

PUBLIC SERVICE COMMISSION
ANNUAL REPORTS

AUG 3 2017

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ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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, budgetary comparison information, schedule of District's proportionate share of the net pension liabilities, and schedules of required contributions on pages 3 through 7 and pages 23 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2017 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

July 31, 2017



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, 2016 and 2015. It provides an introduction to the District's 2016 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.

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, 2016. 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, 2016, and 2015 follows:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Assets: | | |
| Cash and Investments | \$ 1,369,882 | \$ 1,387,492 |
| Other Assets | 611,282 | 529,914 |
| Capital Assets | 50,136,144 | 51,671,566 |
| Total Assets | 52,117,308 | 53,588,972 |
| Deferred Outflows: | | |
| Pension Contribution | 622,561 | 347,559 |
| Total Deferred Outflows | 622,561 | 347,559 |
| Liabilities: | | |
| Current Liabilities | 1,508,340 | 2,852,613 |
| Other Liabilities | 227,728 | 224,093 |
| Long-Term Outstanding | 24,027,267 | 24,154,477 |
| Total Liabilities | 25,763,335 | 27,231,183 |
| Deferred Inflows: | | |
| Advances for Construction | 166,519 | 176,610 |
| Premium on Debt Refunding | 254,640 | 265,476 |
| Pension Contributions | 232,399 | 178,090 |
| Total Deferred Inflows | 653,558 | 620,176 |
| Net Position: | | |
| Invested in Capital Assets (Net of Related Debt) | 26,620,053 | 26,507,785 |
| Restricted | 1,291,302 | 1,228,519 |
| Unrestricted | (1,588,378) | (1,651,132) |
| Total Net Position | \$ 26,322,977 | \$ 26,085,172 |

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, 2016, and 2015 follows:

| | 2016 | 2015 | Dollar Change | Percent Change |
|--|------------------|------------------|------------------|-------------------|
| Operating Revenues | \$ 4,490,076 | \$ 4,451,546 | \$ 38,530 | 0.87% |
| Operating Expenses | (2,813,991) | (2,873,032) | 59,041 | -2.06% |
| Depreciation Expense | (2,067,860) | (2,266,598) | 198,738 | -8.77% |
| Operating Income/(Loss) | (391,775) | (688,084) | 296,309 | -43.06% |
| Non-Operating Revenues/(Expenses) | | | | |
| Non-Utility Income | 3,597 | 4,736 | (1,139) | -24.05% |
| Operating Lease Agreement | - | (53,720) | 53,720 | -100.00% |
| Interest Income | 2,717 | 2,338 | 379 | 16.21% |
| Miscellaneous Nonutility Expenses | (1,597) | (1,596) | (1) | 0.06% |

Condensed Statement of Revenues, Expenses & Changes in Net Position, Continued
Years Ended December 31, 2016 and 2015

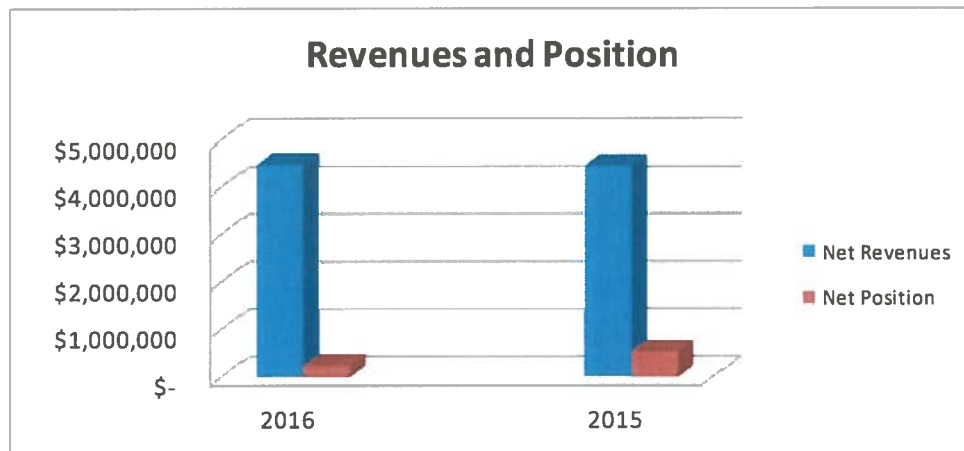
| | 2016 | 2015 | Dollar Change | Percent Change |
|--|----------------------|----------------------|-------------------|-------------------|
| Interest Expense & Fiscal Charges | \$ (583,670) | \$ (588,779) | \$ 5,109 | -0.87% |
| Amortization of Bond Debt | 10,836 | 10,836 | - | 0.00% |
| Total Non-Operating Revenues/(Expenses) | (568,117) | (626,185) | 58,068 | -9.27% |
| Income/(Loss) Before Capital Contributions | (959,892) | (1,314,269) | 354,377 | -26.96% |
| Capital Contributions | 820,175 | 3,234,323 | (2,414,148) | -74.64% |
| Grants | 377,522 | 1,595,755 | (1,218,233) | 0.00% |
| Increase/(Decrease) in Net Position | 237,805 | 3,515,809 | (2,059,771) | -58.59% |
| Beginning of Year | 26,085,172 | 22,569,363 | 3,515,809 | 15.58% |
| End of Year | <u>\$ 26,322,977</u> | <u>\$ 26,085,172</u> | <u>\$ 237,805</u> | <u>0.91%</u> |

