

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**

**REPORT TO MANAGEMENT**

**FOR THE YEAR ENDED**

**JUNE 30, 2019**

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October 6, 2019

To the Board of Directors  
Oldham County Environmental Authority  
Lagrange, Kentucky

I have audited the financial statements of the Oldham County Environmental Authority for the year ended June 30, 2019. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated May 17, 2018. Professional standards also require that I communicate to you the following information related to my audit.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Procedures**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Oldham County Environmental Authority, Kentucky are described in note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. I noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Oldham County Environmental Authority, Kentucky's financial statements was:

Management's estimate of the depreciable lives of fixed assets is based on estimated life of the assets. I evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The Disclosure of debt in Note 6 to the financial statements.

#### **Difficulties Encountered in Performing the Audit**

I encountered no significant difficulties in dealing with management in performing and completing my audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material misstatements identified during the audit.

#### **Disagreements with Management**

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or to the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

#### **Management Representations**

I have requested certain representations from management that are included in the management representation letter dated October 6, 2019

#### **Management Consultation with Other Independent Accountants**

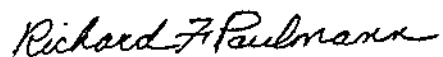
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves application of an accounting principle to the association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of my professional relationship and our responses were not a condition to my retention.

This information is intended solely for the use of the Board of Directors and management of Oldham County Environmental Authority, Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Richard F. Paulmann". The signature is written in a cursive, flowing style.

Richard F. Paulmann, CPA, LLC

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October 6, 2019

To the Board of Directors  
Oldham County Environmental Authority  
Lagrange, Kentucky

In planning and performing my audit of the financial statements of Oldham County Environmental Authority, Kentucky for the year ended June 30, 2019, I considered Oldham County Environmental Authority, Kentucky's internal control to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

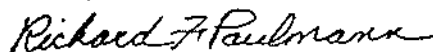
However, during my audit I became aware of one matter that is an opportunity for strengthening internal controls and operating efficiency. This letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated October 6, 2019, on the financial statements of Oldham County Environmental Authority, Kentucky.

I will review the status of these comments during my next audit engagement. I may have already discussed some of these comments and suggestions with Oldham County Environmental Authority's personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. My comments are summarized as follows:

- 1.) The audit trail feature in the Quick Books Software should be reviewed quarterly by Art Henson and questions asked on large items showing altered, changed from previous. Please back up the audit trail and maintain it for period of 5 years.
- 2.) All tanks should be surrounded by barb wire, padlocked, and have written on them in large three foot letters private property do not enter. Trail cameras should also be placed facing your telemetry equipment at these sites.

This report is intended solely for the information and use of the Board of Directors, management, and others within Oldham County Environmental Authority, Kentucky and is not intended to be and should not be used by anyone other than those specified parties.

Sincerely,



Richard F. Paulmann CPA, LLC

**OLDHAM COUNTY  
ENVIRONMENTAL AUTHORITY  
LaGrange, Kentucky**

**FINANCIAL STATEMENTS  
June 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Oldham County Environmental Authority  
LaGrange, Kentucky

**Report on the Financial Statements**

I have audited the accompanying financial statements of the Oldham County Environmental Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Oldham County Environmental Authority'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***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

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

***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oldham County Environmental Authority, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–9 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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*, I have also issued my report dated October 6, 2019, on my consideration of the Oldham County Environmental Authority's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oldham County Environmental Authority's internal control over financial reporting and compliance.



Richard F. Paulmann CPA, LLC  
Pewee Valley, Kentucky  
October 6, 2019

## OLDHAM COUNTY ENVIRONMENTAL AUTHORITY

### Management's Discussion and Analysis

The management of the Oldham County Environmental Authority ("OCEA") desires to offer the readers of these financial statements this narrative and analysis of the financial condition and activities for the fiscal year ended June 30, 2019. This information should be read in conjunction with the audited financial statements.

#### Overview

On September 21, 2010, Oldham County Fiscal Court approved Ordinance #KOC 10-820-907 establishing a special district in Oldham County to be known as the Oldham County Environmental Authority ("OCEA"). The ordinance combined the rights and responsibilities of the Oldham County Sewer District and the Oldham County Storm Water District effective November 1, 2010. The Oldham County Sewer District and the Oldham County Storm Water District, in an effort to achieve certain economies of scale beneficial to the citizens of Oldham County, had recommended vesting of these rights and responsibilities into a single special district. Further, each assigned the rights and obligations under existing contracts to the OCEA. The Oldham County Sewer District ("OCSD") was created by Ordinance Number 96-830-26 of the Oldham County Fiscal Court pursuant to the provisions of Kentucky Revised Statutes ("KRS") 67.033(3)(c)(h) and (r) and 67.715(2). OCSD was created, formed and structured so that it has all powers and duties to reasonably, necessarily and effectively implement the provisions of and carry out the duties prescribed by and consistent with KRS chapter 220 as a countywide sewer district for the purpose of acquiring, constructing, operating and maintaining sanitary sewer systems. OCSD's jurisdictional boundaries include all of Oldham County with the exception of the incorporated cities of LaGrange, Pewee Valley and Crestwood.

