

Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 60 Years

1400 Rogersville Road
Radcliff, KY. 40160

April 17, 2013

Mr. Jeff Derouen
Executive Director - Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, KY 40620-0615

RECEIVED

APR 24 2013

PUBLIC SERVICE
COMMISSION

**SUBJECT: Follow-up to Case 2006-00410
Sufficient Income Level Notification**

With the order dated August 2, 2007, in the above case, the Commission requested our District to file an income statement, with sufficient detail, to demonstrate that the approved water rates were still sufficient to meet our operating expenses and debt service requirements (par. 3, pg 14).

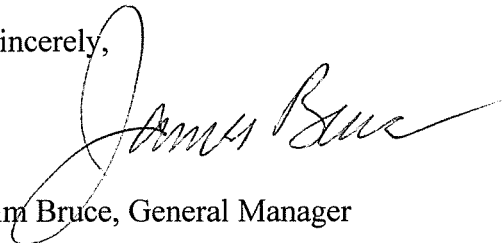
Enclosed you will find our income statement from our 2012 Annual Financial Audit report. We are also including the 5-year budget plan, for the 2013 budget, for our Water Fund. As you can see, our "County Water Fund" (which is the same fund / utility which the approved rates support) had a net positive operating income of \$550,356 (after depreciation / amortized cost expense), which is 13.7 percent of operating revenues. The calculated bond coverage, for water debt, was 3.17 compared to the required 1.20 coverage.

As the Commission is aware and has approved, our District has acquired two additional utility systems since our last water rate case. These acquisitions (Radcliff Sanitary Sewer and Ft. Knox Water) have allowed us to further distribute and allocate certain fixed administrative costs among a larger customer base. This has helped our County Water Fund / Utility avoid another rate increase.

At present time, we have no plans to file a rate increase request for our County Water Fund. Our 5-year budget plan does program a 12% water rate increase in 2015, however an actual amount or year requested will not be known until we complete 2013 and 2014 years.

Please feel free to contact me should you have any questions or need more information.

Sincerely,



Jim Bruce, General Manager

Encl.

Cf; Mr. David Wilson, II - HCWD1 Attorney
Mr. Scott Schmuck, HCWD1 Finance & Accounting Manager

HARDIN COUNTY WATER DISTRICT No. 1
COMBINED WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2012

	<u>County Water</u>	Fort Knox Water	2012 Total	2011 Total
OPERATING REVENUE				
Metered water sales	\$ 3,073,779	\$ 3,464,636	\$ 6,538,415	\$ 3,049,775
Wholesale sales	647,969	-	647,969	635,903
Sewer billing contract revenue	18,335	-	18,335	8,612
Penalties, service fees and reimbursements	<u>287,555</u>	<u>374,552</u>	<u>662,107</u>	<u>291,411</u>
Total operating revenue	<u>4,027,638</u>	<u>3,839,188</u>	<u>7,866,826</u>	<u>3,985,701</u>
OPERATING EXPENSES				
Treatment	777,035	-	777,035	841,684
Distribution	667,160	508,796	1,175,956	648,360
Customer service	249,581	-	249,581	280,777
General & administrative expenses	273,951	2,003,359	2,277,310	529,157
Purchased water	85,289	-	85,289	75,939
General maintenance	91,070	-	91,070	77,861
Source of supply	<u>34,837</u>	<u>-</u>	<u>34,837</u>	<u>36,872</u>
Total operating expense	<u>2,178,923</u>	<u>2,512,155</u>	<u>4,691,078</u>	<u>2,490,650</u>
Operating income before depreciation	1,848,715	1,327,033	3,175,748	1,495,051
Depreciation and amortization expense	<u>(1,038,544)</u>	<u>(411,089)</u>	<u>(1,449,633)</u>	<u>(996,715)</u>
OPERATING INCOME	810,171	915,944	1,726,115	498,336
Non-operating income (expenses)				
Interest income	33,317	10,398	43,715	40,909
Interest expense	(296,635)	-	(296,635)	(305,120)
Gain (loss) on sale of equipment	<u>3,503</u>	<u>(253)</u>	<u>3,250</u>	<u>(17,260)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>550,356</u>	926,089	1,476,445	216,865
Capital Contributions				
Grants	237,953	-	237,953	144,170
Tap fees	41,464	4,869	46,333	64,182
Customer contributions	<u>43,429</u>	<u>13,575,865</u>	<u>13,619,294</u>	<u>330,375</u>
CHANGE IN NET POSITION	873,202	14,506,823	15,380,025	755,592
Net position, beginning of year	<u>22,469,667</u>	<u>-</u>	<u>22,469,667</u>	<u>21,714,075</u>
NET POSITION, END OF YEAR	<u>\$ 23,342,869</u>	<u>\$ 14,506,823</u>	<u>\$ 37,849,692</u>	<u>\$ 22,469,667</u>

