

OLDHAM COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2015 AND 2014

OLDHAM COUNTY WATER DISTRICT

CONTENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>Pages</u>
Independent Auditor's Report	1-2
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	3-7
BASIC FINANCIAL STATEMENTS:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Fund Net Position	9
Statements of Cash Flows	10
Notes to Basic Financial Statements	11-24
REQUIRED SUPPLEMENTARY INFORMATION:	
CERS Pension Schedules and Notes to Schedules	
Schedule of the District's Proportionate Share of the CERS Net Pension Liability	25
Schedule of Contributions to CERS	26
Notes to Required Supplementary Information	27
INTERNAL CONTROL AND FISCAL COMPLIANCE:	
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 <i>Government Auditing Standards</i>	28-29

CHRIS R. CARTER, CPA
ANN M. FISHER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



AMERICAN INSTITUTE OF CPAs
KENTUCKY SOCIETY OF CPAs

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, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the District adopted Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, Statement 69, *Government Combinations and Disposals of Government Operations*, Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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 5 to 9, schedule of proportionate share of the net pension liability on page 25 and schedule of contributions on page 26 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 June 20, 2016, 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
June 20, 2016

REQUIRED SUPPLEMENTARY INFORMATION

**OLDHAM COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2015**

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, 2015. 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 \$9.8 million. The balance at December 31, 2014, was \$9.2 million. This reflects an increase in cash and investments during the year of \$.6 million.
- The District continued its office replacement project and began a water tank project.
- The District adopted the provisions of GASB statement 68.

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 and deferred outflows exceeded liabilities and deferred inflows by \$26.9 million and \$26.0 million as of December 31, 2015 and 2014.

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, 2015 and 2014

	2015	2014
Assets		
Current and		
Other Assets	\$ 11,277,588	\$ 10,660,834
Capital Assets	<u>33,370,360</u>	<u>33,420,662</u>
Total Assets	<u>44,647,948</u>	<u>44,081,496</u>
 Deferred Outflows of Resources	 240,118	 55,101
Long-term liabilities	16,652,658	16,909,688
Other Liabilities	<u>1,261,206</u>	<u>1,081,203</u>
Total Liabilities	<u>17,913,864</u>	<u>17,990,891</u>
 Deferred Inflows of Resources	 2,317	 133,000
 Net Position		
Net investment in capital assets	17,661,042	17,073,474
Restricted	3,442,457	3,336,882
Unrestricted	<u>5,868,386</u>	<u>5,602,350</u>
Total Net Position	<u>\$ 26,971,885</u>	<u>\$ 26,012,706</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 5.6% from \$5.6 million to \$5.9 million at December 31, 2015. Restricted net position increased \$106 thousand (3%). Net investment in capital assets increased by \$.6 million (3.5%).

(Table 2)
Changes in Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES:		
Water sales	\$ 4,832,732	\$ 4,705,125
Other operating income	<u>224,487</u>	<u>205,931</u>
Total operating revenues	<u>5,057,219</u>	<u>4,911,056</u>
OPERATING EXPENSES:		
Water supply	204,612	188,708
Water treatment	486,733	467,059
Transmission and distribution	781,579	775,277
Customer accounts	617,113	593,042
General and administrative	543,773	525,298
Depreciation	<u>843,502</u>	<u>836,583</u>
Total operating expenses	<u>3,477,312</u>	<u>3,385,967</u>
OPERATING INCOME	1,579,907	1,525,089
NON-OPERATING REVENUES (EXPENSES):		
Investment income	71,471	51,988
Other income	49,521	50,009
Other expense	(8,942)	(17,888)
Gain on disposal of capital assets	(249,839)	-
Interest expense	(583,103)	(610,692)
Amortization of bond discount and expense	<u>5,370</u>	<u>5,370</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(715,522)</u>	<u>(521,213)</u>
Capital contributions	<u>94,794</u>	<u>454,986</u>
Increase in net position	<u>\$ 959,179</u>	<u>\$ 1,458,862</u>
Net position, beginning of year	<u>26,012,706</u>	<u>24,553,844</u>
Net position, end of year	<u>\$ 26,971,885</u>	<u>\$ 26,012,706</u>

