

PUBLIC SERVICE COMMISSION  
ANNUAL REPORT BRANCH  
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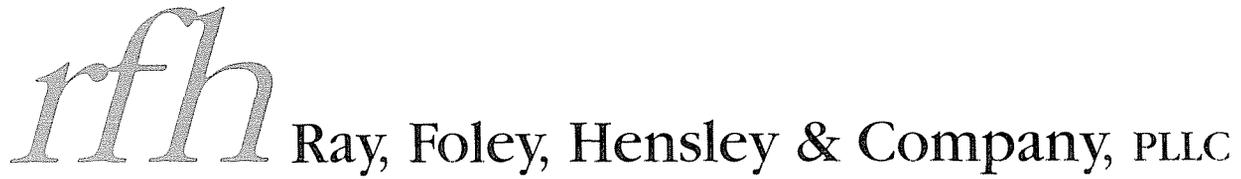
**OLDHAM COUNTY WATER DISTRICT**  
**Buckner, Kentucky**

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**FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

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**INDEPENDENT AUDITORS' REPORT**

J. Carroll Luby, CPA

Board of Commissioners  
Oldham County Water District  
Buckner, Kentucky

We have audited the accompanying balance sheets of Oldham County Water District as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oldham County Water District as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 21, 2012, on our consideration of the Oldham County Water District'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** and should be read in conjunction with this report in considering the results of our audit.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC

March 21, 2012

**OLDHAM COUNTY WATER DISTRICT  
BALANCE SHEETS  
December 31,**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>Current assets</b>		
Cash	\$ 5,012,865	\$ 3,839,809
Accounts receivable customers, net	568,589	458,262
Prepaid expenses	122,808	129,324
Inventory	<u>119,722</u>	<u>318,491</u>
<b>Total current assets</b>	<u><b>5,823,984</b></u>	<u><b>4,745,886</b></u>
<b>Restricted cash</b>		
Sinking fund	1,578,454	1,178,055
Depreciation fund	133,600	117,682
Meter deposits	91,723	90,752
Construction	<u>5,289,397</u>	<u>7,525,867</u>
<b>Total restricted assets</b>	<u><b>7,093,174</b></u>	<u><b>8,912,356</b></u>
<b>Capital assets</b>		
Land and land rights	1,169,981	1,077,745
Plant and equipment	39,131,329	29,928,735
Construction in progress	<u>1,415,004</u>	<u>7,685,438</u>
<b>Total capital assets</b>	<b>41,716,314</b>	<b>38,691,918</b>
Less: accumulated depreciation	<u>(14,034,154)</u>	<u>(13,373,398)</u>
<b>Total capital assets, net</b>	<u><b>27,682,160</b></u>	<u><b>25,318,520</b></u>
<b>Other assets</b>		
Unamortized bond discounts	132,144	142,850
Deferred project costs	<u>62,606</u>	<u>80,494</u>
<b>Total other assets</b>	<u><b>194,750</b></u>	<u><b>223,344</b></u>
<b>Total assets</b>	<u><b>\$ 40,794,068</b></u>	<u><b>\$ 39,200,106</b></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 127,096	\$ 67,831
Construction payable	14,772	862,705
Tax collections payable	10,006	13,299
Other collections payable	60,822	58,648
Accrued payroll and taxes	4,519	4,152
Other accrued expenses	48,193	49,644
Accrued interest	99,250	21,004
Current portion of long-term debt	<u>480,500</u>	<u>465,500</u>
<b>Total current liabilities</b>	<b>845,158</b>	<b>1,542,783</b>
<b>Other liabilities</b>		
Unamortized bond premiums	180,603	199,241
<b>Long-term debt</b>		
Bonds payable	8,420,100	8,857,600
Bond anticipation loan	<u>9,000,000</u>	<u>9,000,000</u>
<b>Total liabilities</b>	<u><b>18,445,861</b></u>	<u><b>19,599,624</b></u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	9,682,310	6,995,420
Restricted for debt service	1,578,454	1,178,055
Restricted for depreciation	133,600	117,682
Unrestricted	<u>10,953,843</u>	<u>11,309,325</u>
<b>Total net assets</b>	<u><b>22,348,207</b></u>	<u><b>19,600,482</b></u>
<b>Total liabilities and net assets</b>	<u><b>\$ 40,794,068</b></u>	<u><b>\$ 39,200,106</b></u>