Hardin County Water District No. 1

5 Year Financial Forecast - Approved at 12/06/12 Board Meeting

Period: 2013 - 2018

LINE	ITEM	Approved 2012	Approved 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018
WATER UTILITY: (COUNTY WATER - EXCLUDES FT KNOX WATER)								
49	OPERATING REVENUES:							
50	(Rate Increase Proposed)	0.0%	0.0%	0.0%	12.0%	0.0%	0.0%	0.0%
51	Interest on investments	\$ 26,000	\$ 15,700	\$ 9,500	\$ 9,200	\$ 10,500	\$ 11,600	\$ 12,100
52	Customer Meter Charges	\$ 714,000	\$ 713,500	\$ 718,851	\$ 811,152	\$ 817,235	\$ 823,365	\$ 829,540
53	Water Sales:	\$ 3,030,314	\$ 3,006,900	\$ 3,029,452	\$ 3,418,433	\$ 3,444,072	\$ 3,469,902	\$ 3,495,926
54	Residential	\$ 1,904,900	\$ 1,861,600	\$ 1,875,562	\$ 2,116,384	\$ 2,132,257	\$ 2,148,249	\$ 2,164,361
55	Multi-Family	\$ 288,700	\$ 176,100	\$ 177,421	\$ 200,202	\$ 201,703	\$ 203,216	\$ 204,740
56	Commercial	\$ 180,400	\$ 279,200	\$ 281,294	\$ 317,412	\$ 319,793	\$ 322,191	\$ 324,608
57	Wholesale	\$ 656,314	\$ 690,000	\$ 695,175	\$ 784,435	\$ 790,319	\$ 796,246	\$ 802,218
58	Rate Increase Impact	\$ -	\$ -	\$ -	\$ 449,796	\$ -	\$ -	\$ -
59	Other revenues	\$ 313,225	\$ 317,200	\$ 319,579	\$ 321,976	\$ 324,391	\$ 326,824	\$ 329,275
60	TOTAL-OPERATING REVENUES	\$ 4,083,539	\$ 4,053,300	\$ 4,077,382	\$ 4,560,761	\$ 4,596,198	\$ 4,631,690	\$ 4,666,841
61	OPERATING EXPENSES:							
62	Administration Total:	\$ 1,684,570	\$ 1,711,064	\$ 1,842,737	\$ 1,987,955	\$ 2,010,251	\$ 2,144,103	\$ 2,163,039
63	- Other Admin Oper Expenses	\$ 549,197	\$ 525,494	\$ 539,945	\$ 554,794	\$ 570,051	\$ 585,727	\$ 601,835
64	- Fixed Charges	\$ 42,900	\$ 43,600	\$ 44,799	\$ 46,031	\$ 47,297	\$ 48,597	\$ 49,934
65	- Depreciation	\$ 915,732	\$ 954,818	\$ 1,011,000	\$ 1,168,000	\$ 1,202,000	\$ 1,232,000	\$ 1,264,000
66	- Purchased Water	\$ 74,700	\$ 92,000	\$ 92,000	\$ 92,000	\$ 92,000	\$ 92,000	\$ 92,000
67	- Debt Service Interest	\$ 290,500	\$ 281,900	\$ 340,352	\$ 312,489	\$ 284,263	\$ 254,796	\$ 224,288
68	- FKW Allocations (Credit to Water)	\$ (188,460)	\$ (186,748)	\$ (185,359)	\$ (185,359)	\$ (185,359)	\$ (69,017)	\$ (69,017)
69	- New Debt Service Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70	Source of Supply	\$ 31,000	\$ 38,600	\$ 39,700	\$ 40,800	\$ 41,900	\$ 43,100	\$ 44,300
71	Treatment	\$ 768,956	\$ 800,980	\$ 823,000	\$ 845,600	\$ 868,900	\$ 892,800	\$ 917,400
72	Customer Service	\$ 275,199	\$ 269,000	\$ 276,400	\$ 284,000	\$ 291,800	\$ 299,800	\$ 308,000
