

OLDHAM COUNTY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2014 AND 2013

OLDHAM COUNTY WATER DISTRICT

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YEARS ENDED DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Oldham County Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oldham County Water District, as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2015, on our consideration of 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* in considering Oldham County Water District's internal control over financial reporting and compliance.



Certified Public Accountants
Elizabethtown, Kentucky
February 24, 2015

REQUIRED SUPPLEMENTARY INFORMATION

**OLDHAM COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2014**

The discussion and analysis of Oldham County Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2014. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was \$9.2 million. The balance at December 31, 2013, was \$8.9 million. This reflects an increase in cash and investments during the year of \$.3 million.
- The District continued its office replacement project and completed the Oldham County Industrial Park project.

USING THIS ANNUAL REPORT

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

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

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

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

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

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$27.2 million and \$25.9 million as of December 31, 2014 and 2013.

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

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

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

	<u>2014</u>	<u>2013</u>
Assets		
Current and		
Other Assets	\$ 10,660,834	\$ 10,018,836
Capital Assets	<u>33,420,662</u>	<u>33,143,897</u>
Total Assets	<u>44,081,496</u>	<u>43,162,733</u>
Liabilities		
Long-term liabilities	15,714,688	16,352,558
Other Liabilities	<u>1,081,203</u>	<u>960,060</u>
Total Liabilities	<u>16,795,891</u>	<u>17,312,618</u>
Net Position		
Net investment in capital assets	17,073,474	16,254,339
Restricted	3,336,882	3,327,806
Unrestricted	<u>6,875,249</u>	<u>6,267,970</u>
Total Net Position	<u>\$ 27,285,605</u>	<u>\$ 25,850,115</u>

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), increased by 8.7% from \$6.3 million to \$6.9 million at December 31, 2014. Restricted net position increased \$.009 million (.2%). Net investment in capital assets increased by \$.8 million (5.0%).

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

	2014	2013
OPERATING REVENUES:		
Water sales	\$ 4,705,125	\$ 4,609,198
Other operating income	205,931	229,638
Total operating revenues	4,911,056	4,838,836
OPERATING EXPENSES:		
Water supply	190,110	191,222
Water treatment	470,331	461,999
Transmission and distribution	783,457	629,857
Customer accounts	601,222	744,363
General and administrative	527,636	568,457
Depreciation	836,583	787,797
Total operating expenses	3,409,339	3,383,695
OPERATING INCOME	1,501,717	1,455,141
NON-OPERATING REVENUES (EXPENSES):		
Investment income	51,988	37,570
Other income	50,009	50,204
Other expense	(17,888)	(17,888)
Gain on disposal of capital assets	-	11,335
Interest expense	(610,692)	(573,334)
Amortization of bond discount and expense	5,370	5,370
TOTAL NON-OPERATING REVENUES (EXPENSES)	(521,213)	(486,743)
Capital contributions	454,986	218,246
Increase in net position	\$ 1,435,490	\$ 1,186,644
Net position, beginning of year	25,850,115	24,663,471
Net position, end of year	<u>\$ 27,285,605</u>	<u>\$ 25,850,115</u>

Operating revenue was up slightly (1.5%) as compared to the prior year. Total operating expenses increased by .8%. Interest expense on long-term debt increased 6.5% as the District. The District continues to receive capital contributions through the State of Kentucky, the Federal government, customers and individual developers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2014 and 2013, the District had \$33.4 million and \$33.1 million invested in a variety of capital assets, as reflected in the following tables:

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

	2014	2013
Non-Depreciable Assets:		
Land and land rights	\$ 1,738,879	\$ 1,233,686
Construction in progress	1,677,974	1,755,160
Depreciable Assets:		
Plant and equipment	30,003,809	30,155,051
Total capital assets, net of depreciation	\$ 33,420,662	\$ 33,143,897

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

	2014	2013
Beginning balance	\$ 33,143,897	\$ 31,560,851
Additions	1,231,119	2,376,222
Retirements	(117,771)	(5,379)
Depreciation	(836,583)	(787,797)
Ending balance	\$ 33,420,662	\$ 33,143,897

During the year ended December 31, 2014, the District acquired \$505,193 of land.