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

**OLDHAM COUNTY WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
for the years ended December 31,**

	<b>2011</b>	<b>2010</b>
<b>OPERATING INCOME</b>		
Water sales	\$ 4,714,751	\$ 4,816,554
Other revenue	<u>199,292</u>	<u>176,218</u>
Total operating income	<u>4,914,043</u>	<u>4,992,772</u>
<b>OPERATING EXPENSES</b>		
Water supply	143,779	139,540
Water treatment	401,095	308,507
Transmission and distribution	520,224	458,803
Customer accounts	656,037	694,737
General and administrative	<u>820,039</u>	<u>730,523</u>
Total operating expense	<u>2,541,174</u>	<u>2,332,110</u>
Operating income before depreciation and amortization	2,372,869	2,660,662
Depreciation expense	(661,131)	(480,904)
Amortization expense	(28,594)	(28,594)
Amortization of debt premiums	<u>18,638</u>	<u>18,638</u>
Total depreciation and amortization expense	<u>(671,087)</u>	<u>(490,860)</u>
<b>OPERATING INCOME</b>	<u>1,701,782</u>	<u>2,169,802</u>
Non-operating income (expenses)		
Interest income	71,434	54,121
Interest expense	(335,922)	(247,910)
Contract revenues	34,749	34,984
Fees	<u>(10,160)</u>	<u>(10,975)</u>
Total non-operating expense	<u>(239,899)</u>	<u>(169,780)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	1,461,883	2,000,022
Capital contributions		
Customer contributions	45,841	55,216
Grants	<u>1,240,001</u>	<u>395,832</u>
<b>CHANGE IN NET ASSETS</b>	2,747,725	2,451,070
Net assets, beginning of year	<u>19,600,482</u>	<u>17,149,412</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 22,348,207</u>	<u>\$ 19,600,482</u>

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

**OLDHAM COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
for the years ended December 31,**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 4,803,716	\$ 4,964,649
Payments to suppliers	(919,341)	(1,051,326)
Payments for employee services and benefits	<u>(1,359,486)</u>	<u>(1,241,506)</u>
<b>Net cash provided by operating activities</b>	<u>2,524,889</u>	<u>2,671,817</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Retirement of note principal	(422,500)	(407,500)
Interest paid	(257,376)	(246,679)
Contract service income	34,749	34,984
Loan service fees paid	(10,160)	(10,975)
Bond closing costs paid	-	(23,774)
Customer contributions	45,841	55,216
Proceeds from grants	1,240,001	395,832
Proceeds from debt	-	13,243,100
Proceeds from sale of equipment	-	2,335
Acquisition and construction of capital assets	<u>(3,873,004)</u>	<u>(6,630,568)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(3,242,449)</u>	<u>6,411,971</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturity of certificates of deposit	-	1,553,874
Interest income	<u>71,434</u>	<u>54,121</u>
<b>Net cash provided by investing activities</b>	<u>71,434</u>	<u>1,607,995</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(646,126)	10,691,783
Cash, beginning of year	<u>12,752,165</u>	<u>2,060,382</u>
<b>CASH, END OF YEAR</b>	<u>\$ 12,106,039</u>	<u>\$ 12,752,165</u>
<b>Reconciliation of operating income to net cash provided (used in) operating activities:</b>		
Operating income	\$ 1,701,782	\$ 2,169,802
Noncash items included in operating income		
Depreciation	661,131	480,904
Amortization	9,956	9,956
Gain on Sale	-	(1,335)
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	(110,327)	(23,326)
(Increase) decrease in other prepaids	6,516	2,734
(Increase) decrease in inventory	198,769	50,763
Increase (decrease) in reimbursements	-	(3,462)
Increase (decrease) in accounts payable	59,265	(8,555)
Increase (decrease) in other liabilities	<u>(2,203)</u>	<u>(5,664)</u>
<b>Net cash provided by operating activities</b>	<u>\$ 2,524,889</u>	<u>\$ 2,671,817</u>
Schedule of non-cash capital and financing activities:		
Construction in process included in accounts payable	<u>\$ 14,772</u>	<u>\$ 862,705</u>

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

**OLDHAM COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

The Oldham County Water District was created by the order of the county Judge Executive of Oldham County, Kentucky, on April 16, 1979. The order approved the merger of the existing Ohio River – Oldham Water District and the Oldham County Water District No. 3. The Waterworks system of the District is owned and operated by the District under the provisions of Chapters 74 and 106 and Sections 96.350 through 96.510, inclusive, of the Kentucky Revised Statutes.