73	Transmission/Distribution	\$ 679,596	\$ 682,903	\$ 701,700	\$ 721,000	\$ 740,800	\$ 761,200	\$ 782,100
74	Maintenance	\$ 82,227	\$ 81,180	\$ 83,400	\$ 85,700	\$ 88,100	\$ 90,500	\$ 93,000
75	Year End Adjustments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
76	Long Term Lease/Purchase	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
77	Large Repair Proj / Requested Items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
78	TOTAL-OPERATING EXPENSES	\$ 3,521,548	\$ 3,583,727	\$ 3,766,937	\$ 3,965,055	\$ 4,041,751	\$ 4,231,503	\$ 4,307,839
79	NET OPERATING INCOME (LOSS)	\$ 561,991	\$ 469,573	\$ 310,445	\$ 595,706	\$ 554,446	\$ 400,187	\$ 359,002
80	Income Margin (Income to Revenues)	13.8%	11.6%	7.6%	13.1%	12.1%	8.6%	7.7%
81	Bond Coverage Calculation:							
82	Debt Service (FR)	\$ 493,069	\$ 603,169	\$ 603,169	\$ 598,319	\$ 598,056	\$ 597,175	\$ 597,175
83	Available Coverage	\$ 1,729,124	\$ 1,664,090	\$ 1,612,752	\$ 2,027,150	\$ 1,991,664	\$ 1,837,938	\$ 1,798,245
84	Bond Coverage Ratio ->	3.51	2.76	2.67	3.39	3.33	3.08	3.01
85	Required Ratio ->	1.20	1.20	1.20	1.20	1.20	1.20	1.20
86	\$ Excess/(Shortage)	\$ 1,236,055	\$ 1,060,922	\$ 1,009,583	\$ 1,428,832	\$ 1,393,608	\$ 1,240,763	\$ 1,201,070
87	Debt Service (Subord)	\$ 299,100	\$ 302,200	\$ 384,184	\$ 392,033	\$ 379,433	\$ 367,088	\$ 367,088
88	Surplus / (Shortage)	\$ 936,955	\$ 758,722	\$ 625,399	\$ 1,036,799	\$ 1,014,175	\$ 873,675	\$ 833,982
89	Rate Adj Req'd ->	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
90	Operating Ratio ->	86.24	88.42	92.39	86.94	87.94	91.36	92.31
91	SOURCE OF FUNDS:							
92	Net Operating Income (Loss)	\$ 561,991	\$ 469,573	\$ 310,445	\$ 595,706	\$ 554,446	\$ 400,187	\$ 359,002
93	Depreciation Expense	\$ 915,732	\$ 954,818	\$ 1,011,000	\$ 1,168,000	\$ 1,202,000	\$ 1,232,000	\$ 1,264,000
94	Other Non-Cash Amortized Costs	\$ 89,600	\$ 79,500	\$ 79,500	\$ 79,500	\$ 79,500	\$ 79,500	\$ 79,500
95	WME Advance Payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
96	Water Connection Charges	\$ 75,000	\$ 50,000	\$ 75,000	\$ 112,500	\$ 140,625	\$ 175,781	\$ 219,727
97	Use of Reserves	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
98	New Bond / Loan Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
99	Grant Proceeds	\$ 1,132,000	\$ 1,382,000	\$ 4,158,000	\$ -	\$ -	\$ -	\$ -
100	Year-end cash adjustments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
101	TOTAL-SOURCES	\$ 2,774,324	\$ 2,935,890	\$ 5,633,945	\$ 1,955,706	\$ 1,976,571	\$ 1,887,469	\$ 1,922,228

