OLDHAM COUNTY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

OLDHAM COUNTY WATER DISTRICT

CONTENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Oldham County Water District as of and for the years ended December 31, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017 and 2016, 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.

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Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2017, the District adopted Governmental Accounting Standards Board 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,* Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14,* Statement 81, *Irrevocable Split-Interest Agreements* and Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72*. 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 3 to 7, 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 11, 2018, 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.

Stiles, Carter & Associates

Certified Public Accountants
Elizabethtown, Kentucky
June 11, 2018

REQUIRED SUPPLEMENTARY INFORMATION

OLDHAM COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2017

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, 2017. 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 assets of the District exceeded its liabilities at the close of 2017 by $31 million (net position). Of this amount, $7.3 million (unrestricted net position) may be used to meet the District's ongoing obligations to customers and creditors. The District's total net position increased by $1.3 million in 2017. This represents a 4.5% change from the 2016 balance.

- The ending cash and investment balance for the District was $11.4 million. The balance at December 31, 2016, was $10.4 million. This reflects an increase in cash and investments during the year of $1.0 million.

- The District completed its clear well rehabilitation project located at the treatment plant.

- The District invested approximately $672 thousand in capital assets during the year.

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 deferred outflows and liabilities and deferred inflows, 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 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 ANAYLSIS

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 $31 million and $29.6 million as of December 31, 2017 and 2016.

The largest portion of the District's net position (61%) 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, 2017 and 2016

	2017	2016
Assets		
Current and		
Other Assets	$ 14,191,556	$ 13,168,692
Capital Assets	33,302,776	33,572,396
Total Assets	47,494,332	46,741,088
Deferred Outflows of Resources	546,728	260,643
Long-term liabilities	15,636,901	16,001,062
Other Liabilities	1,232,246	1,323,217
Total Liabilities	16,869,147	17,324,279
Deferred Inflows of Resources	217,823	49,393
Net Position		
Net investment in capital assets	19,029,198	18,506,948
Restricted	4,622,893	3,473,726
Unrestricted	7,301,999	7,647,385
Total Net Position	$ 30,954,090	$ 29,628,059

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 4.5% from $7.6 million to $7.3 million at December 31, 2017. Restricted net position increased $1.1 million (33%). Net investment in capital assets increased by $522 thousand (2.8%).

(Table 2)
Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Water sales	$ 4,838,160	$ 4,843,556
Other operating income	327,237	226,641
Total operating revenues	5,165,397	5,070,197
OPERATING EXPENSES:		
Water supply	201,357	197,133
Water treatment	519,639	479,638
Transmission and distribution	845,647	745,344
Customer accounts	514,049	637,527
General and administrative	606,353	598,105
Depreciation	941,370	893,531
Total operating expenses	3,628,415	3,551,278
OPERATING INCOME	1,536,982	1,518,919
NON-OPERATING REVENUES (EXPENSES):		
Investment income	76,859	72,951
Other income	48,395	49,237
Gain (loss) on disposal of capital assets	12,780	(89,896)
Interest expense	(526,280)	(557,301)
Amortization of bond discount and expense	5,370	5,370
TOTAL NON-OPERATING REVENUES (EXPENSES)	(382,876)	(519,639)
Capital contributions	171,925	312,855
Increase in net position	$ 1,326,031	$ 1,312,135
Net position, beginning of year	29,628,059	28,315,924
Net position, end of year	$ 30,954,090	$ 29,628,059

Operating revenue increased 1.9% compared to the prior year. Total operating expenses increased by 2.2% compared to the prior year. Interest expense on long-term debt was stable. 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, 2017 and 2016, the District had $33.3 million and $33.6 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, 2017 and 2016

	2017	2016
Non-Depreciable Assets:		
Land and land rights	$ 2,617,138	$ 2,617,136
Construction in progress	18,893	-
Depreciable Assets:		
Plant and equipment	30,666,745	30,955,260
Total capital assets, net of depreciation	$ 33,302,776	$ 33,572,396

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2017 and 2016

	2017	2016
Beginning balance	$ 33,572,396	$ 33,370,360
Additions	868,793	4,113,893
Retirements	(197,043)	(3,018,326)
Depreciation	(941,370)	(893,531)
Ending balance	$ 33,302,776	$ 33,572,396

Debt

At December 31, 2017 and 2016, the District had $12.7 million and $12.8 million, in revenue bonds outstanding and other loans of $1.7 million and $2.3 million. A total of $0.7 million is due within the 2018 calendar year.