**Reporting Entity**

The Oldham County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The entities included in the financial statements are the general operations of the District.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

**Basis of Accounting**

The District's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*"

The net assets of the District are classified into three categories; invested in capital assets net of related debit, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 3.

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

The District applies all applicable FASB and AICPA pronouncements issued on or before November 30, 1989 that are not in conflict with applicable GASB pronouncements.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, gains and losses on disposal of assets, and capital contributions.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with a maturity of less than 90 days.

**Accounts Receivable**

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserve for both 2011 and 2010 is \$2,043.

**OLDHAM COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

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**1. ORGANIZATION AND ACCOUNTING POLICIES, continued**

**Inventory**

The district's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance and repairs and new water lines. The inventory is stated at the lower of cost (first-in, first-out method) or market.

**Property and Equipment**

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset. Land and land rights are not subject to depreciation. Interest expense incurred during construction of fixed assets is capitalized. The estimated useful lives for plant and equipment range from 10-62.5 years.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**2. CASH AND INVESTMENTS**

The Oldham County Water District's deposits and investments at December 31, 2011 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

The statement of cash flows includes the following:

	<b>2011</b>	<b>2010</b>
Cash	\$ 5,012,865	\$ 3,839,809
Restricted Cash	<u>7,093,174</u>	<u>8,912,356</u>
	<u>\$ 12,106,039</u>	<u>\$ 12,752,165</u>

The following is a detail of the District's cash deposit coverage at December 31, 2011:

FDIC insured (or equivalent)	\$ 315,809
Collateralized by securities held by the bank in the District's name	6,783,326
US Treasury Securities	<u>5,249,159</u>
Total	<u>\$ 12,348,294</u>

**OLDHAM COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**3. RESERVE FUNDS**

The District chooses to maintain certain reserves as follows:

Sinking Fund Reserve - This reserve was originally established to satisfy the debt requirements of the Farmers Home Administration bond issue of 1976. Upon satisfying this debt, the sinking fund requirements were also released. The District chose to voluntarily continue making contributions to this fund in order to satisfy its current debt payments system until 2011 when the Rural Development bond issue made this a requirement once again. The bond issue requires 1/12 of the debt service requirements of the bonds for the ensuing year or \$12,128 per month for the year ended December 31, 2011. The District is funding the sinking fund in the amount of \$16,875 per month to fulfill the bond requirements. The sinking fund reserve had a balance of \$1,578,454 and \$1,178,055 at December 31, 2011 and 2010, respectively.

Depreciation Reserve Fund - This reserve was originally established to satisfy the bond resolution for the 1981 Series bonds. Upon retiring these bonds, the funding requirements for this fund were also released. The District chose to voluntarily continue to fund this reserve for future repairs and maintenance as well as capital project needs until 2011 when the Rural Development bond issue made this a requirement once again. There are no specific monthly or yearly required deposits for the depreciation reserve. The District is funding the depreciation reserve in the amount of \$20,000 per month to fulfill the bond requirements. The depreciation reserve fund had a balance of \$133,600 and \$117,682 at December 31, 2011, and 2010, respectively.

