

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014



WISE, BUCKNER, SPROWLES
— & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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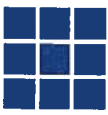
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CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Adair County Water District

We have audited the accompanying financial statements of the business-type activities and each major fund of Adair County Water District, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Adair County Water District, as of December 31, 2015 and 2014, and the respective changes in financial position, and cash flows thereof for the years then ended in 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 and budgetary comparison information on pages 3 through 7 and page 24 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 obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Adair County Water District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by U.S. Office on Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District.

The Schedule of Expenditures of Federal Awards is the responsibility of management and are derived from and relate directly to the underlying accounting records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2016 on our consideration of Adair County Water District's internal control over financial reporting and on 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 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 Adair County Water District's internal control over financial reporting and compliance.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Campbellsville, KY

May 27, 2016



ADAIR COUNTY WATER DISTRICT Management's Discussion and Analysis

The management of the Adair County Water District's offers all persons interested in the financial position of the Utility this narrative overview and analysis of the Utility's financial performance during the years ending December 31, 2015 and 2014. It provides an introduction to the District's 2015 financial statements. Information in this overview and analysis has been prepared by the District's CPA and should be considered in conjunction with the financial statements and notes.

Financial Highlights

Overview of the Financial Statements

The financial section of this annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and the notes to the financial statements. The basic financial statements include: the statements of net position, the statements of revenues, expenses, and changes in net position, and the statement of cash flows. This report also includes a summary of federal expenditures and supplementary bond information.

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years. Understanding the financial trend of the District begins with understanding the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. Looking at these two reports, you should be able to determine if the District is better off financially this year than it was in the past.

Required Financial Statements

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The statements of Net Position includes information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Districts creditors (liabilities). The Statement of Revenues, Expense and Changes in Net Position identifies the District's revenues and expenses for the fiscal year ended December 31, 2015. This statement normally provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

Financial Analysis of the District

Net Position

A summary of the District's Statement of Net Position for the years ended December 31, 2015, and 2014 follows:

	2015	2014
Assets:		
Cash and Investments	\$ 1,387,492	\$ 956,756
Other Assets	529,914	499,715
Capital Assets	51,671,566	38,708,495
Total Assets	53,588,972	40,164,966
Deferred Outflows:		
Pension Contribution	347,559	173,955
Total Deferred Outflows	347,559	173,955
Liabilities:		
Current Liabilities	2,852,613	1,359,850
Other Liabilities	224,093	147,321
Long-Term Outstanding	24,154,477	15,639,051
Total Liabilities	27,231,183	17,146,222
Deferred Inflows:		
Advances for Construction	176,610	190,025
Premium on Debt Refunding	265,476	276,311
Pension Contributions	178,090	157,000
Total Deferred Inflows	620,176	623,336
Net Position:		
Invested in Capital Assets (Net of Related Debt)	26,507,785	23,267,871
Restricted	1,228,519	811,589
Unrestricted	(1,651,132)	(1,510,097)
Total Net Position	\$ 26,085,172	\$ 22,569,363

Revenue, Expenses and Changes in Net Position

A summarized comparison of the District's statements of revenues, expenses and changes in net position for the years December 31, 2015, and 2014 follows:

	2015	2014	Dollar Change	Percent Change
Operating Revenues	\$ 4,451,546	\$ 4,339,972	\$ 111,574	2.57%
Operating Expenses	(2,873,032)	(2,723,558)	(149,474)	5.49%
Depreciation Expense	(2,266,598)	(1,347,991)	(918,607)	68.15%
Operating Income/(Loss)	(688,084)	268,423	(956,507)	-356.34%
Non-Operating Revenues/(Expenses)				
Non-Utility Income	4,736	114,295	(109,559)	-95.86%
Operating Lease Agreement	(53,720)	(648,560)	594,840	-91.72%
Interest Income	2,338	1,995	343	17.19%
Miscellaneous Nonutility Expenses	(1,596)	(8,263)	6,667	-80.68%

Condensed Statement of Revenues, Expenses & Changes in Net Position, Continued
Years Ended December 31, 2014 and 2013

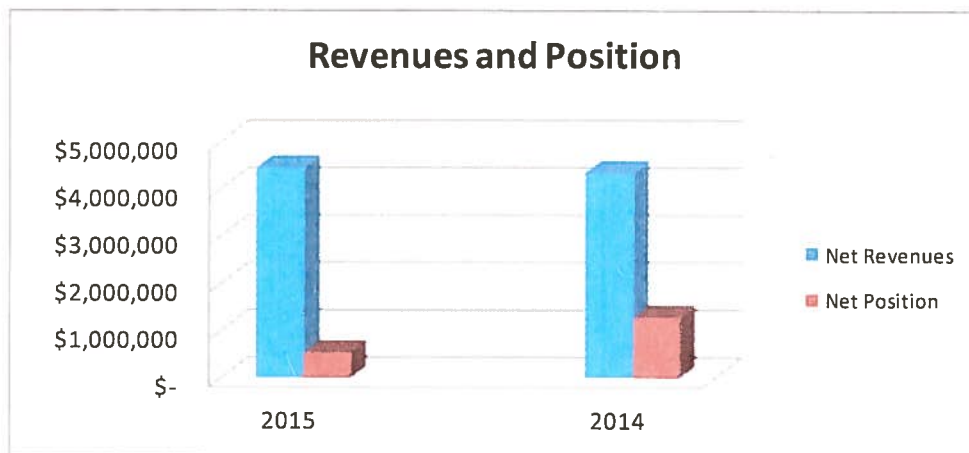
	2015	2014	Dollar Change	Percent Change
Interest Expense & Fiscal Charges	\$ (588,779)	\$ (349,093)	\$ (239,686)	68.66%
Amortization of Bond Debt	10,836	10,836	-	0.00%
Total Non-Operating Revenues/(Expenses)	(626,185)	(878,790)	252,605	-28.74%
Income/(Loss) Before Capital Contributions	(1,314,269)	(610,367)	(703,902)	115.32%
Capital Contributions	3,234,323	834,751	2,399,572	287.46%
Grants	1,595,755	1,071,035	524,720	0.00%
Increase/(Decrease) in Net Position	3,515,809	1,295,419	1,695,670	130.90%
Beginning of Year	22,569,363	21,273,944	1,295,419	6.09%
End of Year	<u>\$ 26,085,172</u>	<u>\$ 22,569,363</u>	<u>\$ 3,515,809</u>	<u>15.58%</u>

Operating Revenue

A comparison of the District's Net Revenues and Net Position for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014	Dollar Change	Percentage Change
Net Revenues	\$ 4,451,546	\$ 4,339,972	\$ 111,574	2.57%
Net Position	\$ 550,997	\$ 1,295,419	\$ (744,422)	-57.47%

The following graph shows the District's 2015 revenues and position in comparison to the District's 2014 revenues and position.



Operating revenues increased by \$111,574 from 2014 to 2015. The primary reason for the increase in revenues is an increase in water sales.

Net position increased by \$3,501,028 from 2014 to 2015. The most significant reason for this increase was the capital contributed due to the acquisition of the water commission \$2,964,812.

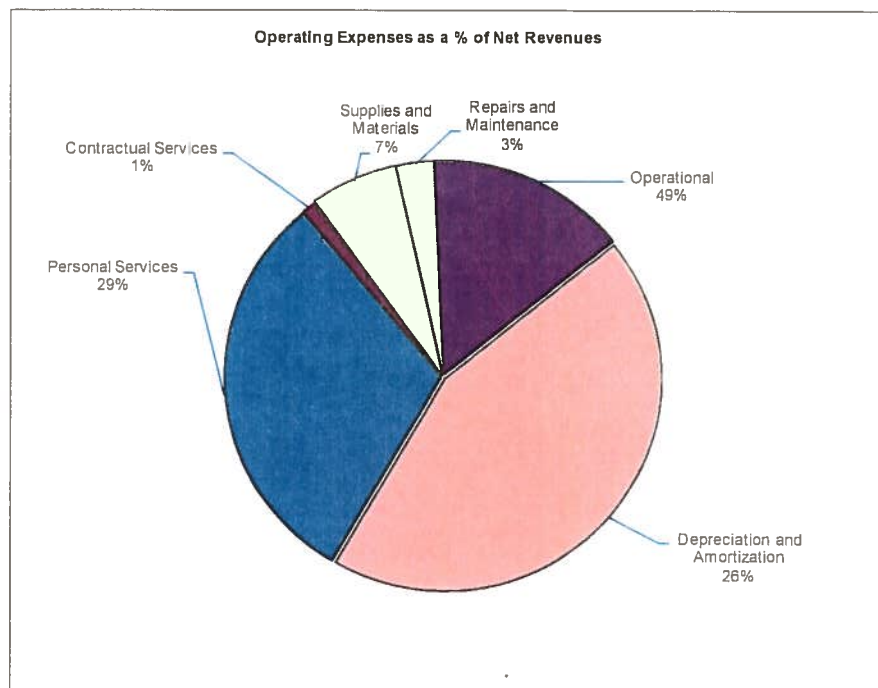
Operating Expenses

Total operating expenses increased by \$1,082,858 from 2014 to 2015. The increase is primarily due to operations picking up from the prior year and rise in costs.

	2015	2014	Dollar Change	Percent Change
Operating Expenses				
Personal Services	\$ 1,574,665	\$ 1,426,846	\$ 147,819	9.39%
Contractual Service	56,247	55,589	658	1.17%
Supplies and Materials	331,058	302,671	28,387	8.57%
Repairs and Maintenance	141,602	119,172	22,430	15.84%
Operational	769,460	819,280	(49,820)	-6.47%
Depreciation and Amortization	2,266,598	1,347,991	918,607	40.53%
	<u>\$ 5,139,630</u>	<u>\$ 4,071,549</u>	<u>\$ 1,068,081</u>	<u>20.78%</u>

Expenses as a Percentage of Revenues

The following pie chart shows the District's expenses as a percentage of revenues.



Debt Outstanding

At December 31, 2015, the District had \$24,814,545 in debt outstanding versus \$15,293,303 for December 31, 2014.

Economic Factors and Future Planning

The primary service area of the Utility is located in Adair County; we completed a merger with the City of Columbia in July of 2011 and are now the sole provider of water and sewer in all of Adair County including the City of Columbia. The population growth for the Utility's service area has averaged 140-180 persons annually over the past ten years, and this growth rate is expected to continue into the near future. In conjunction with its master plan the Utility has maintained project and financial planning to keep pace with this growth. Rate structures are also reviewed on a consistent basis to ensure that water services are provided to customers at the best value. A rate increase was approved and went into effect in early 2012.

We are in the process of completing a second merger with the Columbia/Adair County Water Commission which has been our main source of water since it became operational. We are currently operating the plant under an agreement. We are still purchasing water from other sources but on a smaller scale. Those sources are Russell Springs, Jamestown and Campbellsville as an emergency source.

We are in the process of replacing and upgrading lines in the City of Columbia. Many of these lines have been in operation since the 1950's. We have completed laying new lines to serve the downtown area, a main line on Hwy East 80 and other lines in that same area connecting over to Hwy 206. We also replaced lines around the school system and continued onto Long Hunter's subdivision. All of these areas had rusty water and had for many years. We were able to supply them with better quality of water and more adequate pressure.

