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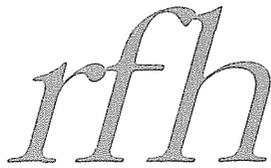
PUBLIC SERVICE
COMMISSION

OLDHAM COUNTY WATER DISTRICT
Buckner, Kentucky

FINANCIAL STATEMENTS
December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Oldham County Water District as of and for the years ended December 31, 2012 and 2011, 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.

Auditors' Responsibility

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Oldham County Water District, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated March 21, 2013 on our consideration of the Oldham County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the Oldham County Water District's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 21, 2013

OLDHAM COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31,

ASSETS	2012	2011
Current assets		
Cash	\$ 5,151,779	\$ 5,012,865
Accounts receivable customers, net	530,536	568,589
Construction receivable	47,241	-
Prepaid expenses	191,696	122,808
Inventory	<u>341,988</u>	<u>119,722</u>
Total current assets	<u>6,263,240</u>	<u>5,823,984</u>
Restricted cash		
Sinking fund	1,889,706	1,578,454
Depreciation fund	276,005	133,600
Meter deposits	92,246	91,723
Construction	<u>2,392,863</u>	<u>5,289,397</u>
Total restricted assets	<u>4,650,820</u>	<u>7,093,174</u>
Capital assets		
Land and land rights	1,233,686	1,169,981
Plant and equipment	39,075,860	39,131,329
Construction in progress	<u>5,292,761</u>	<u>1,415,004</u>
Total capital assets	45,602,307	41,716,314
Less: accumulated depreciation	<u>(14,041,456)</u>	<u>(14,034,154)</u>
Total capital assets, net	<u>31,560,851</u>	<u>27,682,160</u>
Other assets		
Unamortized bond discounts	120,358	132,144
Deferred project costs	<u>44,718</u>	<u>62,606</u>
Total other assets	<u>165,076</u>	<u>194,750</u>
Total assets	<u>\$ 42,639,987</u>	<u>\$ 40,794,068</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 98,613	\$ 127,096
Construction payable	47,241	14,772
Tax collections payable	9,974	10,006
Other collections payable	78,929	60,822
Accrued payroll and taxes	19,689	4,519
Other accrued expenses	42,685	48,193
Accrued interest	97,320	99,250
Current portion of long-term debt	<u>507,500</u>	<u>480,500</u>
Total current liabilities	901,951	845,158
Other liabilities		
Unamortized bond premiums	161,965	180,603
Long-term debt		
Long-term debt payable	7,912,600	8,420,100
Bond anticipation loan	<u>9,000,000</u>	<u>9,000,000</u>
Total liabilities	<u>17,976,516</u>	<u>18,445,861</u>
Net position		
Invested in capital assets, net of related debt	14,043,431	9,682,310
Restricted for debt service	1,889,706	1,578,454
Restricted for depreciation	276,005	133,600
Unrestricted	<u>8,454,329</u>	<u>10,953,843</u>
Total net position	<u>24,663,471</u>	<u>22,348,207</u>
Total liabilities and net position	<u>\$ 42,639,987</u>	<u>\$ 40,794,068</u>

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

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

	2012	2011
OPERATING INCOME		
Water sales	\$ 4,741,463	\$ 4,714,751
Other revenue	<u>207,898</u>	<u>234,041</u>
Total operating income	<u>4,949,361</u>	<u>4,948,792</u>
OPERATING EXPENSES		
Water supply	177,967	143,779
Water treatment	404,686	401,095
Transmission and distribution	557,630	520,224
Customer accounts	691,089	656,037
General and administrative	<u>785,101</u>	<u>820,039</u>
Total operating expense	<u>2,616,473</u>	<u>2,541,174</u>
Operating income before depreciation and amortization	2,332,888	2,407,618
Depreciation expense	(732,156)	(661,131)
Amortization expense	(29,674)	(28,594)
Amortization of debt premiums	<u>18,638</u>	<u>18,638</u>
Total depreciation and amortization expense	<u>(743,192)</u>	<u>(671,087)</u>
OPERATING INCOME	<u>1,589,696</u>	<u>1,736,531</u>
Non-operating income (expenses)		
Interest income	49,315	71,434
Interest expense	(325,734)	(346,082)
Loss on disposal of assets	<u>(16,340)</u>	<u>-</u>
Total non-operating (expense)	<u>(292,759)</u>	<u>(274,648)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,296,937	1,461,883
Capital contributions		
Customer contributions	83,328	45,841
Grants	<u>934,999</u>	<u>1,240,001</u>
CHANGE IN NET POSITION	2,315,264	2,747,725
Net position, beginning of year	<u>22,348,207</u>	<u>19,600,482</u>
NET POSITION, END OF YEAR	<u>\$ 24,663,471</u>	<u>\$ 22,348,207</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,**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,940,173	\$ 4,838,465
Contract service income		
Payments to suppliers	(1,328,514)	(919,341)
Payments for employee services and benefits	<u>(1,387,561)</u>	<u>(1,359,486)</u>
Net cash provided by operating activities	<u>2,224,098</u>	<u>2,559,638</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Retirement of note principal	(480,500)	(422,500)
Interest paid	(318,349)	(257,376)
Loan service fees paid	(9,315)	(10,160)
Customer contributions	83,328	45,841
Proceeds from grants	934,999	1,240,001
Proceeds from sale of equipment	89,025	-
Acquisition and construction of capital assets	<u>(4,876,041)</u>	<u>(3,873,004)</u>
Net cash (used in) capital and related financing activities	<u>(4,576,853)</u>	<u>(3,277,198)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>49,315</u>	<u>71,434</u>
Net cash provided by investing activities	<u>49,315</u>	<u>71,434</u>
NET (DECREASE) IN CASH	(2,303,440)	(646,126)
Cash, beginning of year	<u>12,106,039</u>	<u>12,752,165</u>
CASH, END OF YEAR	<u>\$ 9,802,599</u>	<u>\$ 12,106,039</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 1,589,696	\$ 1,736,531
Noncash items included in operating income		
Depreciation	732,156	661,131
Amortization	11,036	9,956
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	(9,188)	(110,327)
(Increase) decrease in other prepaids	(68,888)	6,516
(Increase) decrease in inventory	(29,968)	198,769
Increase (decrease) in accounts payable	(28,483)	59,265
Increase (decrease) in other liabilities	<u>27,737</u>	<u>(2,203)</u>
Net cash provided by operating activities	<u>\$ 2,224,098</u>	<u>\$ 2,559,638</u>
Schedule of non-cash capital and financing activities:		
Construction in process included in accounts payable	<u>\$ 49,223</u>	<u>\$ 14,772</u>