Hardin County Water District No. 1

5 Year Financial Forecast - Approved at 12/06/12 Board Meeting

Period: 2013 - 2018

LINE	ITEM	Approved 2012	Approved 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018
102	USE OF FUNDS:							
103	Source of Supply	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
104	General Plant	\$ 48,859	\$ 131,166	\$ 100,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
105	Treatment	\$ 104,570	\$ 116,524	\$ 10,000	\$ 10,000	\$ 15,000	\$ 50,000	\$ 50,000
106	Distribution/Transmission	\$ 1,457,810	\$ 1,152,085	\$ 4,658,000	\$ 600,000	\$ 750,000	\$ 750,000	\$ 750,000
107	AMR Program	\$ 283,333	\$ 283,333	\$ 283,333	\$ 283,333	\$ -	\$ -	\$ -
108	Capitalized HCWD1 Salaries	\$ 181,418	\$ 180,503	\$ 185,467	\$ 190,568	\$ 195,808	\$ 201,193	\$ 206,726
109	Capital Improvements (Total):	\$ 2,075,990	\$ 1,863,612	\$ 5,236,801	\$ 1,133,901	\$ 1,010,808	\$ 1,051,193	\$ 1,056,726
110	Bond Principal Payments	\$ 500,000	\$ 620,000	\$ 620,000	\$ 650,000	\$ 665,000	\$ 680,000	\$ 705,000
111	ST Loan Principal Payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
112	WME Reimbursements	\$ 33,334	\$ 26,668	\$ 20,002	\$ 13,336	\$ 6,670	\$ -	\$ -
113	TOTAL-USES	\$ 2,609,324	\$ 2,510,280	\$ 5,876,803	\$ 1,797,237	\$ 1,682,478	\$ 1,731,193	\$ 1,761,726
114	WORKING CAPITAL SUMMARY:							
115	Beginning Balance-Working Capital	\$ 1,045,000	\$ 1,210,000	\$ 1,635,610	\$ 1,392,753	\$ 1,551,222	\$ 1,845,315	\$ 2,001,591
116	Increase <Decrease>	\$ 165,000	\$ 425,610	\$ (242,857)	\$ 158,469	\$ 294,093	\$ 156,276	\$ 160,503
117	% Cash Incr of Total Revenues	4.0%	10.5%	-6.0%	3.5%	6.4%	3.4%	3.4%
118	Ending Balance-Working Capital	\$ 1,210,000	\$ 1,635,610	\$ 1,392,753	\$ 1,551,222	\$ 1,845,315	\$ 2,001,591	\$ 2,162,094
119	Desired Balance (4 Mos O&M + Debt)	\$ 995,351	\$ 1,045,905	\$ 1,448,000	\$ 1,523,000	\$ 1,553,000	\$ 1,621,000	\$ 1,654,000
120	Over <Under>	\$ 214,649	\$ 589,705	\$ (55,247)	\$ 28,222	\$ 292,315	\$ 380,591	\$ 508,094

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 3 – CAPITAL ASSETS

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

	Balance			Balance
	Jan 1, 2012	Additions	Retirements	Dec. 31, 2012
Capital assets not depreciated:				
Land and easements	\$ 282,589	\$ -	\$ -	\$ 282,589
Construction in process	2,923,721	5,100,100	2,015,060	6,008,761
Capital assets that are depreciated:				
Plant and lines	147,776,949	10,884,307	181,540	158,479,716
Vehicles and equipment	<u>6,665,731</u>	<u>1,621,452</u>	<u>62,468</u>	<u>8,224,715</u>
Total plant and equipment	157,648,990	17,605,859	2,259,068	172,995,781
Less: accumulated depreciation	<u>87,903,807</u>	<u>3,014,979</u>	<u>135,551</u>	<u>90,783,235</u>
Plant and equipment, net	<u>\$ 69,745,183</u>	<u>\$ 14,590,880</u>	<u>\$ 2,123,517</u>	<u>\$ 82,212,546</u>

Depreciation expense for all combined funds totaled \$3,014,979 for the year ended December 31, 2012.

NOTE 4 - COMPLIANCE WITH BOND INDENTURE

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

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

Bond Reserve Fund - This fund shall receive, on a monthly basis, within five years of the issue date, an amount equal to the average annual principal and interest requirements on the 2005 issue outstanding. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. At December 31, 2012, the District had reserves of \$594,307 invested with the bond custodian. At December 31, 2012, the requirement for the reserve totaled \$594,457.

Depreciation Fund - This fund receives \$8,500 monthly after the above transfers have been made until the total sum of \$750,000 has been established and maintained. This fund also receives the proceeds from the sale of any property and equipment. This fund may be used to purchase new or replacement property and equipment. Monies from this account are held by the bond custodian. At December 31, 2012, the District was required to fund the account in the amount of \$750,000 and the assets in this account totaled \$752,031.

Operating and Maintenance Fund - This fund receives, on a monthly basis, the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. Any surplus left, after operating expenses have been met, may be added to Debt Service Reserve.

Wastewater Revolving Loan Reserve – This loan requires the District to fund a reserve account in the amount of \$310,000. At December 31, 2012, the District had funded this reserve in the amount of \$338,723.

2002 Adjustable Revenue Bonds – The District filed Supplement No.1 to Trust Indenture dated April 1, 2010. This supplement allows for a letter of credit to be issued by Cecilian Bank via a wrap around letter of credit from the Federal Home Loan Bank of Cincinnati as collateral for the original bond issue. As a result, the District is no longer required to fulfill the debt service reserve and depreciation fund requirements with The Bank of New York Mellon Trust Company however, the District continues to carry \$86,667 in an account for this bond issue.

The bond ordinance calls for "net annual revenues" to exceed the maximum annual debt requirements of fixed rate bonds by 1.20 for the Water Fund. For the year ended December 31, 2012, the water fund ratio was 3.17.