We completed another major project this past year. This project consist of replacing the water lines in the East 80 area, Lory Road, and installing a new pump station at the Shepherd Tank that will pump water to a new elevated water tank on Hwy East 80. Management has also planned to continue to replace our smaller distribution mains with more high service distribution mains to serve the growth in customer base and serve our existing customers better. All of this is planned along side of continuing to build our customer base with new lines and continued service to our existing customer base.

Financial Contact

The District's financial statements are designed to provide the District's customers, commissioners, creditors and other interested parties with a general overview of the District's financial operations and financial condition. If you have questions about the report or need additional financial information, please contact the District's Manager, Lennon Stone at (270) 384-2181 or P.O. Box 567, 109 Grant Lane, Columbia, KY 42728

General information relating to Adair County Water District can be found at the Utility's web site www.caud.net

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
STATEMENT OF NET POSITION
December 31, 2015 and 2014

	Water	Sewer	Total 2015	Restated 2014
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 138,327	\$ 20,646	\$ 158,973	\$ 145,167
Customer Accounts Receivable, net	258,452	76,424	334,876	308,419
Inventory	168,858	8,954	177,812	180,859
Prepaid Expenses	17,226	-	17,226	10,437
Restricted Cash and Investments	1,105,667	122,852	1,228,519	811,589
Total Current Assets	1,688,530	228,876	1,917,406	1,456,471
NON-CURRENT ASSETS				
Capital Assets:				
Land and Construction in Progress	479,912	95,901	575,813	474,214
Other Capital Assets				
Net of Accumulated Depreciation	<u>38,523,401</u>	<u>12,572,352</u>	<u>51,095,753</u>	<u>38,234,281</u>
Total Non-Current Assets	39,003,313	12,668,253	51,671,566	38,708,495
TOTAL ASSETS	40,691,843	12,897,129	53,588,972	40,164,966
Deferred Outflows of Resources				
Pension Contributions	<u>296,543</u>	<u>51,016</u>	<u>347,559</u>	<u>173,955</u>
Total Deferred Outflows of Resources	296,543	51,016	347,559	173,955
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable - Trade	183,170	21,598	204,768	199,422
Accounts Payable - Construction in Progress	-	125,143	125,143	-
Accrued and Withheld Taxes	30,382	5,708	36,090	33,234
Customer Deposits	40,953	-	40,953	40,044
Accrued Payroll	18,604	-	18,604	25,898
Liabilities Payable from Restricted Assets:				
Interest Payable	205,770	18,323	224,093	147,321
Current Portion of Revenue Notes and Bonds Payable	879,554	80,900	960,454	555,282
Current Portion of Notes Payable	<u>175,000</u>	<u>1,291,601</u>	<u>1,466,601</u>	<u>505,970</u>
Total Current Liabilities	1,533,433	1,543,273	3,076,706	1,507,171
NON-CURRENT LIABILITIES				
Long-term Liabilities (Excluding Current Portion):				
Net Pension Liabilities	1,510,130	256,857	1,766,987	1,407,000
Non-Current Portion of Revenue Notes and Bonds Payable	<u>21,259,890</u>	<u>1,127,600</u>	<u>22,387,490</u>	<u>14,232,051</u>
Total Non-Current Liabilities	22,770,020	1,384,457	24,154,477	15,639,051
TOTAL LIABILITIES	24,303,453	2,927,730	27,231,183	17,146,222
DEFERRED INFLOWS				
Advances for Construction	176,610	-	176,610	190,025
Premium on Debt Refunding	265,476	-	265,476	276,311
Pension Contributions	<u>152,275</u>	<u>25,815</u>	<u>178,090</u>	<u>157,000</u>
TOTAL DEFERRED INFLOWS	594,361	25,815	620,176	623,336
NET POSITION				
Invested in Capital Assets, Net of Related Debt			26,507,785	23,267,871
Restricted			1,228,519	811,589
Unrestricted			<u>(1,651,132)</u>	<u>(1,510,097)</u>
TOTAL NET POSITION			<u><u>\$ 26,085,172</u></u>	<u><u>\$ 22,569,363</u></u>

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 For the Years Ended December 31, 2015 and 2014

	Water	Sewer	Total 2015	Restated Total 2014
OPERATING REVENUES				
Water Sales	\$ 3,604,013	\$ 690,360	\$ 4,294,373	\$ 4,170,198
Service Charges and Other	157,173	-	157,173	169,774
Total Operating Revenues	3,761,186	690,360	4,451,546	4,339,972
OPERATING EXPENSES				
Personal Service	1,340,737	233,928	1,574,665	1,426,846
Contractual Services	33,512	22,735	56,247	55,589
Supplies and Materials	311,063	19,995	331,058	302,671
Repairs and Maintenance	82,853	58,749	141,602	119,172
Operational	548,216	221,244	769,460	819,280
Depreciation and Amortization	1,830,523	436,075	2,266,598	1,347,991
Total Operating Expenses	4,146,904	992,726	5,139,630	4,071,549
OPERATING INCOME/(LOSS)	(385,718)	(302,366)	(688,084)	268,423
NON-OPERATING REVENUES (EXPENSES)				
Other Non-Utility Income	4,736	-	4,736	114,295
Operating Lease -Water Plant	(53,720)	-	(53,720)	(648,560)
Interest Income	2,338	-	2,338	1,995
Bond Issuance Costs	(1,279)	(317)	(1,596)	(8,263)
Interest Expenses	(533,503)	(55,276)	(588,779)	(349,093)
Amortization of Bond Debt	7,260	3,576	10,836	10,836
Total Non-Operating Revenues (Expenses)	(574,168)	(52,017)	(626,185)	(878,790)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(959,886)	(354,383)	(1,314,269)	(610,367)
Capital Contributions	266,761	2,750	269,511	834,751
Grants	95,401	1,500,354	1,595,755	1,071,035
INCREASE (DECREASE) IN NET POSITION	(597,724)	1,148,721	550,997	1,295,419
Capital Contributed - Water Plant			2,964,812	-
NET POSITION				
Beginning of Year			22,569,363	21,273,944
End of Year			<u>\$ 26,085,172</u>	<u>\$ 22,569,363</u>