Debt

At December 31, 2014 and 2013, the District had \$13.1 million and \$13.2 million, in revenue bonds outstanding and other loans of \$3.3 million and \$3.8 million. A total of \$.6 million is due within the 2015 calendar year. During 2013, the District converted its bond anticipation loan to permanent financing through the issuance of the 2010 Series B revenue bonds.

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

	<u>2014</u>	<u>2013</u>
Revenue bonds	\$ 13,108,100	\$ 13,155,100
Loans	3,267,500	3,757,500
Unamortized discount/premium	<u>(28,412)</u>	<u>(23,042)</u>
	<u>\$ 16,347,188</u>	<u>\$ 16,889,558</u>

District Challenges for the Future

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

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

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Russ Rose, Superintendent, 3707 Kentucky P.O. Box 51, Buckner, Kentucky 40031, (502) 222-1690.

BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2014 AND 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash	\$ 2,303,528	\$ 5,597,492
Accounts receivable, net	513,470	487,292
Prepaid expenses	202,163	224,377
Materials and supplies	777,471	355,039
TOTAL CURRENT ASSETS	3,796,632	6,664,200
NONCURRENT ASSETS:		
Restricted cash	3,336,882	3,327,806
Investments	3,518,378	-
Project costs	8,942	26,830
Non-depreciable capital assets	3,416,853	2,988,846
Depreciable capital assets, net of accumulated depreciation	30,003,809	30,155,051
TOTAL NONCURRENT ASSETS	40,284,864	36,498,533
TOTAL ASSETS	44,081,496	43,162,733
 <u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	63,309	43,586
Tax collections	12,769	13,598
Other collections	91,028	80,833
Accrued payroll and taxes	23,558	20,012
Other accrued expenses	39,515	44,986
Accrued interest	218,524	220,045
Bonds and loans payable	632,500	537,000
TOTAL CURRENT LIABILITIES	1,081,203	960,060
NONCURRENT LIABILITIES:		
Bonds and loans payable	15,714,688	16,352,558
TOTAL NONCURRENT LIABILITIES	15,714,688	16,352,558
TOTAL LIABILITIES	16,795,891	17,312,618
 <u>NET POSITION</u>		
Net investment in capital assets	17,073,474	16,254,339
Restricted for debt service	2,405,804	2,324,429
Restricted for depreciation	904,854	580,371
Restricted for construction	26,224	423,006
Unrestricted	6,875,249	6,267,970
TOTAL NET POSITION	\$ 27,285,605	\$ 25,850,115

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

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Water sales	\$ 4,705,125	\$ 4,609,198
Other operating income	205,931	229,638
	<u>4,911,056</u>	<u>4,838,836</u>
TOTAL OPERATING REVENUES	4,911,056	4,838,836
OPERATING EXPENSES:		
Water supply	190,110	191,222
Water treatment	470,331	461,999
Transmission and distribution	783,457	629,857
Customer accounts	601,222	744,363
General and administrative	527,636	568,457
Depreciation	836,583	787,797
	<u>3,409,339</u>	<u>3,383,695</u>
TOTAL OPERATING EXPENSES	3,409,339	3,383,695
OPERATING INCOME	1,501,717	1,455,141
NON-OPERATING REVENUES (EXPENSES):		
Investment income	51,988	37,570
Other income	50,009	50,204
Other expense	(17,888)	(17,888)
Gain on disposal of capital assets	-	11,335
Interest expense	(610,692)	(573,334)
Amortization of bond discount and premium	5,370	5,370
	<u>(521,213)</u>	<u>(486,743)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(521,213)	(486,743)
CAPITAL CONTRIBUTIONS	<u>454,986</u>	<u>218,246</u>
CHANGE IN NET POSITION	1,435,490	1,186,644
NET POSITION, beginning of year	<u>25,850,115</u>	<u>24,663,471</u>
NET POSITION, end of year	<u>\$ 27,285,605</u>	<u>\$ 25,850,115</u>