Operating revenue was up slightly (2.9%) as compared to the prior year. Total operating expenses increased by .3%. Interest expense on long-term debt increased 4.5% as the District pays down its debt. 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, 2015 and 2014, the District had \$33.4 million and \$33.4 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, 2015 and 2014

	2015	2014
Non-Depreciable Assets:		
Land and land rights	\$ 1,738,879	\$ 1,738,879
Construction in progress	2,217,049	1,677,974
Depreciable Assets:		
Plant and equipment	<u>29,414,432</u>	<u>30,003,809</u>
Total capital assets, net of depreciation	<u>\$ 33,370,360</u>	<u>\$ 33,420,662</u>

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2015 and 2014

	2015	2014
Beginning balance	\$ 33,420,662	\$ 33,143,897
Additions	1,055,953	1,231,119
Retirements	(262,753)	(117,771)
Depreciation	(843,502)	(836,583)
Ending balance	<u>\$ 33,370,360</u>	<u>\$ 33,420,662</u>

Debt

At December 31, 2015 and 2014, the District had \$12.9 million and \$13.1 million, in revenue bonds outstanding and other loans of \$2.8 million and \$3.3 million. A total of \$.6 million is due within the 2016 calendar year.

(Table 5)
Outstanding Debt
as of December 31, 2015 and 2014

	2015	2014
Revenue bonds	\$ 12,968,100	\$ 13,108,100
Loans	2,775,000	3,267,500
Unamortized discount/premium	<u>(33,782)</u>	<u>(28,412)</u>
	<u>\$ 15,709,318</u>	<u>\$ 16,347,188</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, P.O. Box 51, Buckner, Kentucky 40031, (502) 222-1690.

BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 2,768,675	\$ 2,303,528
Accounts receivable, net	483,774	513,470
Prepaid expenses	194,537	202,163
Materials and supplies	825,535	777,471
TOTAL CURRENT ASSETS	4,272,521	3,796,632
NONCURRENT ASSETS:		
Restricted cash	3,442,457	3,336,882
Investments	3,562,610	3,518,378
Project costs	-	8,942
Non-depreciable capital assets	3,955,928	3,416,853
Depreciable capital assets, net of accumulated depreciation	29,414,432	30,003,809
TOTAL NONCURRENT ASSETS	40,375,427	40,284,864
TOTAL ASSETS	44,647,948	44,081,496
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows of resources - CERS	240,118	55,101
TOTAL DEFERRED OUTFLOWS OF RESOURCES	240,118	55,101
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	62,023	63,309
Construction payable	158,844	-
Tax collections	15,174	12,769
Other collections	106,343	91,028
Accrued payroll and taxes	20,584	23,558
Other accrued expenses	43,555	39,515
Accrued interest	216,183	218,524
Bonds and loans payable	638,500	632,500
TOTAL CURRENT LIABILITIES	1,261,206	1,081,203
NONCURRENT LIABILITIES:		
Net pension liability	1,581,840	1,195,000
Bonds and loans payable	15,070,818	15,714,688
TOTAL NONCURRENT LIABILITIES	16,652,658	16,909,688
TOTAL LIABILITIES	17,913,864	17,990,891
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows of resources - CERS	2,317	133,000
TOTAL DEFERRED INFLOWS OF RESOURCES	2,317	133,000
<u>NET POSITION</u>		
Net investment in capital assets	17,661,042	17,073,474
Restricted for debt service	2,399,070	2,405,804
Restricted for depreciation	1,043,387	904,854
Restricted for construction	-	26,224
Unrestricted	5,868,386	5,602,350
TOTAL NET POSITION	\$ 26,971,885	\$ 26,012,706