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS
 For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 4,424,453	\$ 4,334,034
Cash Payments to Employees for Services	(1,370,721)	(1,438,989)
Cash Payments to Suppliers for Goods and Services	(1,296,763)	(1,292,758)
Customer Deposits Received	30,300	33,600
Customer Deposits Returned	(29,664)	(30,906)
Net Cash Provided/(Used) By Operating Activities	1,757,605	1,604,981
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(3,071,959)	(3,356,180)
Debt Retired	(888,275)	(510,364)
Debt Issued	1,160,320	2,461,548
Interest Paid on Debt	(512,007)	(393,732)
Operating Transfer	(53,720)	(648,560)
Capital Grants and Contributions	2,031,698	829,702
Net Cash Provided/(Used) By Financing Activities	(1,333,943)	(1,617,586)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous Non-Operating Income	4,736	100,000
Net Cash Provided/(Used) by Noncapital Financing Activities	4,736	100,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	2,338	1,995
Net Cash Provided/(Used) By Investing Activities	2,338	1,995
Net Increase/(Decrease) In Cash and Cash Equivalents	430,736	89,390
Cash and Cash Equivalents - Beginning of Year	956,756	867,366
Cash and Cash Equivalents - End of Year	\$ 1,387,492	\$ 956,756
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and Cash Equivalents	\$ 158,973	\$ 145,267
Restricted Cash	1,228,519	811,489
TOTAL CASH AND CASH EQUIVALENTS	\$ 1,387,492	\$ 956,756

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS (CONTINUED)
 For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (688,084)	\$ 268,423
ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Depreciation	2,266,598	1,347,991
Change in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(26,457)	(5,938)
(Increase)/Decrease in Inventory	3,047	(1,781)
(Increase)/Decrease in Prepaid Expenses	(6,789)	(440)
(Increase)/Decrease in Deferred Outflows - Pension	(173,604)	13,947
Increase/(Decrease) in Accounts Payable	5,346	6,156
Increase/(Decrease) in Accounts Payable CIP		-
Increase/(Decrease) in Salaries and Wages Payable	(7,294)	8,889
Increase/(Decrease) in Customer Deposits	909	2,703
Increase/(Decrease) in Accrued and Withheld Taxes	2,856	(6,969)
Increase/(Decrease) in Deferred Inflows - Pension	21,090	157,000
Increase/(Decrease) in Net Pension Liability	359,987	(185,000)
Total Reconciling Adjustments	2,445,689	1,336,558
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	\$ 1,757,605	\$ 1,604,981

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 1: DESCRIPTION OF ENTITY

Reporting Entity - The Adair County Water District Commissioners have financial accountability and control over all activities related to the water district. The district's primary source of income is derived from water sales. The district also receives funding from federal government sources and must comply with the requirements of those funding source entities.

The District operates under rules established by the Public Service Commission (PSC) of Kentucky. Accounting records of the District are maintained in accordance with the Uniform System of Accounts prescribed by the PSC.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accounts of the Adair County Water 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 net revenues.

The District adopted GASB No. 63 in 2013, and addition to assets, the statement of financial position with sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no item that qualifies for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category. It is the deferred premium on refunding reported in the statement of net position. A deferred premium on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunding debt.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The District adopted the statement in 2013. The effects on the financial statements for 2015 was to expense debt issuance cost in the current year and to reclassify Subdivision advances for construction and premium of debt refunding to deferred inflows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of the related cash flows.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
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For the Years Ended December 31, 2015 and 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-exchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchanges revenues are recognized when earned and expenses are recognized when incurred.

Cash, Cash Equivalents and Investments – The District considers all highly liquid investments with a remaining maturity of 90 days or less when purchased to be cash equivalents. Investments are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Accounts Receivable – Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the twenty first day after the end of each billing period. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2015 and 2014, the allowance for doubtful accounts was \$334,794 and \$311,628.

Inventory – Inventories are generally used for construction, operation and maintenance work rather than for resale. Materials and supplies inventory consists principally of spare parts that are recorded when purchased and expensed when used. Inventory is stated at the lower of cost or market value. Cost is generally determined on a first-in, first-out basis.

Use of Estimates – The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets and Related Depreciation – The utility plant and equipment was recorded at cost. Depreciation is computed using the straight-line method over the plant's estimated useful life of 40 years. The office building is depreciated on a straight-line basis over an estimated useful life of 20 years. Machinery, office equipment and service vehicles are depreciated on a straight-line basis over their estimated useful life ranging from 5 to 10 years.

Long-Term Obligations - Long-term debt and other obligations are reported as district liabilities on the statement of net position. Premiums on debt refunding are being amortized and charged to expense over the term of the outstanding revenue bonds by use of the straight-line method.

Capitalization of Interest - During the year, the District incurred interest costs totaling \$588,779. Interest incurred during the construction period relating to the construction of distribution mains and composite tank totaling \$23,333 was capitalized during the year.

Revenues and Expenses - Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services and producing, and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Charges for Services - District billings are rendered and recorded monthly based on metered usage.

Capital Contributions - Cash and capital assets are contributed to the District by external parties. The value of property contributed to the District is reported as revenue on the statement of revenues, expenses and changes in net position.