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

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,884,878	\$ 4,882,080
Payments to suppliers	(1,350,283)	(1,171,984)
Payments to employees	(1,595,797)	(1,516,521)
	1,938,798	2,193,575
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,938,798	2,193,575
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(47,000)	(45,000)
Principal payments on notes	(490,000)	(462,500)
Acquisition of capital assets	(730,624)	(2,430,122)
Contributions in aid of construction	72,532	218,246
Interest paid	(562,204)	(400,405)
Sale of capital assets	-	11,335
	(1,757,296)	(3,108,446)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,757,296)	(3,108,446)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(3,518,378)	-
Investment income	51,988	37,570
	(3,466,390)	37,570
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(3,466,390)	37,570
NET DECREASE IN CASH	(3,284,888)	(877,301)
CASH, beginning of year	8,925,298	9,802,599
CASH, end of year	\$ 5,640,410	\$ 8,925,298
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,501,717	\$ 1,455,141
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	836,583	787,797
(Increase) decrease in accounts receivable	(26,178)	43,244
(Increase) decrease in prepaids	22,214	(32,681)
(Increase) in supplies and materials	(422,432)	(13,051)
Increase (decrease) in accounts payable	19,453	(55,027)
Increase in other liabilities	7,441	8,152
	1,938,798	2,193,575
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,938,798	\$ 2,193,575

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

NOTES TO BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - 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.

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

A. REPORTING ENTITY

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

B. BASIC FINANCIAL STATEMENTS

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

(Continued next page)

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

C. BASIS OF ACCOUNTING

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

D. FINANCIAL STATEMENT AMOUNTS

1. Cash and cash equivalents – The District has defined cash and cash equivalents to include cash on hand and demand deposits. The District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
2. Restricted Assets – Restricted assets consist of deposit accounts.
3. Materials and supplies – Materials and supplies is composed of items used in the capital construction process.
4. Accounts Receivable - The allowance method is used to record uncollectible accounts.- At December 31, 2014 and 2013, accounts receivable was stated net of an allowance for uncollectible accounts of \$39,279 and \$29,919. Bad debt expense for 2014 was \$9,892 and 2013 was \$107. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
5. Capital Assets – Capital assets and construction in progress with an life extending beyond one operating cycle are recorded at historical cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. Assets are depreciated on the straight-line method. Depreciation on plant and equipment is calculated using the following estimated useful lives ranging from 10 to 62.5 years.
6. Compensated absences – The District does not accrue compensated absences as those items are not material to the financial statements.
7. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenue and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

(Continued next page)

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

8. Net Position – Net position is divided into three components:
 - a. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consist of net position that is restricted by the District's creditors (for example, through debt covenants), by grantors (both federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
9. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.
10. Amortization – Bond discounts and premiums are being amortized using the interest method over the life of each respective bond issue.
11. Capital Contributions – Contributions are recognized in the Statement of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
12. Long-term Obligations – Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts are deferred and amortized over the life of the bonds. Issuance costs are expensed as incurred.
13. Use of Estimates - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2014 and 2013, \$9,031,167 and \$8,777,012 of the District's bank balance of \$9,355,679 and \$9,282,385 was exposed to custodial credit risk. For 2014 and 2013, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

(Continued next page)

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 3 - RESTRICTED CASH

The District has restricted cash for various purposes including debt service, future construction and customer deposits. The following schedule represents restricted cash at December 31, 2014 and 2013:

<u>Restricted For</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Debt service	\$ 2,405,804	\$ 2,324,429
Depreciation fund	904,854	580,371
Construction	26,224	423,006
	<u>\$ 3,336,882</u>	<u>\$ 3,327,806</u>

