

OLDHAM COUNTY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2013 AND 2012

OLDHAM COUNTY WATER DISTRICT

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YEARS ENDED DECEMBER 31, 2013 AND 2012

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



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

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.scacpa.com

MEMBER
AMERICAN INSTITUTE
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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 year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents, 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, 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.

As discussed in Note 1 to the financial statements, the District adopted GASB No. 65, *Items Previously Reported as Assets* and GASB 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62* during the year.

Prior Period Financial Statements

The financial statements of Oldham County Water District as of December 31, 2012, were audited by other auditors whose report dated March 21, 2013, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Oldham County Water 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*, as is Schedules I and II are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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 February 20, 2014, 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 20, 2014

REQUIRED SUPPLEMENTARY INFORMATION

**OLDHAM COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2013**

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, 2013. 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 balance for the District was \$8.9 million. The balance at December 31, 2012, was \$9.8 million. This reflects a decrease in cash during the year of \$.9 million. The primary reason for the decrease was the use of construction funds.
- The District completed the 2010 water transmission lines project.
- The converted its bond anticipation loan to permanent financing in March 2013.

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 \$25.9 million and \$24.7 million as of December 31, 2013 and 2012.

The largest portion of the District's net assets 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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current and		
Other Assets	\$ 10,018,836	\$ 10,958,778
Capital Assets	<u>33,143,897</u>	<u>31,560,851</u>
Total Assets	<u>43,162,733</u>	<u>42,519,629</u>
Liabilities		
Long-term liabilities	16,352,558	16,954,207
Other Liabilities	<u>960,060</u>	<u>901,951</u>
Total Liabilities	<u>17,312,618</u>	<u>17,856,158</u>
Net Position		
Net investment in capital assets	16,254,339	14,043,431
Restricted	2,904,800	2,165,711
Unrestricted	<u>6,690,976</u>	<u>8,454,329</u>
Total Net Position	<u>\$ 25,850,115</u>	<u>\$ 24,663,471</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), decreased by 21.2% from \$8.5 million to \$6.7 million at December 31, 2013. Restricted net position increased \$.7 million (34.1%). Net investment in capital assets increased by \$2.2 million (15.7%).

(Table 2)
Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Water sales	\$ 4,609,198	\$ 4,741,463
Other operating income	229,638	207,898
Total operating revenues	4,838,836	4,949,361
OPERATING EXPENSES:		
Water supply	191,222	177,967
Water treatment	461,999	404,686
Transmission and distribution	629,857	557,630
Customer accounts	744,363	691,089
General and administrative	568,457	785,101
Depreciation	787,797	732,156
Amortization	-	11,036
Total operating expenses	3,383,695	3,359,665
OPERATING INCOME	1,455,141	1,589,696
NON-OPERATING REVENUES (EXPENSES):		
Investment income	37,570	49,315
Other income	50,204	-
Other expense	(17,888)	-
Gain (loss) on disposal of assets	11,335	(16,340)
Interest expense	(573,334)	(325,734)
Amortization of bond discount and expense	5,370	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(486,743)	(292,759)
Capital contributions	218,246	1,018,327
Increase in net position	\$ 1,186,644	\$ 2,315,264

Operating revenue was down slightly (2.2%) as compared to the prior year. Total operating expenses increased by .7%. Interest expense on long-term debt increased 76% as the District converted its bond anticipation note to permanent financing with the 2010 Series B revenue bonds. 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, 2013 and 2012, the District had \$33.1 million and \$31.6 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, 2013 and 2012

	2013	2012
Non-Depreciable Assets:		
Land and land rights	\$ 1,233,686	\$ 1,233,686
Construction in progress	1,755,160	5,292,761
Depreciable Assets:		
Plant and equipment	30,155,051	25,034,404
Total capital assets, net of depreciation	\$ 33,143,897	\$ 31,560,851

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2013 and 2012

	2013	2012
Beginning balance	\$ 31,560,851	\$ 27,682,159
Additions	2,376,222	4,908,511
Retirements	(5,379)	(297,663)
Depreciation	(787,797)	(732,156)
Ending balance	\$ 33,143,897	\$ 31,560,851

Debt

At December 31, 2013 and 2012, the District had \$13.1 million and \$4.2 million, in revenue bonds outstanding, a bond anticipation loan of \$0 and \$9 million and other loans of \$3.8 million and \$4.2 million. A total of \$.5 million is due within the 2014 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, 2013 and 2012