The Oldham County Storm Water District ("the District") was created by Ordinance No. KOC, 08-150-779 dated August 6, 2008, of the Oldham County Fiscal Court pursuant to the provisions of Kentucky Revised Statutes Chapter 67.715(2) and Chapter 67.033(3) (c), (h) and (r). The District has all powers and duties to reasonably, necessarily and effectively implement the provisions of and carry out the duties prescribed by KRS Chapter 220 as it applies to the administration and funding of storm water management and the mitigation of surface water pollution. One of the major objectives is to assist in educating the public about clean water. Each and every individual in our county, as well as builders and other professionals, play a vital role in the future of clean water in Oldham County. We must all work together to ensure the health of our streams and waterways for the future. The District is established for the purposes enumerated in KRS Chapter 220.030(1-3, 6) which includes providing for the collection and disposal of storm water, treatment and disposal, to build, maintain, operate and repair storm water improvements and related facilities, and do all other things necessary for the fulfillment of the purposes of KRS 220.010 to 220.520 as they relate to storm water, water pollution and the public welfare. Effective August 27, 2016 by Ordinance No. KOC 16-610-248, dated July 19, 2016, the Oldham County Fiscal Court removed the responsibilities of storm water management previously granted to OCEA and re-established the Oldham County Storm Water Management District as an entity pursuant to Kentucky Revised Statutes KRS 67.715 and KRS 67.083. The District has all powers and duties to reasonably, necessarily and effectively implement the provisions of and carry out the

duties prescribed by KRS Chapter 220, as it applies to the administration and funding of storm water management and the mitigation of surface water pollution.

### **Financial Highlights**

The Oldham County Sewer District awarded a ten year contract effective November, 15, 2008 to Veolia Water North America to manage the operations of OCSD. All employees of the District were given the opportunity to work for Veolia for the same wages subject to applying and meeting Company hiring policies.

The District entered a contract with Veolia Water North America effective November 19, 2015 for 77 months

### **Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction to the OCEA's basic financial statements. The OCEA's basic financial statements are comprised of two components: 1) the financial statements and 2) notes to the financial statements that explain in more detail some of the information in the financial statements.

### **Required Financial Statements**

The financial statements of the OCEA report information about the OCEA using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about the OCEA's overall financial status.

The Statement of Net Position presents information on all of the OCEA's assets and liabilities, with the difference between the two reported as net position. This statement provides information about the nature and amounts of investment in resources (assets) and the obligations to OCEA creditors (liabilities). It provides one way to measure the financial health of the OCEA by providing the basis for evaluating the capital structure of the OCEA and assessing the liquidity and financial flexibility of the OCEA. However, one will need to consider other non financial factors such as changes in economic conditions, population and industrial/commercial customer growth, and new or changed government legislation.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the OCEA's operations over the past year and can be used to determine whether the OCEA has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## Financial Analysis of the OCEA

### Net Assets

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the OCEA, assets exceeded liabilities by \$13.7 million at the close of the most recent fiscal year.

**Table A – 1**  
**Condensed Summary of Net Assets**

	2019	2018
Current and Other Assets	\$4,290,961	\$3,701,326
Capital Assets	<u>38,320,180</u>	<u>38,132,090</u>
Total Assets	<u>42,611,141</u>	<u>41,833,416</u>
Current Liabilities	1,944,314	1,920,232
Noncurrent Liabilities	<u>26,931,573</u>	<u>27,114,889</u>
Total Liabilities	<u>28,875,887</u>	<u>29,035,121</u>
Total Net Assets	<u>\$13,735,254</u>	<u>\$12,798,295</u>

As can be seen in Table A - 1 above, the largest portion of the OCEA's assets (90.0% at June 30, 2019) reflects its investment in capital assets (e.g., sewers, buildings, machinery and equipment), less any accumulated depreciation. The OCEA uses these capital assets to provide sewerage treatment services for the entire OCEA service area; consequently, these assets are not available for future spending. While the debt was used to acquire the capital assets, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.

Current and other assets increased \$589,635 from 2018 to 2019. The primary reason for this increase is the payment of capacity fees and no during the fiscal year, bond funds held in trust to fund the construction of a new regional waste water treatment plant and other improvements were not used. \$1,732,381 of these funds had not been spent as of June 30, 2019.

While the Summary of Net Assets (Table A – 1) shows the change in our financial position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Table A-2 below, for the fiscal year ended 2019, total operating revenues increased \$392,102 or 5.66% and operating expenses, excluding depreciation, increased \$319,907 or 7.49%. The major factors which drove these results include:

Sewer rates were increased 6.0% effective July 14, 2018 with no change in the capex charge. The expected increase in revenues was \$248,000. Industrial revenues were up \$92,000.

The operating expenses increased mainly due to increase maintenance cost along with increase cost for electricity and chemicals.

Nonoperating expenses went from \$(472,590) to \$(415,430) or a decrease in cost of \$57,160. Interest expense was up \$16,683. This was due to additional borrowings. Capacity charges increased by \$58,692 as development continued to be strong and stronger interest rates led to an increase in interest income of \$15,151

**Table A-2  
Condensed Summary of Revenues,  
Expenses, and Changes in Net Assets**

	2019	2018
Operating Revenues		
Charges for services	<u>\$6,933,164</u>	<u>\$6,541,062</u>
Operating Expenses		
Service, Admin & Other Cost	4,269,327	3,949,420
Depreciation & Amortization	<u>1,311,448</u>	<u>1,316,863</u>
Total Operating Expenses	<u>5,580,775</u>	<u>5,266,283</u>
Net Operating Income (Loss)	<u>1,352,389</u>	<u>1,274,779</u>
Nonoperating Income (Expenses) Net	<u>(415,430)</u>	<u>(472,590)</u>
Changes in Net Position	936,959	802,189
Beginning Net Position	<u>12,798,295</u>	<u>11,996,106</u>
Ending Net Position	<u>\$13,735,254</u>	<u>\$12,798,295</u>