(Table 5)
Outstanding Debt
as of December 31, 2017 and 2016

	2017	2016
Revenue bonds	$ 12,668,100	$ 12,822,100
Loans	1,650,000	2,282,500
Unamortized discount	(113,298)	(126,566)
Unamortized premium	68,776	87,414
	$ 14,273,578	$ 15,065,448

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 Lacey Cunningham, Finance & Administrative Manager, P.O. Box 51, Buckner, Kentucky 40031, (502) 222-1690.

BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,111,745	$ 3,314,975
Accounts receivable, net	599,863	530,898
Prepaid expenses	34,238	69,136
Materials and supplies	448,023	661,571
TOTAL CURRENT ASSETS	4,193,869	4,576,580
NONCURRENT ASSETS:		
Restricted cash	4,622,893	3,473,726
Investments	3,652,876	3,607,522
Regulatory asset - CERS pension	1,721,918	1,510,864
Non-depreciable capital assets	2,636,031	2,617,138
Depreciable capital assets, net of accumulated depreciation	30,666,745	30,955,258
TOTAL NONCURRENT ASSETS	43,300,463	42,164,508
TOTAL ASSETS	47,494,332	46,741,088
DEFERRED OUTFLOWS OF RESOURCES		
Deferrred outflows of resources - CERS	546,728	260,643
TOTAL DEFERRED OUTFLOWS OF RESOURCES	546,728	260,643
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	45,443	63,964
Accrued vacation	46,260	54,700
Tax collections	13,237	13,433
Other collections	131,294	116,728
Accrued payroll and taxes	50,196	25,341
Other accrued expenses	48,020	48,809
Accrued interest	210,296	213,742
Bonds and loans payable	687,500	786,500
TOTAL CURRENT LIABILITIES	1,232,246	1,323,217
NONCURRENT LIABILITIES:		
Net pension liability	2,050,823	1,722,114
Bonds and loans payable	13,586,078	14,278,948
TOTAL NONCURRENT LIABILITIES	15,636,901	16,001,062
TOTAL LIABILITIES	16,869,147	17,324,279
DEFERRED INFLOWS OF RESOURCES		
Deferrred intflows of resources - CERS	217,823	49,393
TOTAL DEFERRED INFLOWS OF RESOURCES	217,823	49,393
NET POSITION		
Net investment in capital assets	19,029,198	18,506,948
Restricted for debt service	2,430,961	2,416,224
Restricted for depreciation	2,191,932	1,057,502
Unrestricted	7,301,999	7,647,385
TOTAL NET POSITION	$ 30,954,090	$ 29,628,059

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, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Water sales	4,838,160	4,843,556
Other operating income	327,237	226,641
TOTAL OPERATING REVENUES	5,165,397	5,070,197
OPERATING EXPENSES:		
Water supply	201,357	197,133
Water treatment	519,639	479,638
Transmission and distribution	845,647	745,344
Customer accounts	514,049	637,527
General and administrative	606,353	598,105
Depreciation	941,370	893,531
TOTAL OPERATING EXPENSES	3,628,415	3,551,278
OPERATING INCOME	1,536,982	1,518,919
NON-OPERATING REVENUES (EXPENSES):		
Investment income	76,859	72,951
Other income	48,395	49,237
Gain (loss) on disposal of capital assets	12,780	(89,896)
Interest expense	(526,280)	(557,301)
Amortization of bond discount and premium	5,370	5,370
TOTAL NON-OPERATING REVENUES (EXPENSES)	(382,876)	(519,639)
CAPITAL CONTRIBUTIONS	171,925	312,855
CHANGE IN NET POSITION	1,326,031	1,312,135
NET POSITION, beginning of year	29,628,059	28,315,924
NET POSITION, end of year	$ 30,954,090	$ 29,628,059