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, 2015 AND 2014

	2015	2014
OPERATING REVENUES:		
Water sales	\$ 4,832,732	\$ 4,705,125
Other operating income	<u>224,487</u>	<u>205,931</u>
TOTAL OPERATING REVENUES	5,057,219	4,911,056
OPERATING EXPENSES:		
Water supply	204,612	188,708
Water treatment	486,733	467,059
Transmission and distribution	781,579	775,277
Customer accounts	617,113	593,042
General and administrative	543,773	525,298
Depreciation	<u>843,502</u>	<u>836,583</u>
TOTAL OPERATING EXPENSES	3,477,312	3,385,967
OPERATING INCOME	1,579,907	1,525,089
NON-OPERATING REVENUES (EXPENSES):		
Investment income	71,471	51,988
Other income	49,521	50,009
Other expense	(8,942)	(17,888)
Loss on disposal of capital assets	(249,839)	-
Interest expense	(583,103)	(610,692)
Amortization of bond discount and premium	<u>5,370</u>	<u>5,370</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(715,522)	(521,213)
CAPITAL CONTRIBUTIONS	<u>94,794</u>	<u>454,986</u>
CHANGE IN NET POSITION	959,179	1,458,862
NET POSITION, beginning of year, restated	<u>26,012,706</u>	<u>24,553,844</u>
NET POSITION, end of year	<u>\$ 26,971,885</u>	<u>\$ 26,012,706</u>

OLDHAM COUNTY WATER DISTRICTSTATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 5,086,915	\$ 4,884,878
Payments to suppliers	(1,026,395)	(1,350,283)
Payments to employees	<u>(1,559,212)</u>	<u>(1,595,797)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,501,308	1,938,798
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(140,000)	(47,000)
Principal payments on notes	(492,500)	(490,000)
Acquisition of capital assets	(897,110)	(730,624)
Contributions in aid of construction	94,794	72,532
Interest paid	(535,923)	(562,204)
Sale of capital assets	<u>12,914</u>	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,957,825)	(1,757,296)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(44,232)	(3,518,378)
Investment income	<u>71,471</u>	<u>51,988</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	27,239	(3,466,390)
NET INCREASE (DECREASE) IN CASH	570,722	(3,284,888)
CASH, beginning of year	<u>5,640,410</u>	<u>8,925,298</u>
CASH, end of year	<u>\$ 6,211,132</u>	<u>\$ 5,640,410</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,579,907	\$ 1,525,089
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	843,502	836,583
GASB 68 pension expense	71,140	(23,372)
(Increase) decrease in accounts receivable	29,696	(26,178)
Decrease in prepaids	7,626	22,214
(Increase) in materials and supplies	(48,064)	(422,432)
Increase (decrease) in accounts payable	(1,285)	19,453
Increase in other liabilities	<u>18,786</u>	<u>7,441</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,501,308</u>	<u>\$ 1,938,798</u>
SCHEDULE OF NON-CASH TRANSACTIONS:		
CERS Pensions	\$ (71,140)	\$ 23,372

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

NOTES TO BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014NOTE 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.

OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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, 2015 and 2014, accounts receivable was stated net of an allowance for uncollectible accounts of \$45,174 and \$39,279. Bad debt expense for 2015 was \$6,835 and 2014 was \$9,892. 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.

OLDHAM COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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.
14. Restatement – During the year ended December 31, 2015, the District adopted the provisions of GASB Statement 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The District presents comparative financial statements so the restatement was made through the December 31, 2014 amounts. The effect of the restatement was to record deferred outflows of \$55,101, deferred inflows of \$133,000, a net pension liability of \$1,195,000, a change to beginning net position of \$1,296,271 and a decrease in pension expense of \$23,372 which was reflected through the change in net position.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014

15. Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

16. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68, as amended by GASB 71 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement was adopted during the fiscal year ended June 30, 2015 and required a restatement to net position.

In March 2014, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was adopted during the fiscal year ended June 30, 2015 and did not have an impact on the District's financial statements.

Recently Issued Accounting Pronouncements

In January 2014, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2014. The statement was adopted during the year and there was no effect on the financial statements.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. GASB 69 establishes accounting and financial reporting standards related to fair value measurements. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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, 2015 and 2014, \$9,665,610 and \$9,031,167 of the District's bank balance of \$9,915,610 and \$9,355,679 was exposed to custodial credit risk. For 2015 and 2014, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

NOTE 3 - RESTRICTED CASH

The District has restricted cash for various purposes including debt service and future construction. The following schedule represents restricted cash at December 31, 2015 and 2014:

Restricted For	December 31, 2015	December 31, 2014
Debt service	\$ 2,399,070	\$ 2,405,804
Depreciation fund	1,043,387	904,854
Construction	-	26,224
	\$ 3,442,457	\$ 3,336,882

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 follows.