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance at December 31, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2014</u>
Non-Depreciable Assets:				
Land and land rights	\$ 1,233,686	\$ 505,193	\$ -	\$ 1,738,879
Construction in progress	1,755,160	40,585	(117,771)	1,677,974
Total Capital Assets Not Being Depreciated	2,988,846	545,778	(117,771)	3,416,853
Capital Assets Being Depreciated:				
Plant and equipment	44,961,554	685,341	(710,908)	44,935,987
Total Capital Assets Being Depreciated at historical cost	44,961,554	685,341	(710,908)	44,935,987
Less: accumulated depreciation	(14,806,503)	(836,583)	710,908	(14,932,178)
Total Other Capital Assets, net	30,155,051	(151,242)	-	30,003,809
Net capital assets	<u>\$ 33,143,897</u>	<u>\$ 394,536</u>	<u>\$ (117,771)</u>	<u>\$ 33,420,662</u>

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

	<u>Balance at December 31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2013</u>
Non-Depreciable Assets:				
Land and land rights	\$ 1,233,686	\$ -	\$ -	\$ 1,233,686
Construction in progress	5,292,761	2,326,695	(5,864,296)	1,755,160
Total Capital Assets Not Being Depreciated	6,526,447	2,326,695	(5,864,296)	2,988,846
Capital Assets Being Depreciated:				
Plant and equipment	39,075,860	5,913,823	(28,129)	44,961,554
Total Capital Assets Being Depreciated at historical cost	39,075,860	5,913,823	(28,129)	44,961,554
Less: accumulated depreciation	(14,041,456)	(787,797)	22,750	(14,806,503)
Total Other Capital Assets, net	25,034,404	5,126,026	(5,379)	30,155,051
Net capital assets	<u>\$ 31,560,851</u>	<u>\$ 7,452,721</u>	<u>\$ (5,869,675)</u>	<u>\$ 33,143,897</u>

During the years ended December 31, 2014 and 2013, the District capitalized \$0 and \$674,103 of interest and expensed \$610,692 and \$573,334 of interest.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 5 – LONG-TERM OBLIGATIONS

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

<u>Bond Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Amount Due 12/31/2014</u>	<u>Amount Due 12/31/2013</u>
2010 Series A	3.75%	\$ 4,243,100	\$ 4,108,100	\$ 4,155,100
2010 Series B	3.13%	9,000,000	9,000,000	9,000,000
			13,108,100	13,155,100
<u>Loan Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Amount Due 12/31/2014</u>	<u>Amount Due 12/31/2013</u>
KIA C96-01	2.50%	\$ 775,000	230,000	290,000
KIA C88-10 (93E)	2.50%	2,410,000	827,500	1,010,000
KIA C01-02	2.50%	4,355,000	2,210,000	2,457,500
			3,267,500	3,757,500
Total Long-term debt			<u>\$ 16,375,600</u>	<u>\$ 16,912,600</u>

On March 26, 2013, the District converted its Rural Water Bond Anticipation Note into permanent financial through the issuance of the 2010 Series B revenue bonds in the amount of \$9 million.

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

	<u>Balance at December 31, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2014</u>	<u>Amount Due Within One Year</u>
Long-term debt payable:					
Revenue bonds	\$ 13,155,100	\$ -	\$ (47,000)	\$ 13,108,100	\$ 140,000
Bond anticipation loan	-	-	-	-	-
Loans	3,757,500	-	(490,000)	3,267,500	492,500
Unamortized discount/premium	(23,042)	-	(5,370)	(28,412)	-
Total long-term debt payable	<u>\$ 16,889,558</u>	<u>\$ -</u>	<u>\$(542,370)</u>	<u>\$ 16,347,188</u>	<u>\$ 632,500</u>

(Continued next page)

OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

	Balance at December 31, 2012	Additions	Reductions	Balance at December 31, 2013	Amount Due Within One Year
Long-term debt payable:					
Revenue bonds	\$ 4,200,100	\$ 9,000,000	\$ (45,000)	\$ 13,155,100	\$ 47,000
Bond anticipation loan	9,000,000	-	(9,000,000)	-	-
Loans	4,220,000	-	(462,500)	3,757,500	490,000
Unamortized discount/premium	41,607	(59,279)	(5,370)	(23,042)	-
Total long-term debt payable	<u>\$ 17,461,707</u>	<u>\$ 8,940,721</u>	<u>\$ (9,512,870)</u>	<u>\$ 16,889,558</u>	<u>\$ 537,000</u>

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

Year	Bonds		Loans		Total	Interest to be paid by Federal Government
	Principal	Interest	Principal	Interest		
2015	\$ 140,000	\$ 434,392	\$ 492,500	\$ 152,454	\$ 1,219,346	53,600
2016	146,000	430,086	492,500	131,469	1,200,055	53,088
2017	154,000	424,735	632,500	107,327	1,318,562	52,255
2018	160,000	419,549	527,500	76,656	1,183,705	51,533
2019	168,000	414,144	300,000	52,998	935,142	50,779
2020-2024	964,000	1,981,070	822,500	71,445	3,839,015	241,537
2025-2029	1,210,000	1,802,148	-	-	3,012,148	216,496
2030-2034	1,515,000	1,576,933	-	-	3,091,933	184,789
2035-2039	1,899,000	1,285,377	-	-	3,184,377	141,774
2040-2044	2,381,000	930,755	-	-	3,311,755	91,693
2045-2049	2,987,100	489,955	-	-	3,477,055	30,227
2050-2052	1,384,000	87,562	-	-	1,471,562	-
	<u>\$ 13,108,100</u>	<u>\$ 10,276,706</u>	<u>\$ 3,267,500</u>	<u>\$ 592,349</u>	<u>\$ 27,244,655</u>	<u>\$ 1,167,771</u>

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented 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 2010 Series A and 2010 Series B.

Depreciation Fund

During 2013, this fund received, on a monthly basis, \$27,425 until the balance reaches \$747,000. In 2013, the contribution requirement was \$27,425 until the balance reaches \$747,000. The fund was fully funded at December 31, 2014. This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 6 - RETIREMENT PLAN

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

Funding Policy - Plan members employed before September 1, 2008, are required to contribute 5% of their annual covered salary and those hired on or after September 1, 2008, are required to contribute 6% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The rates at December 31, 2014, 2013 and 2012 were 17.67%, 18.89% and 19.55% of covered payroll. The contribution requirements of the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended December 31, 2014, 2013 and 2012 were \$203,334, \$200,728, and \$210,957. All payments were made to the retirement system in the amount of the annually required contributions.

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

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

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

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

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

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 8 – CAPITAL CONTRIBUTIONS

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

<u>Source</u>	<u>2014</u>	<u>2013</u>
Grants	\$ 5,925	\$ 6,000
Customers	449,061	212,246
	<u>\$ 454,986</u>	<u>\$ 218,246</u>

NOTE 9 – RENTAL AGREEMENTS

The District has entered into agreements to lease space on its water towers to various telephone customers. Rental income during the years ended December 31, 2014 and 2013 was \$98,547 and \$95,930. The following schedule represents future payments to be received.

2015	\$ 98,837
2016	99,712
2017	74,378
2018	75,307
2019	<u>32,832</u>
	<u>\$381,066</u>

NOTE 10 – COMMITMENTS

The District has entered into construction commitments toward its construction projects.

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District was insured for workers' compensation, general liability and automobile liability coverage under a retrospectively rated commercial policy.

INTERNAL CONTROL AND FISCAL COMPLIANCE

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



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

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oldham County Water District, as of and for the year ended December 31, 2014, and the related notes to the financial statements and have issued our report thereon dated February 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oldham County Water 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oldham County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Oldham County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oldham County Water 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Elizabethtown, Kentucky
February 24, 2015