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

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 5,096,433	$ 5,023,073
Payments to suppliers	(737,253)	(898,293)
Payments to employees	(1,693,320)	(1,553,637)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,665,860	2,571,143
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(154,000)	(146,000)
Principal payments on notes	(632,500)	(492,500)
Acquisition of capital assets	(671,749)	(1,022,414)
Contributions in aid of construction	171,925	146,610
Interest paid	(477,883)	(510,505)
Sale of capital assets	12,780	3,196
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,751,427)	(2,021,613)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(45,354)	(44,912)
Investment income	76,858	72,951
NET CASH PROVIDED BY INVESTING ACTIVITIES	31,504	28,039
NET INCREASE IN CASH	945,937	577,569
CASH AND RESTRICTED CASH, beginning of year	6,788,701	6,211,132
CASH AND RESTRICTED CASH, end of year	$ 7,734,638	$ 6,788,701
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,536,982	$ 1,518,919
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	941,370	893,531
(Increase) in accounts receivable	(68,965)	(47,124)
Decrease in prepaids	34,898	125,401
Decrease in materials and supplies	213,548	163,964
(Decrease) in accounts payable	(18,524)	(156,903)
Increase (decrease) in accrued vacation	(8,440)	54,700
Increase in other liabilities	34,991	18,655
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,665,860	$ 2,571,143

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, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

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

B. BASIC FINANCIAL STATEMENTS

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

(Continued next page)

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. Because the District's rates are regulated by the Kentucky Public Service Commission the District accounts for the financial effects of regulation in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, Paragraphs 476-500, Regulated Operations. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

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, 2017 and 2016, accounts receivable was stated net of an allowance for uncollectible accounts of $29,507 and $29,579. Bad debt expense for 2017 was $8,851 and 2016 was $2,827. 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 a 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 accrues unpaid vacation when earned by the employee.

(Continued next page)

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.

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, 2016, the District adopted the provisions of GASB Statement No. 62, Paragraphs 476-500, Regulated Operations with respect to its participation in the County Employees Retirement System. The District presents comparative financial statements so the restatement was made through the December 31, 2015 amounts. The effect of the restatement was to record a regulatory asset of $1,344,039, a change to beginning net position of $1,272,899 and a decrease in pension expense of $71,141which was reflected through the change in net position.

(Continued next page)

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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.

    The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions. Accordingly, the District recognizes the actuarially determined contribution as the current year pension expense.

16. Impact Of Recently Issued Accounting Principles

    Recently Issued And Adopted Accounting Principles

    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. This statement was adopted during the year ended December 31, 2017 and did not have an impact on the District's financial statements.

    In January 2016, the GASB issued Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*. This statement is effective for periods beginning after June 15, 2016. This statement was adopted during the year ended December 31, 2017 and did not have an impact on the District's financial statements.

    In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements*. This statement is effective for periods beginning after December 15, 2016. This statement was adopted during the year ended December 31, 2017 and did not have an impact on the District's financial statements.

    In March 2016, the GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72*. This statement is effective for periods beginning after June 15, 2016 except for the requirements of the Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement was adopted during the year ended December 31, 2017 and did not have an impact on the District's financial statements.

(Continued next page)

Recently Issued Accounting Pronouncements

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.

In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. 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.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. 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.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. 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, 2017 and 2016, $11,183,970 and $10,320,609 of the District's bank balance of $11,433,970 and $10,576,112 was exposed to custodial credit risk. For 2017 and 2016, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution. The District's policy is to have all deposited fully secured by FDIC or pledged securities.

(Continued next page)

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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, 2017 and 2016:

Restricted For	December 31, 2017	December 31, 2016
Debt service	$ 2,430,961	$ 2,416,224
Depreciation fund	2,191,932	1,057,502
	$ 4,622,893	$ 3,473,726

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 follows.

	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
Non-Depreciable Assets:				
Land and land rights	$ 2,617,138	$ -	$ -	$ 2,617,138
Construction in progress	-	215,936	(197,043)	18,893
Total Capital Assets Not Being Depreciated	2,617,138	215,936	(197,043)	2,636,031
Capital Assets Being Depreciated:				
Plant and equipment	46,249,024	652,857	(50,755)	46,851,126
Total Capital Assets Being Depreciated at historical cost	46,249,024	652,857	(50,755)	46,851,126
Less: accumulated depreciation	(15,293,766)	(941,370)	50,755	(16,184,381)
Total Other Capital Assets, net	30,955,258	(288,513)	-	30,666,745
Net capital assets	$ 33,572,396	$ (72,577)	$ (197,043)	$ 33,302,776

Capital asset activity for the year ended December 31, 2016 follows.