## Capital Assets and Debt Administration

### Capital Assets

As of June 30, 2019, the District's investment in capital assets amounted to \$38.3 million (net of accumulated depreciation) as shown in Table A-3 below. A major capital project was started during the current year. This project will allow the removal of the Ash Avenue Plant after the construction of a pipeline and lift stations. The total investment in infrastructure cost will be significant for this project requiring significant borrowings. OCEA has obtained a low

interest loan to pay for this pipeline in the amount of \$6.3 million dollars. OCEA, per agreed order, will be making improvements to existing pipeline to reduce inflow and infiltration into the sewer system. A \$2.0 million loan was obtained to pay for these improvements

**Table A-3  
Capital Assets**

	2019	2018
Land	\$ 861,375	\$ 759,722
Sewer distribution system\		
Treatment Plants	49,247,486	47,005,361
Equipment	33,544	33,544
Construction in Progress	<u>160,000</u>	<u>1,004,237</u>
Subtotal	50,302,405	48,802,864
Less Accumulated Depreciation	<u>11,982,225</u>	<u>10,670,777</u>
Net Property, Plant and Equipment	<u>\$38,320,180</u>	<u>\$38,132,087</u>

**Debt Administration**

Indebtedness outstanding at June 30, 2019 totaled \$28,172,644. Of this, \$15,581,000 is general obligation indebtedness of Oldham County Fiscal Court. The district has agreed to make all interest and principal payments on this debt, and to set sewer rates at levels that will enable the District to do so. Oldham County Fiscal Court has a Standard & Poor's bond rating of AA+.

**Budget and Actual Results Comparison**

Table A-4 below shows a summary of the original budget and final budget, final results and the variance, positive or (negative)

	Budget Original & Final	Actual Results	Variance Positive (Negative)
Operating Revenue	\$ 6,861,422	\$ 6,933,164	\$ 71,742
Capacity and Assessment charges	100,000	350,520	250,520
All other income	10,000	32,737	22,737
<b>TOTAL REVENUE</b>	<u>6,971,422</u>	<u>7,316,421</u>	<u>344,999</u>
Service and administrative cost	4,303,534	4,269,327	34,207
Depreciation and Amortization	1,450,000	1,311,448	138,552
<b>Total Operating Expenses</b>	<u>5,753,534</u>	<u>5,580,775</u>	<u>172,759</u>
Interest	838,681	798,687	39,994
<b>Total Expenses</b>	<u>6,592,215</u>	<u>6,379,462</u>	<u>212,753</u>
<b>Net Income (Loss)</b>	<u>\$ 379,207</u>	<u>\$ 936,959</u>	<u>\$ 557,752</u>

The major items that caused a variation from the budget amount are:  
Total revenue exceeded budget as Capacity Fees exceeded budget by \$250,520.  
Depreciation was under budget as pipeline construction related to the eventual removal of the Ash Avenue was delayed as project scopes were changing. Interest was less than budget due to this delayed as additional loans were not used for construction of projects.

### **Economic Factors and Next Year's Budgets and Rates**

The OCEA anticipates major capital project expenditures to continue into fiscal year 2020 with associated financing to eliminate package plants as per an agreed order entered into with the Kentucky Division of Water ("DOW"). The District has addressed capacity issues at plants that are under tap on bans due to being at or over their designed capacity. DOW previously indicated that the District needed to remove five of the package plants over a five year timeline. Four plants came off line in Fiscal Year 2013. From 1996 to Fiscal Year 2013, the District had built only one new regional facility (the Ohio River WWTP) and eliminated only three package plants. The District eliminated the Green Valley plant, the Buckner plant, the Covered Bridge plant and the Willow Creek plant during Fiscal Year 2013. The District has constructed a new South Oldham Regional Facility (SORF) that became fully operational during fiscal year 2017. The District decommissioned the Orchard Grass plant during Fiscal Year 2018 and is taking the flow to the new SORF plant. Construction started for taking the Ash Avenue plant off line by taking the flow to the new SORF plant as well. The pipeline from Friendship Manor to the Ash Avenue plant has been constructed. OCEA is in talks with MSD about taking the Ash Avenue flow to their facilities versus the new SORF plant.

The budget for fiscal year 2020 kept rates the same. Revenues are sufficient to cover all cost and payments on current as well as anticipated additional debt. The budget assumes a debt coverage ratio of 1.10. The OCEA has received loans from the Kentucky Infrastructure Authority totaling \$6,173,575 at an interest rate of 2% that were used to meet the



requirements of DOW, including \$2,538,415 to eliminate the Willow Creek and Orchard Grass plants, \$2,843,153 to take the flow from the Buckner plant to KSR, \$121,419 to eliminate the Green Valley plant and \$670,588 for work on the Covered Bridge plant. A loan from the Kentucky Infrastructure Authority for \$1,000,000 at an interest rate of 3% was used to make improvements to lines and replace the 1793 lift station. A loan from the Kentucky Infrastructure Authority for \$6,500,000 at an interest rate of 1.75% along with a GO Bond issued by Oldham County Fiscal Court for \$10,000,000 with an effective interest rate of 2.81% were used for construction of the new Waste Water Treatment plant, decommissioning of the Orchard Grass plant and start of work of taking the Ash Avenue package plant off line. The OCEA has obtained a loan from the Kentucky Infrastructure Authority for \$6,300,000 for completion of taking the Ash Avenue Plant offline and taking the flow to the new SORP plant or MSD and a \$2,000,000 additional loan from the Kentucky Infrastructure Authority for work related to the DOW agreed order regarding inflow and infiltration.