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

**OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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 only entity included in these financial statements is 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 position of the District is classified into three categories; invested in capital assets net of related debit, restricted and unrestricted. The restricted net position consists of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system, in addition to customer deposits. 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 first.

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 an initial maturity of less than 90 days.

Accounts Receivable

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserve had a balance of \$40,043 and \$2,043 at December 31, 2012 and 2011, respectively.

**OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

1. ORGANIZATION AND ACCOUNTING POLICIES, continued

Inventory

The district's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance, 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 to 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, 2012 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:

	2012	2011
Cash	\$ 5,151,779	\$ 5,012,865
Restricted Cash	<u>4,650,820</u>	<u>7,093,174</u>
	<u>\$ 9,802,599</u>	<u>\$ 12,106,039</u>

The following is a detail of the District's cash deposit coverage at December 31, 2012:

FDIC insured (or equivalent)	\$ 325,730
Collateralized by securities held by the bank in the District's name	7,450,365
US Treasury Securities	<u>2,397,447</u>
Total	<u>\$ 10,173,542</u>

**OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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 subsequent years principal payments and 1/6 of the subsequent years interest payments monthly, or \$12,236 per month for the year ended December 31, 2012. The District is also required to contribute to a sinking fund reserve by KIA for the District's debt associated with their KIA loans. The loans require 1/12 of the subsequent years principal and interest payments monthly, or \$55,309 per month for the year ended December 31, 2012. The total amount required to be reserved for the sinking fund reserve is \$810,540 for the year ended December 31, 2012. The sinking fund reserve had a balance of \$1,889,706 and \$1,578,454 at December 31, 2012 and 2011, 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 2012 when the Rural Development bond issue made this a requirement once again. The District is required to deposit \$1,995 per month until the account reaches \$239,340. The depreciation reserve fund requirement was \$23,940 and \$0 as of December 31, 2012 and 2011. The depreciation reserve fund had a balance of \$276,005 and \$133,600 at December 31, 2012, and 2011, respectively.

4. CAPITAL ASSETS

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

	Balance Dec. 31, 2011	Additions	Disposals	Balance Dec. 31, 2012
Capital assets not depreciated:				
Land & land rights	\$ 1,169,981	\$ 81,205	\$ (17,500)	\$ 1,233,686
Construction in process	<u>1,415,004</u>	<u>4,557,643</u>	<u>(679,885)</u>	<u>5,292,761</u>
Totals	2,584,985	4,638,848	(697,385)	6,526,447
Capital assets that are depreciated:				
Plant & equipment	39,131,329	949,548	(1,005,017)	39,075,860
Less: Accumulated depreciation	<u>(14,034,154)</u>	<u>(732,156)</u>	<u>724,854</u>	<u>(14,041,456)</u>
Totals	<u>25,097,175</u>	<u>217,392</u>	<u>(280,163)</u>	<u>25,034,404</u>
Capital assets, net	<u>\$ 27,682,160</u>	<u>\$ 4,856,240</u>	<u>\$ (977,548)</u>	<u>\$ 31,560,851</u>

**OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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, 2012 and 2011 totaled \$14,420 and \$13,786, respectively.

6. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the district for the years ended December 31, 2012 and 2011:

	2012	2011
Kentucky Infrastructure Authority Loan - \$2,410,000, refinanced 6/1/04 with payments through 2018, bearing interest at a rate of 2.50%.	\$ 1,177,500	\$ 1,337,500
Kentucky Infrastructure Authority Loan - \$775,000 refinanced 6/1/04 with payments through 2018, bearing interest at a rate of 2.50%.	350,000	407,500
Kentucky Infrastructure Authority Loan - \$4,355,000, refinanced 6/1/04 with payments through 2018, bearing interest at a rate of 2.50%.	2,692,500	2,912,500
Kentucky Rural Water Association Bond - \$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 Bond - \$4,243,100, refinanced 12/31/10 with payments through 2049, bearing interest at a rate of 3.75%.	<u>4,200,100</u>	<u>4,243,100</u>
	17,420,100	17,900,600
Less: current portion	<u>507,500</u>	<u>480,500</u>
Total long-term debt	<u>\$ 16,912,600</u>	<u>\$ 17,420,100</u>

A summary of changes in long-term debt follows:

	December 31, 2011	Additions	Retirements	December 31, 2012	Due Within One Year
Long-term debt	<u>\$ 17,900,600</u>	<u>\$ _____</u>	<u>\$ (480,500)</u>	<u>\$ 17,420,100</u>	<u>\$ 507,500</u>

**OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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 2013 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 long-term debt outstanding, as of December 31, 2012 are as follows:

Year Ending December 31,	Principal	Gross Interest	35% Discount	Net Interest	Service Fees	Total
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	686,500	252,062	52,255	199,807	4,572	890,879
2018-2022	1,958,000	906,532	249,888	656,644	8,534	2,623,178
2023-2027	388,000	649,000	227,150	421,850	-	809,850
2028-2032	485,000	567,760	198,716	369,044	-	854,044
2033-2037	608,000	456,774	159,871	296,903	-	904,903
2038-2042	762,000	323,034	113,062	209,972	-	971,972
2043-2047	956,000	158,939	55,629	103,310	-	1,059,310
2048-2049	<u>447,100</u>	<u>12,889</u>	<u>4,511</u>	<u>8,378</u>	<u>-</u>	<u>455,478</u>
Total	<u>\$ 8,420,100</u>	<u>\$ 4,576,500</u>	<u>\$ 1,276,833</u>	<u>\$ 3,299,667</u>	<u>\$ 41,144</u>	<u>\$ 11,760,911</u>

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, 2012, 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, 2012 and 2011**

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, 2012, participating employers contributed 18.96% through June 30 and 19.55% 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>
2012	\$ 210,957	100%
2011	\$ 186,163	100%
2010	\$ 165,876	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 2013.

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

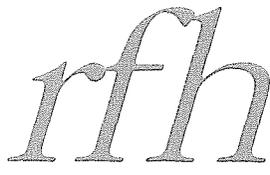
Certain items on the financial statements have been reclassified in the prior year to fit the current year presentation.

**OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

11. SUBSEQUENT EVENTS

The District has evaluated and considered the need to recognize or disclose subsequent events through March 21, 2013, 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, 2012, have not been evaluated by the District.

On March 27, 2013, the District will issue Series 2010B Bonds with the US Department of Agriculture, Rural Development, to satisfy interim financing debt with the Kentucky Rural Water Association, in the amount of \$9,000,000.



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**OLDHAM COUNTY WATER DISTRICT
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**

INDEPENDENT AUDITORS' REPORT

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

We have audited 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, the financial statements of the business-type activities of the Oldham County Water District (the District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Oldham County Water District's basic financial statements, and have issued our report thereon dated March 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2012-1).

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.

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**OLDHAM COUNTY WATER DISTRICT
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*, continued**

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 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***.

The Oldham County Water District's Response to Findings

The Oldham County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District'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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 21, 2013

**OLDHAM COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012**

FINDING:

2012-1 (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.

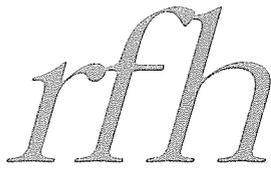
The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**OLDHAM COUNTY WATER DISTRICT
REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE; REQUIRED BY
OMB CIRCULAR A-133**

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

Report on Compliance for Each Major Federal Program

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, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Oldham County Water District'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 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 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 the Oldham County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Oldham County Water District complied, in all material respects, with the types of 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, 2012.

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**OLDHAM COUNTY WATER DISTRICT
REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE; REQUIRED BY
OMB CIRCULAR A-133, continued**

Report on Internal Control Over Compliance

Management of the Oldham County Water District 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 the Oldham County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 21, 2013

OLDHAM COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2012

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Expenditures
U.S. Department of Agriculture			
Rural Development - Direct Award			
ARRA - Rural Utilities Service			
Water and Waste Disposal Systems for Rural Communities	10.781		<u>\$ 2,898,953</u> *
Total expenditures			<u>\$ 2,898,953</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, 2012**

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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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 2012-1, page 15.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE