	17,127,801
TOTAL NET POSITION	$ 77,741,067	$ 74,720,949

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE V - SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - WATER DIVISION

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Water sales	$ 13,459,174	$ 13,040,102
Other operating income	831,911	838,780
TOTAL OPERATING REVENUES	14,291,085	13,878,882
OPERATING EXPENSES:		
Power purchased	676,266	808,028
Purchased water	772,880	302,321
Pumping and treatment labor	1,383,163	1,291,392
Purification supplies and expense	333,777	336,357
Transmission and distribution labor	1,887,676	1,690,446
Transmission and distribution supplies and expense	245,756	224,722
Transmission and distribution maintenance and repairs	79,388	72,390
Equipment rental	17,235	5,014
Transportation expense	185,722	151,224
Water treatment maintenance and expense	197,691	176,574
General and administrative expenses	3,065,139	2,674,895
Depreciation	3,022,902	2,935,452
TOTAL OPERATING EXPENSES	11,867,595	10,668,815
OPERATING INCOME	2,423,490	3,210,067
NON-OPERATING REVENUES (EXPENSES):		
Investment income	335,792	557,408
Other income	192,026	146,768
Gain on disposal of capital assets	21,144	33,075
Bond issuance costs	(10,491)	-
Interest expense on long-term debt	(561,746)	(573,693)
Amortization of bond discount and utility acquisition	(23,837)	(27,938)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(47,112)	135,620
TRANSFERS	-	(2,218,669)
CAPITAL CONTRIBUTIONS	643,740	494,423
CHANGE IN NET POSITION	3,020,118	1,621,441
NET POSITION, beginning of year	74,720,949	73,099,508
NET POSITION, end of year	$ 77,741,067	$ 74,720,949

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE VI - SCHEDULE OF NET POSITION - SEWER DIVISION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,777	$ 133
Investments	-	-
Accounts receivable, net	-	-
Prepaid insurance	-	-
State grants receivable	1,382,405	136,805
Due from water division	43,311	191
TOTAL CURRENT ASSETS	1,448,493	137,129
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	956,396	500,910
Non-depreciable capital assets	12,645,436	2,218,669
TOTAL NONCURRENT ASSETS	13,601,832	2,719,579
TOTAL ASSETS	15,050,325	2,856,708
LIABILITIES		
CURRENT LIABILITIES:		
Construction projects payable	701,194	-
TOTAL CURRENT LIABILITIES	701,194	-
NONCURRENT LIABILITIES:		
Due to water division	2,000,000	500,000
TOTAL NONCURRENT LIABILITIES	2,000,000	500,000
TOTAL LIABILITIES	2,701,194	500,000
NET POSITION		
Net investment in capital assets	11,326,647	1,855,474
Restricted for capital projects	956,396	500,910
Unrestricted	66,088	324
TOTAL NET POSITION	$ 12,349,131	$ 2,356,708

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE VII - SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - SEWER DIVISION

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Sewer sales	$ -	$ -
Other operating income	-	-
TOTAL OPERATING REVENUES	-	-
OPERATING EXPENSES:		
General and administrative expenses	94	93
TOTAL OPERATING EXPENSES	94	93
OPERATING INCOME (LOSS)	(94)	(93)
NON-OPERATING REVENUES (EXPENSES):		
Investment income	24,074	1,327
TOTAL NON-OPERATING REVENUES (EXPENSES)	24,074	1,327
CAPITAL CONTRIBUTIONS	9,968,443	136,805
TRANSFERS	-	2,218,669
CHANGE IN NET POSITION	9,992,423	2,356,708
NET POSITION, beginning of year	2,356,708	-
NET POSITION, end of year	$ 12,349,131	$ 2,356,708

INTERNAL CONTROL AND FISCAL COMPLIANCE

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	$ 1,903,282
TOTAL U.S. DEPT. OF AGRICULTURE			$ 1,903,282
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,903,282

The accompanying notes are an integral part of this schedule.