**4. CAPITAL ASSETS**

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

	<b>Balance Dec. 31, 2010</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance Dec. 31, 2011</b>
Capital assets not depreciated:				
Land & land rights	\$ 1,077,745	\$ 92,236	\$ -	\$ 1,169,981
Construction in process	<u>7,685,138</u>	<u>1,245,092</u>	<u>(7,515,226)</u>	<u>1,415,004</u>
Totals	8,762,883	1,337,328	(7,515,226)	2,584,985
Capital assets that are depreciated:				
Plant & equipment	29,928,735	9,202,969	(375)	39,131,329
Less: Accumulated Depreciation	<u>(13,373,398)</u>	<u>(661,131)</u>	<u>375</u>	<u>(14,034,154)</u>
Totals	16,555,337	8,541,838	-	25,097,175
Capital assets, net	<u>\$ 25,318,220</u>	<u>\$ 9,879,166</u>	<u>\$ (7,515,226)</u>	<u>\$ 27,682,160</u>

**OLDHAM COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**5. OPERATING LEASE**

The District leases a trailer for temporary office space. The agreement expired in November 2007 with monthly payments required in the amount of approximately \$1,060. As part of the original agreement, the District has exercised the option to continuing renting this space on a month-to-month basis. The District also rents equipment and other items on an as needed basis. Total rental expense for the years ended December 31, 2011 and 2010 totaled \$13,786 and \$14,838, respectively.

**6. LONG-TERM DEBT**

The following is a summary of the bonds and notes outstanding for the district for the year ended December 31, 2011:

	<b>2011</b>	<b>2010</b>
Kentucky Infrastructure Authority - \$2,410,000, refinanced 6/1/04 with payments through 2018, bearing interest at a rate of 2.50%.	\$ 1,337,500	\$ 1,490,000
Kentucky Infrastructure Authority - \$775,000 refinanced 6/1/04 with payments through 2018, bearing interest at a rate of 2.50%	407,500	460,000
Kentucky Infrastructure Authority - \$4,355,000, refinanced 6/1/04 with payments through 2018, bearing interest at a rate of 2.50%.	2,912,500	3,130,000
Kentucky Rural Water Association - \$9,000,000, financed 1/25/10 with payment due at bond closing, bearing interest at a rate of 2.90%.	9,000,000	9,000,000
USDA, Rural Development - \$4,243,100, refinanced 12/31/10 with payments through 2049, bearing interest at a rate of 3.75%.	<u>4,243,100</u>	<u>4,243,100</u>
	17,900,600	18,323,100
Less Current Portion	<u>480,500</u>	<u>465,500</u>
Total Long-term Debt	<u>\$ 17,420,100</u>	<u>\$ 17,857,600</u>

A summary of changes in long-term debt follows:

	<b>December 31, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2011</b>
Long-term debt	<u>\$ 18,323,100</u>	<u>\$ -</u>	<u>\$ (422,500)</u>	<u>\$ 17,900,600</u>

**OLDHAM COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**6. LONG-TERM DEBT, continued**

The Kentucky Rural Water Association loan of \$9,000,000 is interim financing. It will be refinanced through Series 2010B Bonds in 2012 with the US Department of Agriculture, Rural Development. The repayment for this portion of the long-term debt has not been included in the schedule below, as the repayment terms have not been settled.

The annual requirements to amortize all bonds outstanding, as of December 31, 2011 are as follows:

Year Ending December 31,	Principal	Gross Interest	35% Discount	Net Interest	Service Fees	Total
2012	\$ 480,500	\$ 373,308	\$ 55,562	\$ 317,746	\$ 9,306	\$ 807,552
2013	507,500	349,435	54,833	294,602	8,436	810,538
2014	537,000	323,422	54,230	269,192	7,512	813,704
2015	541,500	299,057	53,600	245,457	6,534	793,491
2016	543,500	277,596	53,088	224,508	5,556	773,564
2017-2021	2,407,500	1,012,734	253,845	758,889	12,770	3,179,159
2022-2026	540,000	671,075	232,124	438,951	336	979,287
2027-2031	464,000	585,266	204,843	380,423	-	844,423
2032-2036	581,000	481,862	168,652	313,210	-	894,210
2037-2041	728,000	351,609	123,063	228,546	-	956,546
2042-2046	914,000	194,789	68,176	126,613	-	1,040,613
2047-2049	656,100	29,655	10,379	19,276	-	675,376
<b>Total</b>	<b><u>\$ 8,900,600</u></b>	<b><u>\$ 4,949,808</u></b>	<b><u>\$ 1,332,395</u></b>	<b><u>\$ 3,617,413</u></b>	<b><u>\$ 50,450</u></b>	<b><u>\$ 12,568,463</u></b>

The 35% Discount is a reimbursement available to the District each time they make an interest payment on the Rural Development bonds. They apply for the reimbursement through the Department of Treasury.