	<u>Balance at December 31, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2015</u>
Non-Depreciable Assets:				
Land and land rights	\$ 1,738,879	\$ -	\$ -	\$ 1,738,879
Construction in progress	<u>1,677,974</u>	<u>539,075</u>	<u>-</u>	<u>2,217,049</u>
Total Capital Assets Not Being Depreciated	3,416,853	539,075	-	3,955,928
Capital Assets Being Depreciated:				
Plant and equipment	<u>44,935,987</u>	<u>516,878</u>	<u>(1,269,368)</u>	<u>44,183,497</u>
Total Capital Assets Being Depreciated at historical cost	44,935,987	516,878	(1,269,368)	44,183,497
Less: accumulated depreciation	<u>(14,932,178)</u>	<u>(843,502)</u>	<u>1,006,615</u>	<u>(14,769,065)</u>
Total Other Capital Assets, net	30,003,809	(326,624)	(262,753)	29,414,432
Net capital assets	\$ 33,420,662	\$ 212,451	\$ (262,753)	\$ 33,370,360

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	<u>1,755,160</u>	<u>40,585</u>	<u>(117,771)</u>	<u>1,677,974</u>
Total Capital Assets Not Being Depreciated	2,988,846	545,778	(117,771)	3,416,853
Capital Assets Being Depreciated:				
Plant and equipment	<u>44,961,554</u>	<u>685,341</u>	<u>(710,908)</u>	<u>44,935,987</u>
Total Capital Assets Being Depreciated at historical cost	44,961,554	685,341	(710,908)	44,935,987
Less: accumulated depreciation	<u>(14,806,503)</u>	<u>(836,583)</u>	<u>710,908</u>	<u>(14,932,178)</u>
Total Other Capital Assets, net	30,155,051	(151,242)	-	30,003,809
Net capital assets	\$ 33,143,897	\$ 394,536	\$ (117,771)	\$ 33,420,662

During the years ended December 31, 2015 and 2014, the District capitalized no interest and expensed \$583,103 and \$610,692 of interest.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014NOTE 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:

Bond Issue	Interest Rate	Face Amount	Amount Due 12/31/2015	Amount Due 12/31/2014
2010 Series A	3.75%	\$ 4,243,100	\$ 4,059,100	\$ 4,108,100
2010 Series B	3.13%	9,000,000	8,909,000	9,000,000
			12,968,100	13,108,100
Loan Issue	Interest Rate	Face Amount	Amount Due 12/31/2015	Amount Due 12/31/2014
KIA C96-01	2.50%	\$ 775,000	167,500	230,000
KIA C88-10 (93E)	2.50%	2,410,000	650,000	827,500
KIA C01-02	2.50%	4,355,000	1,957,500	2,210,000
			2,775,000	3,267,500
Total Long-term debt			\$ 15,743,100	\$ 16,375,600

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Balance at December 31, 2014	Additions	Reductions	Balance at December 31, 2015	Amount Due Within One Year
Long-term debt payable:					
Revenue bonds	\$ 13,108,100	\$ -	\$ (140,000)	\$ 12,968,100	\$ 146,000
Loans	3,267,500	-	(492,500)	2,775,000	492,500
Unamortized discount/premium	(28,412)	-	(5,370)	(33,782)	
Total long-term debt payable	\$ 16,347,188	\$ -	\$ (637,870)	\$ 15,709,318	\$ 638,500

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014

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	\$ 16,889,558	\$ -	\$ (542,370)	\$ 16,347,188	\$ 632,500

Bond and loan maturities in each of the next five years and in five year increments thereafter are as follows at December 31, 2015:

<u>Year</u>	<u>Bonds</u>		<u>Loans</u>		<u>Total</u>	<u>Interest to be paid by Federal Government</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
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	176,000	408,857	317,500	39,083	941,440	50,120
2021-2025	1,008,000	1,948,164	505,000	32,363	3,493,527	236,867
2026-2030	1,266,000	1,761,314	-	-	3,027,314	210,801
2031-2035	1,585,000	1,523,537	-	-	3,108,537	207,108
2036-2040	1,987,000	1,220,893	-	-	3,207,893	123,063
2041-2045	2,492,000	849,496	-	-	3,341,496	68,176
2046-2050	2,885,100	397,227	-	-	3,282,327	10,379
2051-2052	941,000	44,312	-	-	985,312	-
	\$ 12,968,100	\$ 9,842,314	\$ 2,775,000	\$ 439,896	\$ 26,025,310	\$ 1,114,169

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

This fund receives, on a monthly basis, \$27,425 until the balance reaches \$747,000. The fund was fully funded at December 31, 2015 and 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.