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY  
STATEMENT OF NET POSITION**

June 30, 2019

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 2,878,265
Accounts Receivable	1,314,877
Prepaid Expense	500

Total current assets	<u>4,193,642</u>
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Noncurrent Assets

Assessment receivable	97,319
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Capital Assets

Construction in progress	160,000
Land	861,375
Plant and distribution system	49,247,486
Equipment	33,544
Less: accumulated depreciation	<u>(11,982,225)</u>

Total capital assets	<u>38,320,180</u>
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Total assets	<u><u>\$ 42,611,141</u></u>
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**LIABILITIES**

Current liabilities

Accounts payable	\$ 267,913
Accrued interest	72,467
Current portion of notes payable	789,905
Current portion of bonds payable	<u>814,029</u>

Total current liabilities	<u>1,944,314</u>
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Noncurrent liabilities

Unearned tap fees	434,809
Notes payable	14,126,676
Bonds payable	12,452,783
Unamortized bond premiums	155,875
Less Deferred Financing Costs	<u>(238,570)</u>

Total noncurrent liabilities	<u>26,931,573</u>
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Total liabilities	<u>28,875,887</u>
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**NET POSITION**

Net investment in capital assets	9,980,912
Unrestricted	<u>3,754,342</u>

Total net position	<u>13,735,254</u>
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Total liabilities and net position	<u><u>\$ 42,611,141</u></u>
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The accompanying notes are an integral part of the financial statements

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>OPERATING REVENUES</b>	
Charges for services	<u>\$ 6,933,164</u>
 <b>OPERATING EXPENDITURES</b>	
Administration	4,269,327
Depreciation	<u>1,311,448</u>
 Total operating expenses	<u>5,580,775</u>
 <b>OPERATING INCOME</b>	 1,352,389
 <b>OTHER INCOME (EXPENSE)</b>	
Interest income	32,737
Interest expenses	(798,687)
Capacity and assessment charges	<u>350,520</u>
 Total other income (expense)	<u>(415,430)</u>
 <b>CHANGE IN NET POSITION</b>	 936,959
Net position - beginning of year	<u>12,798,295</u>
Net position - ending of year	<u><u>\$ 13,735,254</u></u>

The accompanying notes are an integral part of the financial statements

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 6,837,075
Payments to suppliers	<u>(4,312,568)</u>
Net cash provided by operating activities	<u>\$ 2,524,507</u>
<b>CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES</b>	
Borrowings from notes and bonds	1,398,930
Payment of principal on notes and bonds	(1,521,278)
Interest expense	(792,831)
Gain sale fixed assets	-
Purchase of property and equipment	(1,499,539)
Capacity fees	<u>350,520</u>
Net cash (used in) capital financing activities	(2,064,198)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Interest income	<u>32,737</u>
<b>NET INCREASE IN CASH</b>	\$ 493,046
CASH, BEGINNING OF YEAR	<u>2,385,219</u>
<b>CASH, END OF YEAR</b>	<u>\$ 2,878,265</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 1,352,389
Adjustments to reconcile changes in net position to net cash provided by operating activities:	
Depreciation expense	1,311,448
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(96,089)
(Increase) decrease in assessment receivable	-
(Increase) decrease in prepaids	(500)
Increase (decrease) in accounts payable	(42,741)
Increase (decrease) in unearned tap fees	<u>-</u>
Net cash provided by operating activities	<u>\$ 2,524,507</u>

The accompanying notes are an integral part of the financial statements

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

On September 21, 2010, Oldham County Fiscal Court approved Ordinance No. KOC 10-820-907 establishing a special district in Oldham County to be known as the Oldham County Environmental Authority ("OCEA"). The ordinance combined the rights and responsibilities of the Oldham County Sewer District and the Oldham County Storm Water District effective November 1, 2010. The Oldham County Sewer District and the Oldham County Storm Water District, in an effort to achieve certain economies of scale beneficial to the citizens of Oldham County, had recommended vesting of these rights and responsibilities into a single special district. Further, each assigned the rights and obligations under existing contracts to the OCEA. On July 19, 2016, Oldham County Fiscal Court approved Ordinance KOC 16-610-248 to remove the responsibilities previously granted to the OCEA and re-established the Oldham County Storm Water District as an entity pursuant to KRS 67.715 and KRS 67.083. All assets related to storm water were transferred to the re-established Oldham County Storm Water District effective August 27, 2016.

The Oldham County Sewer District was created to manage the collection and disposal of sewage and other liquid wastes in Oldham County, Kentucky, to prevent and correct pollution of streams and provide general public health, safety, and welfare. Recognizing the necessity to construct, operate and maintain sanitation facilities conducive to that end, the District was formed and structured so that it has all powers and duties to reasonably, necessarily and effectively implement the provisions of and carry out the duties prescribed by and consistent with KRS chapter 220.