Operating Revenue

A comparison of the District's Net Revenues and Net Position for the years ended December 31, 2016 and 2015 is as follows:

| | 2016 | 2015 | Dollar Change | Percentage Change |
|--------------|--------------|--------------|------------------|----------------------|
| Net Revenues | \$ 4,490,076 | \$ 4,451,546 | \$ 38,530 | 0.87% |
| Net Position | \$ 237,805 | \$ 550,997 | \$ (313,192) | -56.84% |

The following graph shows the District's 2016 revenues and position in comparison to the District's 2015 revenues and position.



Operating revenues increased by \$38,530 from 2015 to 2016. The primary reason for the increase in revenues is an increase in water sales.

The change in Net Position decreased from by \$313,192 from 2015 to 2016, due in large part to the completion of the merger with the Water Commission in 2015. Overall Net position increased by \$237,803 from 2015 to 2016.

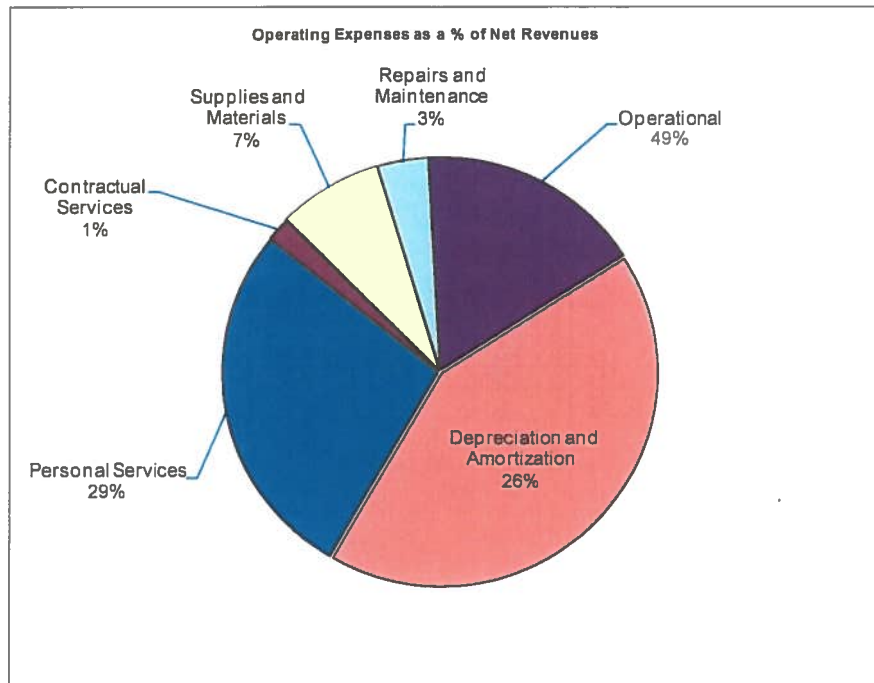
Operating Expenses

Total operating expenses decreased by \$257,780 from 2015 to 2016. The decrease is primarily due to a reduction in depreciation expense from the prior year coupled with a reduction in retirement expense recognized in the current year.

| | 2016 | 2015 | Dollar Change | Percent Change |
|-------------------------------|---------------------|---------------------|---------------------|-------------------|
| Operating Expenses | | | | |
| Personal Services | \$ 1,339,609 | \$ 1,574,665 | \$ (235,056) | -17.55% |
| Contractual Service | 85,163 | 56,247 | 28,916 | 33.95% |
| Supplies and Materials | 382,473 | 331,058 | 51,415 | 13.44% |
| Repairs and Maintenance | 183,143 | 141,602 | 41,541 | 22.68% |
| Operational | 823,603 | 769,460 | 54,143 | 6.57% |
| Depreciation and Amortization | 2,067,860 | 2,266,598 | (198,738) | -9.61% |
| | <u>\$ 4,881,851</u> | <u>\$ 5,139,630</u> | <u>\$ (257,779)</u> | <u>-5.28%</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, 2016, the District had \$23,883,363 in debt outstanding versus \$24,814,545 for December 31, 2015.