**7. RETIREMENT PLAN**

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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

Contributions – For the year ended December 31, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 6.00% if hired after September 1, 2008. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

**OLDHAM COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

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**7. RETIREMENT PLAN, continued**

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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2011, participating employers contributed 16.93% through June 30 and 18.96% thereafter, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employer and employee) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 145,379	100%
2010	\$ 127,414	100%
2009	\$ 111,787	100%

**8. CONSTRUCTION IN PROGRESS**

The continuing growth of Oldham County has forced the District to develop a plan to substantially increase the water distribution system. Future plans call for the construction of additional wells, distribution lines from the water treatment plant, expansion of the water treatment plant and more water storage. These additions are planned to be done in phases.

Phase I contains improvements to the water treatment plant, improvements to pumping stations, raw water lines from the wells to the treatment plant, two more wells and water distribution mains. Phase I is complete.

Phase II improvements propose the elimination of a pump station and the addition and upsize of water distribution mains. The projected cost for these improvements is approximately \$7,000,000.

Phase III improvements propose two new storage tanks, two new wells, and the elimination of one pump station and distribution main. The projected cost for these improvements is approximately \$12,020,000.

This project is being funded by the new bond series issued in 2010 and to be issued in 2012.

**9. RISK MANAGEMENT**

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

**10. RECLASSIFICATION**

Certain items on the statements of cash flows have been reclassified in the prior year to fit the current year presentation.

**11. SUBSEQUENT EVENTS**

The District has evaluated and considered the need to recognize or disclose subsequent events through March 21, 2012, which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2011, have not been evaluated by the District.

**OLDHAM COUNTY WATER DISTRICT  
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
Oldham County Water District  
Buckner, Kentucky

We have audited the financial statements of the Oldham County Water District (the "District") as of and for the year ended December 31, 2011, and have issued our report thereon dated March 21, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a material weakness in internal control over financial reporting (2011-1).

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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*.

Oldham County Water District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Oldham County Water District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley & Company*  
Ray, Foley, Hensley & Company, PLLC  
March 21, 2012

**OLDHAM COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2011**

**FINDING:**

2011-1 (recurring)

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

**RESPONSE:**

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

**OLDHAM COUNTY WATER DISTRICT  
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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Board of Commissioners  
Oldham County Water District  
Buckner, Kentucky

Compliance

We have audited the Oldham County Water District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Oldham County Water District's major federal programs for the year ended December 31, 2011. The Oldham County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Oldham County Water District's management. Our responsibility is to express an opinion on the Oldham County Water District's compliance based on our audit.

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 OMB Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Oldham County Water District's compliance with those requirements and performing such other procedures, as we considered necessary in these circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Oldham County Water District's compliance with those requirements.

In our opinion, the Oldham County Water District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the Oldham County Water District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Oldham County Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Oldham County Water District'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.

**OLDHAM COUNTY WATER DISTRICT  
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

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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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of management, Board of Commissioners, and appropriate federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
March 21, 2012

**OLDHAM COUNTY WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2011**

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GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Expenditures
<b>U.S. Department of Agriculture</b>			
Rural Development - Direct Award			
ARRA - Rural Utilities Service			
Water and Waste Disposal Systems for Rural Communities	10.781		\$ 1,413,584 *
<b>U.S. Department of Homeland Security</b>			
Passed through Kentucky Department of Military Affairs			
Division of Emergency Management			
Disaster Relief Grant	97.036	FEMA-1976-DR-KY	<u>18,500</u>
Total expenditures			<u>\$ 1,432,084</u>

Notes:

\* - Denotes Major Program

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Oldham County Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**OLDHAM COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended December 31, 2011**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Non-compliance material to financial statements noted	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Federal Awards:

Internal control over major programs:

Material weaknesses identified	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

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

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.781	Water and Waste Disposal Systems for Rural Communities - ARRA

Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
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Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

Internal control over financial reporting, finding 2011-1, page 13.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

NONE