**Basis of Accounting**

The Authority is accounted for as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The basic financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Authority has adopted GASS Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The Authority has elected to apply all applicable GASS pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASS pronouncements

**Basis of Presentation**

These financial statements follow the provisions of GASB Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, GASB Statement No. 34 established standards for external reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenue, expenses and changes in net position and a statement of cash flows, It requires the classification of net assets into three components - net investment in capital assets, restricted and unrestricted, These classifications are as follows:

Net investment in capital assets - This component of net assets consist of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, If there are significant unspent proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt That portion of the debt is included in the same net assets component as the unspent proceeds,

Restricted net assets - This component of net assets consist of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants) grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation,

Unrestricted net assets - This component of net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt

**Component Unit Presentation**

The Authority's basic financial statements include the accounts of all Authority operations, The Authority's criteria for including organizations as component units with the Authority's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards include whether:

- The organization is legally separate (can sue and be sued in their own name),
- The Authority holds the corporate powers of the organization,
- The Authority appoints voting majority of the organization's board,
- The Authority is able to impose its will on the organization,
- The organization has the potential to impose a financial benefit/burden on the Authority,
- There is fiscal dependency by the organization on the Authority,

Based on the aforementioned criteria, the Authority has no component units.

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured. Basis of accounting refers to when revenues and expenditures are recognized in the reports and reported in the financial statements. The basis of accounting also refers to the timing of the measurement made regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting.

The District reports all revenue and expenses as operating, except interest income and expense, capacity and assessment charges, gains and losses on asset sales or disposals and capital contributions.

The Authority receives fees for services rendered and must comply with associated agreements and requirements of the funding source entities. Management provides an allowance for probable uncollectible amounts based on its assessment of the status of individual accounts. As of June 30, 2019, all sewer receivables are collectible with liens placed on properties with outstanding balances. These assessments totaled \$97,319 at June 30, 2019.

Advertising - The authority expenses advertising costs as incurred. Advertising expense, which is included in the administration category, totaled \$0 for the year ended June 30, 2019.

Applying Resources – Restricted resources are applied first for expenses incurred for which both restricted and unrestricted resources are available.

Capital Assets – Property, Plant and Equipment of the Authority is stated at cost and depreciated over estimated useful lives of 5-80 years using the straight line method.

Cash Flows - For purposes of the statement of cash flows, the Authority uses the direct method of reporting net cash flows from operating activities, and considers all investments with an initial maturity of 90 days or less to be cash equivalents.

Unearned Tap Fees - The tap-on fees, included in capacity fee revenue, represents funds received from real estate developers for connection to the Authority's sewer collection system. Revenue is recognized as earned when the tap-on capacity is deemed available by the State Division of Water and when construction plans have been approved by the Authority. Any tap-on fees collected by the Authority before the above conditions are met are reported as unearned tap-on fee liability.

Environmental and Remediation Costs - The Authority accrues for losses associated with environmental remediation when such losses are probable and can be reasonably estimated. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remediation study. Such accruals are adjusted as further information develops or circumstances change. Cost of future expenditures for environmental remediation obligations are not discounted to their present value.

Management's Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates.

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Management's Review of Subsequent Events - The Authority has evaluated and considered the need to recognize or disclose subsequent events through October 6, 2019, which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2019, have not been evaluated by the Authority.

**2. CASH**

Kentucky Revised Statutes authorize local governmental entities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

The Authority's cash balance of \$2,878,265 was held entirely by two financial institutions at June 30, 2019. Of this balance, \$500,000 was covered by Federal Depository Insurance and \$2,378,265 was backed by direct obligations of the U.S. Treasury. At June 30, 2019, all balances were either insured by the FDIC or collateralized by securities pledged in the Authority's name.

**3. CAPITAL ASSETS**

All capital assets are valued at their historical cost or, if contributed, at fair value based on engineering estimates received, if actual cost is not available. Renewals and betterments are capitalized with a threshold of \$2,500 when placed in service. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Plumbing and distribution system	30-80 Years
Furniture, fixtures and equipment	10-30 Years
Transportation equipment	5-10 Years

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Nondepreciable assets:				
Land	\$ 759,725	\$ 101,650	\$ -	\$ 861,375
Construction in process	1,004,238	1,391,293	2,235,531	160,000
Depreciable assets:				
Plant and distribution	47,005,361	2,242,126	-	49,247,487
Vehicles	-	-	-	-
Equipment	33,544	-	-	33,544
Totals	48,802,867	3,735,070	2,235,531	50,302,406
Less: accumulated depreciation	(10,670,777)	(1,311,448)	-	(11,982,225)
Net capital assets	<u>\$ 38,132,090</u>	<u>\$ 2,423,622</u>	<u>\$ 2,235,531</u>	<u>\$38,320,181</u>



**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

**4. PREPAID ITEMS**

Prepaid balances are for payments made by the Authority in the current year to provide services occurring in the subsequent fiscal year.

**5. ACCOUNTING POLICY FOR LOAN COST**

Loan cost are amortized on the straight line method over the remaining life of the loan and reported as a direct deduction from the carrying amount of the debt liability. Amortization for 2019 was \$21,688 and charged to interest expense. Original deferred financing cost was \$281,946. The amortization to date was \$43,376.