	Balance at December 31, 2015	Additions	Retirements	Balance at December 31, 2016
Non-Depreciable Assets:				
Land and land rights	$ 1,738,879	$ 878,259	$ -	$ 2,617,138
Construction in progress	2,217,049	708,183	(2,925,232)	-
Total Capital Assets Not Being Depreciated	3,955,928	1,586,442	(2,925,232)	2,617,138
Capital Assets Being Depreciated:				
Plant and equipment	44,183,497	2,527,451	(461,924)	46,249,024
Total Capital Assets Being Depreciated at historical cost	44,183,497	2,527,451	(461,924)	46,249,024
Less: accumulated depreciation	(14,769,065)	(893,531)	368,830	(15,293,766)
Total Other Capital Assets, net	29,414,432	1,633,920	(93,094)	30,955,258
Net capital assets	$ 33,370,360	$ 3,220,362	$ (3,018,326)	$ 33,572,396

During the years ended December 31, 2017 and 2016, the District capitalized no interest and expensed $526,280 and $557,301 of interest.

(Continued next page)

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 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:

Long-term debt

Bond Issue	Interest Rate	Face Amount	Amount Due 12/31/2017	Amount Due 12/31/2016
2010 Series A	3.75%	$ 4,243,100	$ 3,954,100	$ 4,008,100
2010 Series B	3.13%	9,000,000	8,714,000	8,814,000
			12,668,100	12,822,100

Loan Issue	Interest Rate	Face Amount	Amount Due 12/31/2017	Amount Due 12/31/2016
KIA C96-01	2.50%	$ 775,000	35,000	102,500
KIA C88-10 (93E)	2.50%	2,410,000	200,000	485,000
KIA C01-02	2.50%	4,355,000	1,415,000	1,695,000
			1,650,000	2,282,500
Total Long-term debt			$ 14,318,100	$ 15,104,600

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Balance at December 31, 2016	Additions	Reductions	Balance at December 31, 2017	Amount Due Within One Year
Long-term debt payable:					
Revenue bonds	$ 12,822,100	$ -	$(154,000)	$ 12,668,100	$ 160,000
Loans	2,282,500	-	(632,500)	1,650,000	527,500
Unamortized discount	(126,566)	-	13,268	(113,298)	-
Unamortized premium	87,414	-	(18,638)	68,776	-
Total long-term debt payable	$ 15,065,448	$ -	$(791,870)	$ 14,273,578	$ 687,500

(Continued next page)

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Balance at December 31, 2015	Additions	Reductions	Balance at December 31, 2016	Amount Due Within One Year
Long-term debt payable:					
Revenue bonds	$ 12,968,100	$ -	$(146,000)	$ 12,822,100	$ 154,000
Loans	2,775,000	-	(492,500)	2,282,500	632,500
Unamortized discount	(139,834)	-	13,268	(126,566)	-
Unamortized premium	106,052	-	(18,638)	87,414	-
Total long-term debt payable	$ 15,709,318	$ -	$(643,870)	$ 15,065,448	$ 786,500

Bond and loan maturities in each of the next five years and in five year increments thereafter are as follows at December 31, 2017:

	Bonds		Loans			Interest to be paid by Federal
Year	Principal	Interest	Principal	Interest	Total	Government
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	183,000	402,543	335,000	24,160	944,703	49,158
2022	192,000	396,369	170,000	8,203	766,572	48,298
2023-2027	1,106,000	1,878,495	-	-	2,984,495	227,150
2028-2032	1,384,000	1,674,224	-	-	3,058,224	198,716
2033-2037	1,735,000	1,409,146	-	-	3,144,146	159,871
2038-2042	2,176,000	1,082,218	-	-	3,258,218	113,062
2043-2047	2,728,000	675,841	-	-	3,403,841	55,629
2048-2052	2,660,100	226,107	-	-	2,886,207	4,511
	$ 12,668,100	$ 8,987,493	$ 1,650,000	$ 201,100	$ 23,506,693	$ 1,008,827