	2013	2012
Revenue bonds	\$ 13,155,100	\$ 4,200,100
Bond anticipation loan	-	9,000,000
Loans	3,757,500	4,220,000
Unamortized discount/premium	(23,042)	41,607
	\$ 16,889,558	\$ 17,461,707

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 DISTRICTSTATEMENTS OF NET POSITIONDECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 5,504,952	\$ 5,151,779
Accounts receivable, net	487,292	530,536
Construction receivable	-	47,241
Prepaid expenses	224,377	191,696
Materials and supplies	355,039	341,988
TOTAL CURRENT ASSETS	<u>6,571,660</u>	<u>6,263,240</u>
NONCURRENT ASSETS:		
Restricted cash	3,420,346	4,650,820
Project costs	26,830	44,718
Capital assets, net of accumulated depreciation	33,143,897	31,560,851
TOTAL NONCURRENT ASSETS	<u>36,591,073</u>	<u>36,256,389</u>
TOTAL ASSETS	<u>43,162,733</u>	<u>42,519,629</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	43,586	98,613
Construction projects payable	-	47,241
Tax collections	13,598	9,974
Other collections	80,833	78,929
Accrued payroll and taxes	20,012	19,689
Other accrued expenses	44,986	42,685
Accrued interest	220,045	97,320
Bonds and loans payable	537,000	507,500
TOTAL CURRENT LIABILITIES	<u>960,060</u>	<u>901,951</u>
NONCURRENT LIABILITIES:		
Bonds and loans payable	16,352,558	7,954,207
Bond anticipation loan	-	9,000,000
TOTAL NONCURRENT LIABILITIES	<u>16,352,558</u>	<u>16,954,207</u>
TOTAL LIABILITIES	<u>17,312,618</u>	<u>17,856,158</u>
<u>NET POSITION</u>		
Net investment in capital assets	16,254,339	14,043,431
Restricted for debt service	2,324,429	1,889,706
Restricted for depreciation	580,371	276,005
Unrestricted	6,690,976	8,454,329
TOTAL NET POSITION	<u>\$ 25,850,115</u>	<u>\$ 24,663,471</u>

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Water sales	\$ 4,609,198	\$ 4,741,463
Other operating income	229,638	207,898
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	4,838,836	4,949,361
OPERATING EXPENSES:		
Water supply	191,222	177,967
Water treatment	461,999	404,686
Transmission and distribution	629,857	557,630
Customer accounts	744,363	691,089
General and administrative	568,457	785,101
Amortization	-	11,036
Depreciation	787,797	732,156
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	3,383,695	3,359,665
OPERATING INCOME	1,455,141	1,589,696
NON-OPERATING REVENUES (EXPENSES):		
Investment income	37,570	49,315
Other income	50,204	-
Other expense	(17,888)	-
Gain (loss) on disposal of capital assets	11,335	(16,340)
Interest expense	(573,334)	(325,734)
Amortization of bond discount and premium	5,370	-
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(486,743)	(292,759)
CAPITAL CONTRIBUTIONS	218,246	1,018,327
CHANGE IN NET POSITION	1,186,644	2,315,264
NET POSITION, beginning of year	24,663,471	22,348,207
	<hr/>	<hr/>
NET POSITION, end of year	<u>\$ 25,850,115</u>	<u>\$ 24,663,471</u>

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

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,882,080	\$ 4,940,173
Payments to suppliers	(1,171,984)	(1,328,514)
Payments to employees	(1,516,521)	(1,387,561)
	2,193,575	2,224,098
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,193,575	2,224,098
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(45,000)	(43,000)
Principal payments on notes	(462,500)	(437,500)
Acquisition of capital assets	(2,430,122)	(4,876,041)
Contributions in aid of construction	218,246	1,018,327
Interest paid	(400,405)	(327,664)
Sale of capital assets	11,335	89,025
	(3,108,446)	(4,576,853)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,108,446)	(4,576,853)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	37,570	49,315
	37,570	49,315
NET CASH PROVIDED BY INVESTING ACTIVITIES	37,570	49,315
NET DECREASE IN CASH	(877,301)	(2,303,440)
CASH, beginning of year	9,802,599	12,106,039
CASH, end of year	\$ 8,925,298	\$ 9,802,599
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid during the year	\$ 818,070	\$ 745,778
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,455,141	\$ 1,589,696
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	787,797	732,156
Amortization	-	11,036
(Increase) decrease in accounts receivable	43,244	(9,188)
(Increase) decrease in prepaids	(32,681)	(68,888)
(Increase) in supplies and materials	(13,051)	(29,968)
(Decrease) in accounts payable	(55,027)	(28,483)
Increase in other liabilities	8,152	27,737
	8,152	27,737
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,193,575	\$ 2,224,098