**6. LONG-TERM DEBT**

Bonds dated June 14, 2001, payable to U.S. Bank (the trustee). Oldham County Fiscal Court, on behalf of the Authority entered into a lease financing obligation with the Kentucky Association of Counties Leasing Trust Program in the amount of \$4,000,000 at an interest rate of 4.94% for acquisition (and collateral) of various local wastewater treatment facilities, renovation thereto, and the professional and administrative fees incurred in this acquisition. The lease term is for 30 years with interest due monthly and principal due annually with the balance due paid in full on January 20, 2031. The principal balance on the lease was \$2,325,000 at June 30, 2019. Future maturities are as follows:

<b>Fiscal Year Ended</b>	<b>Scheduled</b>		
<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	145,000	129,568	274,568
2021	150,000	121,152	271,152
2022	160,000	112,332	272,332
2023	170,000	102,939	272,939
2024	175,000	93,093	268,093
2025-2029	1,030,000	300,138	1,330,138
2030-2031	495,000	31,111	526,111
Totals	<u>\$2,325,000</u>	<u>\$ 890,333</u>	<u>\$ 3,215,333</u>

The Oldham County Fiscal Court issued general obligation notes of \$7,335,000, Series 2009, dated October 22, 2009, for the purpose of refunding the 2005 Lease Project of the Oldham County Environmental Authority Lease Purchase Agreement dated December 13, 2005. The 2009 series bonds were issued at varying interest rates ranging from 2.0% to 4.0% and were to be retired by October 1, 2029. On September 5, 2017, bonds maturing after October 1, 2023 were refinanced at an interest rate of 2.08%. Interest payments are due on April 1 and interest and principal on October 1. The principal balance on the bonds not refinanced was \$1,515,000 as of June 30, 2019. The principle balance on the refinanced bonds was \$3,466,062 as of June 30, 2019.

With the issuance of the Series 2009 bonds, the Authority agreed to pledge revenues from the Authority's sewer system to pay the principal and interest on the bonds. The debt restructure agreement between Oldham County Fiscal Court and the Authority restricts the Authority from incurring or assuming any additional indebtedness (other than refinancing of existing indebtedness) unless the District receives written approval from Oldham County Fiscal Court. Future maturities are as follows:

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**6. LONG-TERM DEBT (Continued)**

Non-refunded Portion

Fiscal Year Ended June 30	Principal	Scheduled Interest	Total
2020	360,000	46,795	406,795
2021	370,000	34,565	404,565
2022	385,000	21,538	406,538
2023	400,000	7,400	407,400
Totals	<u>\$1,515,000</u>	<u>\$ 110,298</u>	<u>\$ 1,625,298</u>

GO 2017 Refinanc of GO 2009 Bonds

Fiscal Year Ended June 30	Principal	Scheduled Interest	Total
2020	33,279	71,748	105,027
2021	33,978	71,049	105,027
2022	34,692	70,334	105,026
2023	35,421	69,605	105,026
2024	447,140	64,587	511,727
2025-2029	2,377,468	178,064	2,555,532
2030	504,084	5,242	509,326
Totals	<u>\$3,466,062</u>	<u>\$ 530,629</u>	<u>\$ 3,996,691</u>

Federally Assisted Waste Water loan dated February 1, 2012, with semi-annual payments starting December 1, 2013, bearing interest at 3% for twenty years. This construction loan is for the Infiltration Correction & S.R. 1793 Lift Station Project. The principal balance was \$759,688 at June 30, 2019. Future maturities are as follows:

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

**6. LONG-TERM DEBT (Continued)**

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>	<u>Total</u>
2020	44,394	23,958	68,352
2021	45,736	22,526	68,262
2022	47,118	21,052	68,170
2023	48,542	19,533	68,075
2024	50,010	17,968	67,977
2025-2029	273,655	64,657	338,312
2030-2033	250,233	18,330	268,563
	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 759,688</u>	<u>\$ 188,023</u>	<u>\$ 947,711</u>

Federally Assisted Water revolving loan dated July 2, 2010 with Semi-annual payments starting on June 1, 2013, bearing interest at 2% for twenty years. This construction loan is for the Green Valley WWTP Elimination and Lagrange Connection Project. The principal balance was \$87,121 as of June 30, 2019. Future maturities are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>	<u>Total</u>
2020	5,682	1,886	7,568
2021	5,796	1,760	7,556
2022	5,912	1,632	7,544
2023	6,031	1,501	7,532
2024	6,152	1,368	7,520
2025-2029	32,667	4,743	37,410
2030-2033	24,880	1,105	25,985
	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 87,121</u>	<u>\$ 13,995</u>	<u>\$ 101,115</u>

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

**6. LONG-TERM DEBT (Continued)**

Federally Assisted Water revolving loan dated March 1, 2012 with semi-annual payments starting December 1, 2013, bearing interest at 2% for twenty years. This construction loan is for the Buckner Interceptor Sewer and Mockingbird Valley WWTP Elimination project. The principal balance was \$2,105,559 at June 30, 2019. Future maturities are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>	<u>Total</u>
2020	131,724	45,601	177,325
2021	134,372	42,689	177,061
2022	137,073	39,718	176,791
2023	139,828	36,687	176,515
2024	142,638	33,596	176,234
2025-2029	757,366	119,377	876,743
2030-2033	662,558	33,177	695,735
Totals	<u>\$2,105,559</u>	<u>\$ 350,845</u>	<u>\$ 2,456,404</u>

Federally Assisted Water revolving loan dated March 12, 2012 with semi-annual payments starting June 1, 2014, bearing interest at 2% for twenty years. This construction loan is for Orchard Grass Willow Creek Elimination Project. The principal balance was \$1,937,809 as of June 30, 2019. Future maturities are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>	<u>Total</u>
2020	116,441	41,995	158,436
2021	118,781	39,420	158,201
2022	121,169	36,794	157,963
2023	123,605	34,115	157,719
2024	126,089	31,382	157,471
2025-2029	669,495	113,954	783,449
2030-2034	662,230	36,906	699,136
Totals	<u>\$1,937,809</u>	<u>\$ 334,566</u>	<u>\$ 2,272,375</u>