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, 2017 and 2016.This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

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NOTE 6 - RETIREMENT PLAN

Plan 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 (KRS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements, required supplementary information and detailed information about CERS' fiduciary net position. 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. Effective July 1, 2009, and on July 1 of each year thereafter, 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 has the authority to increase, suspend or reduce COLAs. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

Contributions

For the calendar year ended December 31, 2017, plan members who began participating prior to, or, or after 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. Plan members who began participating prior to September 1, 2008 are considered in the Tier 1 structure of benefits and plan members who began participating September 1, 2008 through December 31, 2013 are considered in the Tier 2 structure of benefits.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined

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benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District's contractually required contribution rate for the calendar year ended December 31, 2017, was 13.95 percent of creditable compensation from January 1 to June 30 and 14.48 percent of creditable compensation from July 1 to December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2016, was 12.42 percent of creditable compensation from January 1 to June 30 and 13.95 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan for the years ended December 31, 2017 and 2016 from the District were $127,995 and $109,171. At December 31, 2017 and 2016, the District owed $20,370 and $22,909 to the plan for employer and member contributions for December.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the District reported a liability of $2,050,823 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 using standard roll-forward techniques. 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, 2017, the District's proportion was 0.035037 percent, which was an increase of .00006 percent from its proportion measured as of June 30, 2016.

For the years ended December 31, 2017 and 2016, the District recognized pension expense of $127,995 and $109,171. At December 31, 2017, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 2,544	$ 52,059
Changes in actuarial assumptions	378,432	-
Difference between projected and actual investment earnings	162,423	137,056
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,329	28,708
	$ 546,728	$ 217,823

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Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2018	$ 137,650
2019	148,126
2020	69,463
2021	(26,334)
	$ 328,905

The total pension liability in the June 30, 2017 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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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.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yiewld	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year(closed) amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	$ 2,586,531	$ 2,050,823	$ 1,602,707

Pension 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, 2017 and 2016:

Source	2017	2016
Customers	$ 171,925	$ 312,855

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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, 2017 and 2016 was $107,816 and $101,677. The following schedule represents future payments to be received.

2018	$ 97,200
2019	50,697
2020	52,218
2021	53,785
	$ 253,900

NOTE 10 – 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. Any settlements did not exceed coverage for each of the past three years.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of the cases presently in progress.

The District has construction commitments for ongoing projects.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss.

REQUIRED SUPPLEMENTARY INFORMATION

OLDHAM COUNTY WATER DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

December 31, 2017

Last 10 Years *

	2017	2016	2015
Proportion of the net pension liability	0.0035037%	0.0034977%	0.0036791%
Proportionate share of the net pension liability	$ 2,050,823	$ 1,722,114	$ 1,581,840
Covered - employee payroll	$ 869,703	$ 824,735	$ 872,018
Proportionate share of the net pension liability as percentage of covered payroll	235.8%	208.8%	181.4%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

* Calendar year 2015 was the first year of implementation, therefore, only three years are shown.

OLDHAM COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS

December 31, 2017

Last 10 Years *

	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 127,995	$ 109,171	$ 109,845
Contribution in relation to the actuarially determined contributions	127,995	109,171	109,845
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employee payroll	$ 899,670	$ 824,784	$ 866,501
Contributions as a percentage of covered employee payroll	14.23%	13.24%	10.62%

* Calendar year 2015 was the first year of implementation, therefore, only three years are shown.

OLDHAM COUNTY WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2017

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

Changes of assumptions:

1. Decrease the price inflation assumption to 3.25 % to 2.30%
2. Decrease the assumed rate of return from 7.50% to 6.25%;
3. Decrease the payroll growth assumption from 4.00% to 2.00%

INTERNAL CONTROL AND FISCAL COMPLIANCE

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTINGAND 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, 2017, and the related notes to the financial statements and have issued our report thereon dated June 11, 2018.

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.

Stiles, Carter & Associates
Certified Public Accountants
Elizabethtown, Kentucky
June 11, 2018