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, 2013 AND 2012

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.

During the year ended December 31, 2013, the District adopted the provisions of GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012

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, 2013 and 2012, accounts receivable was stated net of an allowance for uncollectible accounts of \$29,919 and \$40,043. Bad debt expense for 2013 was \$107 and 2012 was \$37,884. 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, 2013 AND 2012

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 AND INVESTMENTS

DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2013 and 2012, \$8,777,012 and \$9,847,812 of the District's bank balance of \$9,282,385 and \$10,173,542 was exposed to custodial credit risk. For 2013 and 2012, 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 DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012NOTE 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, 2013 and 2012:

<u>Restricted For</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Debt service	\$ 2,324,429	\$ 1,889,706
Depreciation fund	580,371	276,005
Meter deposits	92,540	92,246
Construction	423,006	2,392,863
	<u>\$ 3,420,346</u>	<u>\$ 4,650,820</u>

NOTE 4 – CAPITAL ASSETS

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
Depreciable Assets:				
Plant and equipment	<u>39,075,860</u>	<u>5,913,823</u>	<u>(28,129)</u>	<u>44,961,554</u>
Total capital assets	45,602,307	8,240,518	(5,892,425)	47,950,400
Less: accumulated depreciation	<u>(14,041,456)</u>	<u>(787,797)</u>	<u>22,750</u>	<u>(14,806,503)</u>
Net capital assets	<u>\$ 31,560,851</u>	<u>\$ 7,452,721</u>	<u>\$ (5,869,675)</u>	<u>\$ 33,143,897</u>

Capital asset activity for the year ended December 31, 2012 follows.

	<u>Balance at December 31, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2012</u>
Non-Depreciable Assets:				
Land and land rights	\$ 1,169,981	\$ 81,205	\$ (17,500)	\$ 1,233,686
Construction in progress	1,415,003	4,557,643	(679,885)	5,292,761
Depreciable Assets:				
Plant and equipment	<u>39,131,329</u>	<u>949,548</u>	<u>(1,005,017)</u>	<u>39,075,860</u>
Total capital assets	41,716,313	5,588,396	(1,702,402)	45,602,307
Less: accumulated depreciation	<u>(14,034,154)</u>	<u>(732,156)</u>	<u>724,854</u>	<u>(14,041,456)</u>
Net capital assets	<u>\$ 27,682,159</u>	<u>\$ 4,856,240</u>	<u>\$ (977,548)</u>	<u>\$ 31,560,851</u>

During the years ended December 31, 2013 and 2012, the District capitalized \$674,103 and \$0 of interest and expensed \$573,334 and \$325,734 of interest.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012NOTE 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 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 12/31/2013</u>	<u>Amount Due 12/31/2012</u>
2010 Series A	3.75%	\$4,243,100	\$ 4,155,100	\$ 4,200,100
2010 Series B	3.13%	9,000,000	9,000,000	-
<u>Loan Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Amount Due 12/31/2013</u>	<u>Amount Due 12/31/2012</u>
KIA C96-01	2.50%	775,000	290,000	350,000
KIA C88-10 (93E)	2.50%	2,410,000	1,010,000	1,177,500
KIA C01-02	2.50%	4,355,000	2,457,500	2,692,500
Rural Water BAN	2.90%	9,000,000	-	9,000,000
Total Long-term debt			<u>\$ 16,912,600</u>	<u>\$ 17,420,100</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, 2013, was as follows:

	<u>Balance at December 31, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2013</u>	<u>Amount Due Within One Year</u>
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>

(Continued next page)

OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Balance at December 31, 2011	Additions	Reductions	Balance at December 31, 2012	Amount Due Within One Year
Long-term debt payable:					
Revenue bonds	\$ 4,243,100	\$ -	\$ (43,000)	\$ 4,200,100	\$ 45,000
Bond anticipation loan	9,000,000	-	-	9,000,000	-
Loans	4,657,500	-	(437,500)	4,220,000	462,500
Unamortized discount/premium	48,460	-	(6,853)	41,607	-
Total long-term debt payable	<u>\$ 17,949,060</u>	<u>\$ -</u>	<u>\$ (487,353)</u>	<u>\$ 17,461,707</u>	<u>\$ 507,500</u>

Bond and loan maturities in each of the next five years and in five year increments thereafter are as follows at December 31, 2013:

Year	Bonds		Loans		Total	Interest to be paid by Federal Government
	Principal	Interest	Principal	Interest		
2014	\$ 47,000	\$ 436,192	\$ 490,000	\$ 176,063	\$ 1,149,255	54,230
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
2019-2023	921,000	2,011,790	1,122,500	124,443	4,179,733	245,748
2024-2028	1,156,000	1,841,516	-	-	2,997,516	222,061
2029-2033	1,449,000	1,628,010	-	-	3,077,010	192,374
2034-2038	1,815,000	1,347,159	-	-	3,162,159	150,502
2039-2043	2,276,000	1,008,142	-	-	3,284,142	102,601
2044-2048	3,083,100	582,953	-	-	3,666,053	42,499
2049-2052	1,808,000	148,374	-	-	1,956,374	1,509
	<u>\$ 13,155,100</u>	<u>\$ 10,712,898</u>	<u>\$ 3,757,500</u>	<u>\$ 768,412</u>	<u>\$ 28,393,910</u>	<u>\$ 1,222,000</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 2012, this fund received, on a monthly basis, \$1,995 until the balance reached \$239,340. The fund was fully funded at December 31, 2012. In 2013, the contribution requirement was increased to \$27,425 until the balance reaches \$747,000. 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.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2013 AND 2012NOTE 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, 2013, 2012 and 2011 were 18.89%, 19.55% and 18.96% 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, 2013, 2012 and 2011 were \$200,728, \$210,957, and \$186,163. 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, 2013 AND 2012NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2013 and 2012:

<u>Source</u>	<u>2013</u>	<u>2012</u>
Grants	\$ 6,000	\$ 934,999
Customers	212,246	83,328
	<u>\$ 218,246</u>	<u>\$ 1,018,327</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, 2013 and 2012 was \$95,930 and \$93,869. The following schedule represents future payments to be received.

2014	\$ 97,235
2015	69,665
2016	69,665
2017	43,431
2018	<u>43,431</u>
	<u>\$323,427</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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OLDHAM COUNTY WATER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2013

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR NUMBER	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Kentucky Rural Water Finance Corporation Rural Utilities Service - ARRA - Water and Waste Disposal Systems For Rural Communities	10.781	N/A	<u>692,420</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>692,420</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 692,420</u>

The accompanying notes are an integral part of this schedule.

OLDHAM COUNTY WATER DISTRICT**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended December 31, 2013

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Oldham County Water District under programs of the federal government for the year ended December 31, 2013. 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*. Because the schedule presents only a selected portion of the operations of Oldham County Water District, it is not intended to and does not present the financial position, changes in net position or cash flows of Oldham County Water District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**OLDHAM COUNTY WATER DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2013**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Section I-Summary of Auditor's Results - Continued

Identification of major programs:

CFDA – 10.781 – ARRA – Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____yes ___X___no

Section II – Financial Statement Findings

No matters

Section III – Federal Award Findings and Questioned Costs

No matters

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

OLDHAM COUNTY WATER DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

December 31, 2013

There were no prior federal audit findings.

INTERNAL CONTROL AND FISCAL COMPLIANCE

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



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

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.scacpa.com

MEMBER
AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs

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

Board of Commissioners
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, 2013, and the related notes to the financial statements and have issued our report thereon dated February 20, 2014.

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 20, 2014

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



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

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.scacpa.com

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

Report on Compliance for Each Major Federal Program

We have audited 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 Oldham County Water District's major federal programs for the year ended December 31, 2013. 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.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Oldham County Water District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of 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 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 in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with 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 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 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.



Certified Public Accountants
Elizabethtown, Kentucky
February 20, 2014