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014NOTE 6 - RETIREMENT PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial reports that include financial statements and required supplementary information. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Contributions

For the calendar year ended December 31, 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The District's contractually required contribution rate for the calendar year ended December 31, 2015, was 17.67 percent of creditable compensation from January 1 to June 30 and 17.06 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan from the District were \$187,367.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the District reported a liability of \$1,581,840 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all, actuarially determined. At June 30, 2015, the District's proportion was 0.036791 percent, which was a decrease of .00005 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense of \$177,178. At December 31, 2015, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 13,146	\$ -
Changes in actuarial assumptions	159,511	-
Difference between projected and actual investment earnings	14,180	-
Changes in proportion	-	1,280
Changes in proportionate share of contributions	-	1,037
Contributions paid to CERS subsequent to the measurement date	53,281	-
	<u>\$ 240,118</u>	<u>\$ 2,317</u>

The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$53,281 will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Changes in proportionate share of contributions reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 259
2017	259
2018	259
2019	260
	<u>\$ 1,037</u>

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash	<u>2%</u>	-0.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	2,019,413	1,581,840	1,207,094

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

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
20 or more	10	0%
15-19	7	25%
10-14	5	50%
4-9	2	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.

NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2015 and 2014:

Source	2015	2014
Grants	\$ -	\$ 5,925
Customers	<u>94,794</u>	<u>449,061</u>
	\$ 94,794	\$ 454,986

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, 2015 and 2014 was \$101,620 and \$98,547. The following schedule represents future payments to be received.

2016	\$ 99,712
2017	74,378
2018	75,307
2019	<u>32,832</u>
	<u>\$ 282,229</u>

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014**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.

NOTE 12 – SUBSEQUENT EVENTS

On April 15, 2016, the District entered into a binding arbitration to pay a construction contractor \$158,543.63 in order to settle a legal dispute entered into prior to December 31, 2015. The amount was paid on April 18, 2016 and was accrued as a construction payable and an increase in construction in progress in the December 31, 2015 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

OLDHAM COUNTY WATER DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY**

December 31, 2015

Last 10 Years *

	<u>2015</u>
Proportion of the net pension liability	0.0036791%
Proportionate share of the net pension liability	\$ 1,581,840
Covered - employee payroll	\$ 866,501
Proportionate share of the net pension liability as percentage of covered payroll	182.6%
Plan fiduciary net position as a percentage of the total pension liability	59.97%

* Calendar year 2015 was the first year of implementation, therefore, only one year is shown.

OLDHAM COUNTY WATER DISTRICT**SCHEDULE OF CONTRIBUTIONS TO CERS**

December 31, 2015

Last 10 Years *

	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 109,845
Contribution in relation to the actuarially determined contributions	<u>109,845</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 866,501
Contributions as a percentage of covered employee payroll	10.62%

* Calendar year 2015 was the first year of implementation, therefore, only one year is shown.

OLDHAM COUNTY WATER DISTRICT**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION****FOR THE YEAR ENDED DECEMBER 31, 2015**

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions. The following changes in assumption s were made:

- »»The assumed investment rate of return was decreased from 7.75% to 7.5%.
- »»The assumed rate of inflation was reduced from 3.5% to 3.25%.
- »»The assumed rate of wage inflation was reduced from 1% to .75%.
- »»Payroll growth assumption was reduced from 4.5% to 4%.
- »»The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- »»For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- »»Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

INTERNAL CONTROL AND FISCAL COMPLIANCE

CHRIS R. CARTER, CPA
ANN M. FISHER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



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, 2015, and the related notes to the financial statements and have issued our report thereon dated June 20, 2016.

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.

Shiles, Carter & Associates

Certified Public Accountants

Elizabethtown, Kentucky

June 20, 2016