ADAIR COUNTY WATER DISTRICT
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NOTES TO FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position - Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. The net position is classified in the following three components:

Invested in capital assets, net of related debt—This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted—this component of net position consists of 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 position—this component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS

A comparison of the District's cash and investments is shown below:

	December 31, 2015	December 31, 2014
Unrestricted:		
Cash	\$ 158,973	\$ 145,167
Certificates of Deposit and Savings	-	-
Total Unrestricted	<u>158,973</u>	<u>145,167</u>
Restricted:		
Cash	1,004,019	588,317
Certificates of Deposit and Savings	224,500	223,272
Total Restricted	<u>1,228,519</u>	<u>811,589</u>
 Total Cash and Cash Equivalents	 <u>\$ 1,387,492</u>	 <u>\$ 956,756</u>

There are three categories of credit risk that apply to the district's bank balance:

1. Insured or collateralized with securities held by the district or by the district's agent in the district's name.
2. Collateralized with securities held by the pledging financial institution's trust department or the district's agent in the district's name.
3. Uncollateralized.

	2015	2014
Insured (FDIC) or Collateral Held by Pledging Bank Securities in District's Name	\$ 1,387,492	\$ 956,756
Uninsured or Uncollateralized	-	-
 Total (Memorandum Only)	 <u>\$ 1,387,492</u>	 <u>\$ 956,756</u>

The District investment policy is conservative.

ADAIR COUNTY WATER DISTRICT
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For the Years Ended December 31, 2015 and 2014

NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Deposits - The carrying amount of the District's deposits at December 31, 2015 was \$1,387,492 and the bank balance was \$1,404,259. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$500,000 was insured by federal depository insurance and the rest was collateralized by the pledging financial institution's trust department. The district's deposits are not subject to custodial credit risk.

Restricted Assets - The District includes all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2015 and 2014 restricted cash amounted to \$1,228,519 and \$811,589 respectively. This includes restrictions for customer deposits of \$40,660 and \$39,762 and restrictions for debt service of \$1,187,574 and \$771,512 respectively. This also included \$285 restricted at December 31, 2015 for capital projects.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2015 and 2014 was as follows:

	Balance 12/31/14	Additions	Deletions	Balance 12/31/15
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 443,924	\$ 115,096	\$ -	\$ 559,020
Construction in Progress	30,290	36,488	30,290	36,488
Total Assets Not Being Depreciated	474,214	151,584	30,290	595,508
Capital Assets Being Depreciated				
Office Equipment	267,770	192,309	628	459,451
Service Equipment	597,111	167,001	515	763,597
Building	364,434	7,304,769	-	7,669,203
Plant and Equipment	54,532,745	10,806,377	10,200	65,328,922
Total Assets Being Depreciated	55,762,060	18,470,456	11,343	74,221,173
Total Capital Assets	\$ 56,236,274	\$ 18,622,040	\$ 41,633	\$ 74,816,681
Less: Accumulated Depreciation				
Office Equipment	\$ 222,828	\$ 300,214	\$ -	\$ 523,042
Service Equipment	478,756	147,480	-	626,236
Plant and Equipment	16,826,195	5,169,642	-	21,995,837
Total Accumulated Depreciation	17,527,779	5,617,336	-	23,145,115
Net Capital Assets	\$ 38,708,495	\$ 13,004,704	\$ 41,633	\$ 51,671,566

Depreciation expense for the year ended December 31, 2015 was \$2,266,598.

The accumulated depreciation for the District increased by \$5,617,336 as presented above. The difference in this increase and the depreciation expense presented on the Statement of Revenues, Expenses and Changes in Net Position is due to the completion of the Asset Purchase Agreement with the Columbia/Adair County Water Commission. Upon the transfer of assets, the District assumed \$3,350,738 of accumulated depreciation from the Commission.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 4: CAPITAL ASSETS (CONTINUED)

	Balance 12/31/13	Additions	Deletions	Balance 12/31/14
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 443,924	\$ -	\$ -	\$ 443,924
Construction in Progress	263,107	3,081,410	3,314,228	30,290
Total Assets Not Being Depreciated	707,031	3,081,410	3,314,228	474,214
Capital Assets Being Depreciated				
Office Equipment	231,690	36,080	-	267,770
Service Equipment	597,111	-	-	597,111
Building	364,434	-	-	364,434
Plant and Equipment	50,745,996	3,786,749	-	54,532,745
Total Assets Being Depreciated	51,939,231	3,822,829	-	55,762,060
Total Capital Assets	\$ 52,646,262	\$ 6,904,239	\$ 3,314,228	\$ 56,236,274
Less: Accumulated Depreciation				
Office Equipment	\$ 212,170	\$ 10,658	\$ -	\$ 222,828
Service Equipment	472,210	6,546	-	478,756
Plant and Equipment	15,495,408	1,330,787	-	16,826,195
Total Accumulated Depreciation	16,179,788	1,347,991	-	17,527,779
Net Capital Assets	\$ 36,466,474	\$ 5,556,248	\$ 3,314,228	\$ 38,708,495

NOTE 5: SHORT-TERM DEBT

The District had interim financing through the local banks of \$2,400,000 (interest rate 3.0%). As of December 31, 2015, \$1,291,601 of this financing had been requested for a project in progress.

The District also has a loan payable to the Bank of Columbia for \$175,000, maturing July 2016, with an interest rate of 5.0%.