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

**6. LONG-TERM DEBT (Continued)**

Federally Assisted Water revolving loan dated September 21, 2012 with semi-annual payments starting December 1, 2013, bearing interest at 2% for twenty years. This construction loan is for Covered Bridge Elimination Project. The principal balance was \$496,619 as of June 30, 2019. Future maturities are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>	<u>Total</u>
2020	31,069	10,756	41,825
2021	31,693	10,069	41,762
2022	32,330	9,368	41,698
2023	32,980	8,653	41,633
2024	33,643	7,924	41,567
2025-2029	178,633	28,158	206,791
2030-2033	156,271	7,825	164,096
Totals	<u>\$ 496,619</u>	<u>\$ 82,753</u>	<u>\$ 579,372</u>

Bonds dated December 4, 2014, issued at a premium of \$209,625 by Oldham County Fiscal Court for \$9,790,000 series 2014, for funding capital construction dated December 4, 2014. The 2014 series bonds issued at 3.0% interest rate and will be retired by June 1, 2035. Interest payments are due June 1 and December 1 with principal due December 1 beginning in 2015. The principal balance on the bonds was \$8,275,000 at June 30, 2019. Future maturities are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>	<u>Total</u>
2020	410,000	248,160	658,160
2021	420,000	235,710	655,710
2022	435,000	222,885	657,885
2023	445,000	209,685	654,685
2024	460,000	196,110	656,110
2025-2029	2,525,000	761,175	3,286,175
2030-2034	2,935,000	343,370	3,278,370
2035	645,000	10,320	655,320
Totals	<u>\$8,275,000</u>	<u>\$ 2,227,415</u>	<u>\$ 10,502,415</u>

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**6. LONG-TERM DEBT (Continued)**

Federally Assisted Water revolving loan dated May 2, 2013 with semi-annual payments starting June 1, 2017 bearing interest at 1.75% for twenty years. This construction loan is for construction of the South Oldham Regional Wastewater Treatment Plant. The principal balance was \$5,805,855 as of June 30, 2019. Future maturities are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>	<u>Total</u>
2020	286,236	111,825	398,061
2021	291,266	106,219	397,485
2022	296,386	100,515	396,901
2023	301,596	94,709	396,305
2024	306,897	88,803	395,699
2025-2029	1,617,318	351,712	1,969,030
2030-2034	1,764,538	187,667	1,952,205
2035-2037	941,618	27,702	969,320
Totals	<u>\$5,805,855</u>	<u>\$ 1,069,152</u>	<u>\$ 6,875,007</u>

Federally Assisted Water revolving loan dated March 1, 2018 with semi-annual payments starting within one year of initiation of operation currently estimated June 1, 2020 bearing interest at 1.75% for twenty years. This construction loan is for construction of a PVC interceptor sewer line to take the Ash Avenue plant offline. Total loan amount is \$6,300,000. The principal balance drawn at June 30, 2019 was \$1,398,930. Future maturities of amounts borrowed to date are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>			
2020	29,360	13,640	43,000
2021	59,494	26,418	85,912
2022	60,540	25,253	85,792
2023	61,604	24,067	85,671
2024	62,686	22,860	85,547
2025-2029	330,352	95,449	425,801
2030-2034	360,423	61,941	422,364
2035-2039	393,231	25,383	418,615
2040	41,240	402	41,642
Totals	<u>1,398,930</u>	<u>295,413</u>	<u>1,694,343</u>

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

A summary of changes in long-term debt is as follows:

	Beginning Balances	Additions	Retirements	Ending Balances	Current Portion
Bonds and notes	\$ 28,294,992	\$ 1,398,930	\$ (1,521,278)	\$ 28,172,644	\$ 1,593,185
Bond premiums	<u>177,375</u>	<u>                    </u>	<u>(10,750)</u>	<u>166,625</u>	<u>10,750</u>
Totals	<u>\$ 28,472,367</u>	<u>\$ 1,398,930</u>	<u>\$ (1,532,028)</u>	<u>\$ 28,339,269</u>	<u>\$ 1,603,935</u>

**7. LEASES**

The Authority leases its office space under an operating lease agreement. The lease is for one-year terms through October 2011 with a verbal extension of month-to-month and either party may terminate the lease arrangement upon giving a 90-day notice. Lease payments are \$1,800 per month. The Authority also leases warehouse space under an operating lease agreement. The lease is for a 12-month term through May 31, 2016 with a verbal extension of month-to-month. Lease payments are \$1,950 per month. Rent expense under these operating leases totaled \$45,000 for the year ended June 30, 2019.

During November 2006, the Authority entered into an operating lease arrangement with the Commonwealth of Kentucky Department of Corrections (the lessor) to lease the Kentucky state reformatory wastewater treatment plant in Buckner, Kentucky for an initial term of 15 years. The lease is renewable for successive periods not to exceed 75 years from inception. As consideration of the lease granted, the Authority agreed to operate, maintain and accept sole responsibility of the existing sewage treatment plant, provide sewer services at no charge to the Lessor for twenty years, and subject to numerous operating and administrative criteria including the payment of all utilities after the third year of the lease.

The Authority has recognized no service charge revenues from this wastewater treatment plant to date and consequently no economic benefit from the lease. The authority plans on expanding the existing facility or building a new facility on the property to increase its capacity and consequently its service charge revenue.