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hardin County Water District No. 2 under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Hardin County Water District No. 2, it is not intended to and does not present the financial position, changes in net position or cash flows of Hardin County Water District No. 2.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – INDIRECT COST RATE

The District has elected to not use the 10 percent de minimum indirect cost rate allowed under the Uniform Guidance.

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HARDIN COUNTY WATER DISTRICT NO. 2
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

• Material weakness(es) identified?	___X__yes	______none reported
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	______yes	___X__none reported
Noncompliance material to financial statements noted?	______yes	___X__no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	______yes	___X__no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______yes	___X__none reported

Type of auditor's report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______yes	___X__no

Identification of major programs:

CFDA Number	Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

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

Auditee qualified as low-risk auditee? ______yes ___X__no

Section II – Financial Statement Findings

MATERIAL WEAKNESSES

REFERENCE NUMBER 2018-001 FINANCIAL STATEMENT ADJUSTMENT

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 a material adjustment was required to reclassify an item that was capitalized to expense.

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

Effect: The financial statements required adjustment of a material amount.

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.

Views of Responsible Officials: The District agrees with the auditors' comments regarding Financial Statement Adjustment 2018-001. During the year-ended 2018, an item was included in a capital project balance because it was believed, at that time, to be a portion of construction costs. The following action will be taken to improve the process. We will incorporate our Project Department Supervisor and Operations Manager in the final review of all capital project expenditures monthly beginning January 2019. Our accounting department will generate a general ledger journal for each project detailing entries that affect the project balance. After comparing project costs to engineering plans and/or daily construction reports, the District's project department will make recommendations to correct any discrepancies. Revisions to the project costs will be made as needed to ensure the current balance is immediately accurate.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

HARDIN COUNTY WATER DISTRICT NO. 2

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

December 31, 2018

There were no prior year audit findings.

Chris R. Carter, CPA
Ann M. Fisher, CPA
Scott Kisselbaugh, CPA
Philip A. Logsdon, CPA
Brian S. Woosley, CPA

Stiles, Carter & Associates
CERTIFIED PUBLIC ACCOUNTANTS
WWW.SCACPA.COM

American Institute of CPAs
Kentucky Society of CPAs

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, 2018, 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 June 4, 2019.

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.

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 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 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 deficienciesand therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

2901 Ring Road East, P.O. Box 622 · Elizabethtown, KY 42702-0622 / Phone 270-769-6371 · Fax 270-765-7934
120 West Stephen Foster Avenue, #113 · Bardstown, KY 40004 / Phone 502-348-1433 · Fax 502-349-6365

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 questioned costs. 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.

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.
Elizabethtown, Kentucky
June 4, 2019

Chris R. Carter, CPA
Ann M. Fisher, CPA
Scott Kisselbaugh, CPA
Philip A. Logsdon, CPA
Brian S. Woosley, CPA

SCA
Stiles, Carter & Associates
Certified Public Accountants
www.scacpa.com

American Institute of CPAs
Kentucky Society of CPAs

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

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

Report on Compliance for Each Major Federal Program

We have audited Hardin County Water District No. 2's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hardin County Water District No. 2's major federal programs for the year ended December 31, 2018. Hardin County Water District No. 2's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hardin County Water District No. 2's compliance.

Opinion on Each Major Federal Program

In our opinion, Hardin County Water District No. 2 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

2901 Ring Road East, P.O. Box 622 · Elizabethtown, KY 42702-0622 / Phone 270-769-6371 · Fax 270-765-7934
120 West Stephen Foster Avenue, #113 · Bardstown, KY 40004 / Phone 502-348-1433 · Fax 502-349-6365

Report on Internal Control Over Compliance

Management of Hardin County Water District No. 2 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hardin County Water District No. 2's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hardin County Water District No. 2's internal control over compliance.

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

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

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

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.
Elizabethtown, Kentucky
June 4, 2019