NOTE 6: LONG-TERM OBLIGATIONS

Revenue Bonds and Debt with principal payments are detailed as follows:

	2015	2014
1975 Utilities Revenue Bond, original amount \$96,000 maturing October 1, 2015 with interest payments due semi-annually on April 1, and October 1, at a rate of 5%	\$ -	\$ 6,000
2004 Utilities Revenue Bond, original amount \$495,000 maturing October 1, 2043, with interest payments due semi-annually on April 1, and October 1 at a rate of 4.25%	429,000	437,000
2005 Water District Water Revenue Bond, original amount \$1,238,000 maturing January 1, 2045, with interest payments due annually on January 1 at a rate of 4.25%	1,080,000	1,099,000
2006 Water Revenue Bond, original amount \$3,480,000 maturing July 1, 2045, with interest payments due semi-annually on January 1, and July 1, at a rate of 4.375%.	3,156,500	-
2007 Water District Water Revenue Bond, original amount \$752,000 maturing January 1, 2046, with interest payments due annually on January 1 at a rate of 4.25%	686,000	696,500

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DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

	<u>2015</u>	<u>2014</u>
2008 Water Revenue Bond, original amount \$300,000 maturing July 1, 2048, with interest payments due semi-annually on January 1, and July 1, at a rate of 4.375%	\$ 282,400	\$ -
2008 Utilities Revenue Bond, original amount \$115,000 maturing October 1, 2047 with interest payments due semi-annual on April 1, October 1 at a rate of 4.125%	106,300	107,900
2009 Water District Water Revenue Bond, original amount \$1,100,000 maturing January 1, 2050, with interest payments due semi-annually on January 1, and July 1, at a rate of 2.38%	1,048,300	1,066,000
2011 Water Revenue Bond, original amount \$1,200,000 maturing January 1, 2051, with interest payments due semi-annually on January 1, and July 1, at a rate of 3%.	1,159,500	-
2012 Water District Water Revenue Bond, original amount \$1,459,000 maturing May 2052, with interest payments due semi-annually on January and July 1, at a rate of 2.375%	1,435,000	1,459,000
2013-D Water District Water Revenue Bond Refunding, original amount \$3,780,000 maturing August 2040, with interest payments due semi-annually on February and August 1, at a rate of 3.332%	3,340,000	3,575,000
Kentucky Infrastructure Authority Loan, F06-01, original amount \$4,405,817, maturing June 1, 2028, with interest payments due semi-annually on June 1, and, December 1, at a rate of 1.00%, plus a service fee of .25%.	2,931,429	-
Kentucky Infrastructure Authority Loan, F07-01, original amount \$1,000,000 maturing December 1, 2028, with interest payments due semi-annually on June 1, and, December 1, at a rate of 1.00%.	672,450	720,655
Kentucky Infrastructure Authority Loan, F10-01, original amount \$4,000,000 maturing December 1, 2032, with interest payments due semi-annually on June 1, and, December 1, at a rate of 1.00%.	3,449,669	3,634,945
Kentucky Infrastructure Authority Loan, F10-02, original amount \$1,694,000, maturing June 1, 2032, with interest payments due semi-annually on June 1, and, December 1, at a rate of 1.00%, plus a service fee of .25%.	1,421,408	-
Kentucky Infrastructure Authority Loan, F11-10, original amount \$345,089, maturing December 2034, with interest payments due semi-annually June and December, at a rate of 1.00% plus service fee of .25%.	846,109	871,143
Kentucky Infrastructure Authority Loan, F12-04, original amount \$1,429,524, maturing December 2044, with interest payments due semi-annually June and December, at a rate of .75% plus service fee of .25%.	1,303,879	929,190

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 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
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NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

	2015	2014
Total Debt	\$ 23,347,944	\$ 14,602,333
Payments Due in Less Than One Year	(960,454)	(555,282)
Total Long-Term Obligations	\$ 22,387,490	\$ 14,047,051

The annual requirements to amortize all bonded debt outstanding as of December 31, 2015 are as follows:

	Principal	Interest	Total
2015	\$ 398,400	\$ 469,716	\$ 868,116
2016	359,100	456,008	815,108
2017	375,800	441,613	817,413
2018	362,100	426,538	788,638
2019	378,500	412,078	790,578
2020-2024	2,094,300	1,821,322	3,915,622
2025-2029	1,895,800	1,420,301	3,316,101
2030-2034	1,939,800	1,065,631	3,005,431
2035-2039	1,957,800	700,834	2,658,634
2040-2044	2,011,000	311,749	2,322,749
2045-2049	792,900	67,286	860,186
2050-2054	157,500	3,088	160,588
	\$ 12,723,000	\$ 7,596,164	\$ 20,319,164

The annual requirements to amortize all loans outstanding as of December 31, 2015 are as follows:

	Principal	Interest	Total
2015	\$ 562,054	\$ 101,588	\$ 663,642
2016	609,703	95,874	705,577
2017	615,710	89,868	705,578
2018	621,776	83,802	705,578
2019	627,902	77,675	705,577
2020-2024	3,233,548	294,342	3,527,890
2025-2029	2,653,202	138,950	2,792,152
2030-2034	962,575	47,238	1,009,813
2035-2039	403,312	23,677	426,989
2040-2044	335,162	6,430	341,592
	\$ 10,624,944	\$ 959,444	\$ 11,584,388

ADAIR COUNTY WATER DISTRICT
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NOTES TO FINANCIAL STATEMENTS
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NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

Long – term liability for the year ending December 31, 2015 was as follows:

	Restated Balance 12/31/2014	Addition	Reductions	Balance 12/31/2015	Due within One Year
Revenue Bonds	\$ 8,446,400	\$ 4,598,400	\$ 321,800	\$ 12,723,000	\$ 398,400
Kentucky Infrastructure Authority (KIA)					
State Revolving Loans	6,155,933	5,025,486	556,475	10,624,944	562,054
Net Pension Liability	1,407,000	359,987	-	1,766,987	-
	<u>\$ 16,009,333</u>	<u>\$ 9,983,873</u>	<u>\$ 878,275</u>	<u>\$ 25,114,931</u>	<u>\$ 960,454</u>

In 2015 the District agreed on the terms of a loan through the Kentucky Infrastructure totaling \$1,303,879 with an interest rate of .75% plus a service fee of .25%. Interest, along with the service fee, will be paid semi-annually on June and December 1st of each year for the 30 year term of the loan, maturing in December 2044.