**8. RISK MANAGEMENT**

Significant losses are covered by commercial insurance with premiums (based on industry information adjusted for any Authority claims) for general liability, vehicles, personal and real property. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**9. CONTINGENCIES -LAWSUITS**

**Pleasants Mason Group, LLC (PMG)** is demanding reimbursement of pre-paid sewer connection fees. By letter dated November 10, 2010, Pleasant Mason Group, LLC requested reimbursement of sanitary sewer connection fees totaling \$225,120 that PMG paid for 120 residential lots. Those lots were never developed. The Oldham County Sewer District communicated that payment of the fee would not guarantee sewer capacity for the development and only refundable if construction approval were denied because of unavailable capacity or other valid reasons.

**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**9. CONTINGENCIES (Continued)**

In April, 2015, the Authority entered into a settlement with PMG. Pursuant to that settlement, the Authority has agreed to honor transfer of rights PMG purchased with payment of connection fees to a new owner of the property that became Heather Green II. In the settlement, PMG released all claims asserted in this civil action beyond a claim for refund of connection fees paid, and agreed to dismiss its action with prejudice once it has transferred rights to connect 71 residences. PMG also agreed to reduce any claim for a refund of connection fees by the amount it receives from the new owner for connection rights actually transferred. As of September 16, 2019, PMG has transferred rights to connect 53 residences and has received \$160,060 in compensation from the new owner. This reduced PMG's claim to a maximum of \$65,060. The settlement preserves the Authority's defenses to those claims and provides a path to resolution of all claims with no liability incurred by the Authority. Rights for an additional 18 residences will be needed to complete the development, which at that time, the Authority will be required to pay PMG \$10,700 and PMG will be required to dismiss its case with prejudice.

**Wells, et al v. OCEA.** On June 19, 2015, Chris and Michelle Wells filed a lawsuit against the Authority claiming that sewage backed up into their home on November 13, 2013. It is the position of the Authority that the backup claimed by plaintiffs was not physically possible. Plaintiffs have submitted a demand of \$72,500 but the Authority would place the potential loss on this of \$0 to \$25,000, with the \$25,000 loss estimated to be less than 10%.

**10. COMMITMENTS**

The annual contractual commitment to Veolia Water North America for management, operations and maintenance services is determined per contract dated November 1, 2015 with fees of \$2,888,250, subject to adjustments each year based on industry price indexes and changes in scope. During the Fiscal Year 2018, it was agreed that OCEA would take back payment of electric, odor control and major maintenance invoices to save sales tax on the purchases. This revised annual payment to Veolia to \$2,747,551 effective July 1, 2018. The annual payment to Veolia for the fiscal year starting July 1, 2019 is \$2,805,153 which reflects a 2.096% CPI adjustment. The contract is for 77 months.

**11. AGREED ORDER WITH THE KENTUCKY DIVISION OF WATER**

The Authority entered an Agreed Order with the Kentucky Division of Water ("DOW") on March 31, 2016. The Agreed Order resolved any and all violations related to Kentucky Pollutant Discharge Elimination System (KPDES) permits. In the Agreed Order, the Authority has agreed to remedial measures that include a schedule prioritizing the decommissioning of WWTP's and the regionalization of waste water flow, maximization of treatment at the existing WWTP's for wet weather flows, minimization of the impacts of the WWTP's on water quality, aquatic biota and human health and the identification and correction of Inflow/Infiltration (I&I) within the Country Village and Ash Avenue collection systems. The Authority paid a civil penalty of five thousand dollars (\$5,000) and agreed to spend one hundred thousand dollars (\$100,000) towards the implementation of a Supplemental Environmental Project that will address I&I on the private property service connections to the sanitary sewer owned by the Authority.

**12. SUBSEQUENT EVENTS**

A memorandum of understanding was entered into September 1, 2019 between OCEA, Oldham County Fiscal Court and the Louisville and Jefferson County Metropolitan Sewer District (MSD) whereby among other things, MSD is to purchase all of OCEA's wastewater collection and treatment systems and assumed all ongoing obligations and liabilities of OCEA related to the operation of such. The parties are working towards an Interlocal Cooperation Agreement, an asset purchase agreement, bill of sale, assignment and assumption agreement and warranty deeds. The agreement will be subject to approval by regulatory agencies including the Kentucky Attorney General and the Kentucky Department of Local Government.



**OLDHAM COUNTY ENVIRONMENTAL AUTHORITY**  
**SUPPLEMENTARY SCHEDULE- DEBT COVERAGE RATIO**  
June 30, 2019

CHANGE IN NET POSITION	\$936,959
Add Back	
Interest	\$798,687
Depreciation	<u>\$1,311,448</u>
Earnings before interest and depreciation	<u>\$3,047,094</u>
Debt service Fiscal Year 2020	<u>\$2,339,117</u>
Debt Service Coverage Ratio	1.30

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PEWEE VALLEY, KY 40056  
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Oldham County Environmental Authority  
LaGrange, Kentucky

I 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 governmental activities of the Oldham County Environmental Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Oldham County Environmental Authority's basic financial statements, and have issued my report thereon dated October 6, 2019.

**Internal Control over Financial Reporting**

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

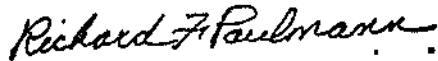
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 the Oldham County Environmental Authority's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Richard F. Paulmann CPA, LLC  
Pewee Valley, Kentucky  
October 6, 2019