NOTE 7: RISK MANAGEMENT

The Adair County Water District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions and natural disasters. The District purchases commercial insurance to cover any of these instances. The District did not have settled claims that exceeded the District's commercial insurance coverage in any of the past three years.

NOTE 8: PENSION PLAN

General information about the County Employees retirement system Hazardous & Non-Hazardous ("CERS")

Plan description – Employees of the Adair County Water District are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, death, and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

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For the Years Ended December 31, 2015 and 2014

NOTE 8: PENSION PLAN (CONTINUED)

Cost of living adjustments are provided at the discretion of the General assembly. Retirement is based on a factor of the number of years' service and the hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for non-service related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District's contribution requirement for CERS for the years ended December 31, 2015, 2014, and 2013 was \$161,308, \$173,955, and \$195,189 from the District and \$47,494, \$47,761, and \$52,284 from employees. The total covered payroll for CERS during the years ended December 31, 2015, 2014 and 2013 was \$927,360, \$951,820, and \$1,019,145.

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

At December 31, 2015, the District reported a liability of \$1,766,987 for its proportionate share of the net pension liability for CERS. The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was 0.04110% percent.

For the year ended December 31, 2015, the District recognized pension expense of \$383,560. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 13,216	\$ -
Changes of assumptions	160,363	-
Net difference between projected and actual earnings on pension plan investments	12,672	125,600
Changes in proportion and differences between District contributions and proportionate share of contributions	-	52,490
District contributions subsequent to the measurement date	161,308	-
Total	<u>\$ 347,559</u>	<u>\$ 178,090</u>

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For the Years Ended December 31, 2015 and 2014

NOTE 8: PENSION PLAN (CONTINUED)

\$161,308 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	(14,778)
2017	(14,778)
2018	(14,778)
2019	(14,778)
2020	13,454
Thereafter	53,819

Actuarial assumptions—the total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	CERS
Projected salary increases	3.50%
Investment rate of return, net of investment expense & inflation	4.50%
	7.75%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of December 31, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated

August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including 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.

Discount rate—for CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earning were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table present the net pension liability of the Adair County Water District, calculated using the discount rates selected by CERS, as well as what the Adair County Water District's net pension liability would be if it were

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NOTE 8: PENSION PLAN (CONTINUED)

calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	1,538,989	1,766,987	1,994,985

Pension plan fiduciary net positions—detailed information about the pension plan's fiduciary net position is available in the financial report of CERS.

DEFERRED COMPENSATION:

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans. For the year ended December 31, 2015, employee contributed approximately \$68,962 to the plan.

The County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE 9: BASIS FOR EXISTING RATES

Current water rates were approved by the PSC in January 2012 and became effective with the February 2012 billing period and current sewer rates were approved by the PSC in July 2014 and became effective with the February 2015 billing period.

NOTE 10: OPERATING LEASE AGREEMENT

On December 14, 2010 the District and the Columbia/Adair County Water Commission ("Water Commission") executed a statement of intent whereby the Water Commission stated its intent to transfer to the District through an Asset Purchase Agreement all ownership of assets and assumption of debt obligations. The transfer cannot be completed until the Kentucky Public Service Commission ("the PSC") has entered a final order authorizing the transfer of assets and debt from the Water Commission to the District.

Effective January 1, 2011 the District entered into an operating agreement with the Water Commission where the District shall manage, operate, repair, and maintain the Water Commission's water treatment plant. They would also make the required monthly transfers to the Sinking Fund and Reserve Fund accounts commencing February 10, 2011 in the amount of \$56,720, the lease is in effect until the completion of the Asset Purchase Agreement. The required transfer and assumption of all operating would take the place of the District paying for water consumption. The District paid the Water Commission \$889,000 for water in 2010.

On January 21, 2015 the District completed the Asset Purchase Agreement with the Columbia/Adair County Water Commission, thus ending the operating lease agreement that took effect on January 1, 2011. All assets and debts of Columbia/Adair County Water Commission were transferred to the District with the net effect recorded as contributed capital on the date of completion. Net assets contributed to the District were approximately \$12.3 million; debts assumed by the District totaled approximately \$9.4 million leaving the difference of \$2.9 million to increase contributed capital.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 11: CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

Effective July 1, 2014, the District was required to adopt Government Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). (GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plan administrators as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as liabilities to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as this District, are required to report a net pension liability, pension expense and pension related assets and liabilities based on the proportionate share of the collective amounts for governments in the plan.

GASB 69 required retrospective application. Since the District presents two years of financial information, comparatively, 2014 beginning net position was adjusted to reflect the retrospective application. The adjustment resulted in a \$1,404,098 reduction in beginning net position on the Statement of Revenue, Expenses, and Changes in Net Position and an increase of \$187,902 of deferred outflows of resources.

Net Position, January 1, 2014 as Previously Reported	\$ 22,678,042
Deferred outflows of resources	187,902
Net pension liability on December 31, 2014	<u>(1,592,000)</u>
Net position, January 1, 2014 as Restated	<u><u>\$ 21,273,944</u></u>

NOTE 12: RESTATEMENT OF BEGINNING BALANCES

The District has a liability consisting of a note payable to the Kentucky Infrastructure Authority that it is currently drawing on to fund current capital projects. The Kentucky Infrastructure Authority has agreed to forgive portions of this debt throughout the time period in which the District is still drawing on the loan. The District did not record the forgiveness of this debt as contributed capital as of December 31, 2014. The result of the correction of this error on the financial statements is as follows:

Non-Current Portion of Revenue Notes and Bonds Payable, December 31, 2014 as Previously Reported	\$ 14,732,385
Debt Forgiveness	<u>(500,334)</u>
Non-Current Portion of Revenue Notes and Bonds Payable, December 31, 2014 as Restated	<u><u>\$ 14,232,051</u></u>
Net Position, December 31, 2014 as Previously Reported	\$ 22,069,029
Debt Forgiveness Recorded as Contributed Capital	<u>500,334</u>
Net Position, December 31, 2014 as Restated	<u><u>\$ 22,569,363</u></u>

NOTE 13: SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through May 27, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY SCHEDULES

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION -
 BUDGET TO ACTUAL
 For the Year Ended December 31, 2015

	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
OPERATING REVENUES			
Charges for Services	\$ 4,675,000	\$ 4,294,373	\$ (380,627)
Service Charges and Other	205,000	157,173	(47,827)
Total Operating Revenues	<u>4,880,000</u>	<u>4,451,546</u>	<u>(428,454)</u>
OPERATING EXPENSES			
Contractual Services	79,000	56,247	22,753
Supplies & Materials	235,585	331,058	(95,473)
Depreciation & Amortization	2,300,000	2,266,598	33,402
Personal Service	1,395,000	1,574,665	(179,665)
Operational	937,300	911,062	26,238
Total Operating Expenses	<u>4,946,885</u>	<u>5,139,630</u>	<u>(192,745)</u>
OPERATING INCOME (LOSS)	<u>(66,885)</u>	<u>(688,084)</u>	<u>(621,199)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	2,000	2,338	338
Interest Expenses and Fiscal Charges	(450,000)	(588,779)	(138,779)
Operating Lease - Water Plant	(50,000)	(53,720)	(3,720)
Miscellaneous Non-Utility Expense	(1,000)	(1,596)	(596)
Miscellaneous Non-Utility Income	10,280	15,572	5,292
Total Non-operating Revenues (Expenses)	<u>(488,720)</u>	<u>(626,185)</u>	<u>(137,465)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(555,605)</u>	<u>(1,314,269)</u>	<u>(758,664)</u>
Capital Contributions	2,000,000	1,865,266	(134,734)
Capital Contributed - Water Plant	3,000,000	2,964,812	(35,188)
CHANGE IN NET POSITION	<u>4,444,395</u>	<u>3,515,809</u>	<u>(928,586)</u>
NET POSITION			
Beginning of Year	<u>(4,444,395)</u>	<u>22,569,363</u>	<u>27,013,758</u>
End of Year	<u>\$ -</u>	<u>\$ 26,085,172</u>	<u>\$ 26,085,172</u>

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2015

Federal Grantor/Pass-Through Grantor Program Title	<u>Federal CFDA Number</u>	<u>Pass-Through Entity ID Num.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed Through the Kentucky Department of Agriculture:			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 95,401
Water and Waste Disposal Systems for Rural Communities	10.760		<u>591,850</u>
Total U.S. Department of Agriculture			687,251
<u>U.S. Environmental Protection Agency</u>			
Passed Through the Kentucky Environmental Protection Agency:			
Capitalization Grants for Clean Water - State Revolving Funds	66.458		<u>241,487</u>
Total U.S. Environmental Protection Agency			241,487
<u>U.S. Department of Commerce</u>			
Passed Through the Kentucky Economic Development Administration:			
Economic Adjustment Assistance	11.307	04-79-06600	<u>1,804,154</u>
Total U.S. Department of Commerce			<u>1,804,154</u>
Total Federal Financial Assistance			<u><u>\$ 2,732,892</u></u>

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of audit issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiencies identified that are not considered to be material weakness(es)?	_____ <u>X</u> Yes	_____ None Reported

Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No
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Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiencies identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ Yes	_____ <u>X</u> No
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
11.307	Economic Adjustment Assistance

Dollar threshold used to distinguish Between type A and B programs:	_____ <u>\$ 750,000</u>
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Auditee qualified as low-risk auditee?	_____ <u>X</u> Yes	_____ No
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Section II - Financial Statement of Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2015

Internal Control Over Financial Reporting

2015-1 - Preparation and Presentation of Financial Statements

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation and presentation of financial statements.

Condition: The District does not have sufficient controls in selecting and applying accounting principles to prepare and present financial statements in accordance with general accepted accounting principles.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Management's Response: It is not economically feasible for the District to invest resources for a member of the financial staff to obtain the necessary training to prepare the financial statements.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2015

The audit of Adair County Water District for the year ended December 31, 2014, revealed no audit findings requiring corrective action.



WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
JEFFREY G. SPROWLES, CPA

INDEPENDENT AUDITORS' 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 Commissioners of
Adair County Water District

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 business-type activities of Adair County Water District, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Adair County Water District's basic financial statements, and have issued our report thereon dated May 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Adair 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Adair County Water District's internal control. Accordingly, we do not express an opinion of the effectiveness of Adair 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs (Finding 2015-1) that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair 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*.

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MEMBERS: AICPA • KYCPA

We also noted other matters that we reported to management of Adair County Water District in a separate letter dated May 27, 2016.

Adair County Water District's Response to Findings

Adair County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Adair County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Campbellsville, KY

May 27, 2016



WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
JEFFREY G. SPROWLES, CPA

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

To the Board of Commissioners of
Adair County Water District

Report on Compliance for Each Major Federal Program

We have audited Adair County Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Adair County Water District's major federal programs for the year December 31, 2015. Adair County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Adair County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Adair County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Adair County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Adair County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of Adair County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Adair County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Adair County Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Campbellsville, KY

May 27, 2016