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 completed a merger with the Columbia/Adair County Water Commission in January of 2015, which has been our main source of water since it became operational. 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. 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 will be bidding out the next stage of line replacement for the city in 2017.

We completed updates to several sewer lift stations and repainting of the Lindsey Wilson Tank this year. These renovations were necessary and needed for many years.

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, 2016 and 2015

| | Water | Sewer | Total 2016 | 2015 |
|---|-------------------|-------------------|----------------------|----------------------|
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and Cash Equivalents | \$ 68,365 | \$ 10,215 | \$ 78,581 | \$ 158,973 |
| Customer Accounts Receivable, net | 313,103 | 88,519 | 401,622 | 334,876 |
| Inventory | 176,076 | 9,267 | 185,343 | 177,812 |
| Prepaid Expenses | 24,317 | - | 24,317 | 17,226 |
| Restricted Cash and Investments | <u>1,162,172</u> | <u>129,130</u> | <u>1,291,302</u> | <u>1,228,519</u> |
| Total Current Assets | 1,744,033 | 237,131 | 1,981,165 | 1,917,406 |
| NON-CURRENT ASSETS | | | | |
| Capital Assets: | | | | |
| Land and Construction in Progress | 463,119 | 95,901 | 559,020 | 575,813 |
| Other Capital Assets | | | | |
| Net of Accumulated Depreciation | <u>37,522,740</u> | <u>12,054,384</u> | <u>49,577,124</u> | <u>51,095,753</u> |
| Total Non-Current Assets | 37,985,859 | 12,150,285 | 50,136,144 | 51,671,566 |
| TOTAL ASSETS | 39,729,892 | 12,387,416 | 52,117,309 | 53,588,972 |
| Deferred Outflows of Resources | | | | |
| Pension Contributions | <u>525,655</u> | <u>96,906</u> | <u>622,561</u> | <u>347,559</u> |
| Total Deferred Outflows of Resources | 525,655 | 96,906 | 622,561 | 347,559 |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts Payable - Trade | 196,144 | 29,143 | 225,287 | 204,768 |
| Accounts Payable - Construction in Progress | - | - | - | 125,143 |
| Accrued and Withheld Taxes | 51,476 | 10,523 | 61,999 | 36,090 |
| Customer Deposits | 47,925 | - | 47,925 | 40,953 |
| Accrued Payroll | 23,846 | - | 23,846 | 18,604 |
| Liabilities Payable from Restricted Assets: | | | | |
| Interest Payable | 202,842 | 24,886 | 227,728 | 224,093 |
| Current Portion of Revenue Notes and Bonds Payable | 887,903 | 93,400 | 981,303 | 960,454 |
| Current Portion of Notes Payable | <u>167,980</u> | <u>-</u> | <u>167,980</u> | <u>1,466,601</u> |
| Total Current Liabilities | 1,578,116 | 157,952 | 1,736,068 | 3,076,706 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term Liabilities (Excluding Current Portion): | | | | |
| Net Pension Liabilities | 1,611,105 | 277,082 | 1,888,187 | 1,766,987 |
| Non-Current Portion of Revenue Notes and Bonds Payable | <u>20,410,880</u> | <u>1,728,200</u> | <u>22,139,080</u> | <u>22,387,490</u> |
| Total Non-Current Liabilities | 22,021,985 | 2,005,282 | 24,027,267 | 24,154,477 |
| TOTAL LIABILITIES | 23,600,101 | 2,163,234 | 25,763,335 | 27,231,183 |
| DEFERRED INFLOWS | | | | |
| Advances for Construction | 166,519 | - | 166,519 | 176,610 |
| Premium on Debt Refunding | 254,640 | - | 254,640 | 265,476 |
| Pension Contributions | <u>197,521</u> | <u>34,878</u> | <u>232,399</u> | <u>178,090</u> |
| TOTAL DEFERRED INFLOWS | 618,680 | 34,878 | 653,558 | 620,176 |
| NET POSITION | | | | |
| Invested in Capital Assets, Net of Related Debt | | | 26,620,053 | 26,507,785 |
| Restricted | | | 1,291,302 | 1,228,519 |
| Unrestricted | | | <u>(1,588,378)</u> | <u>(1,651,132)</u> |
| TOTAL NET POSITION | | | \$ 26,322,977 | \$ 26,085,172 |

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, 2016 and 2015

| | Water | Sewer | Total 2016 | Total 2015 |
|---|--------------|------------|----------------------|----------------------|
| OPERATING REVENUES | | | | |
| Water Sales | \$ 3,669,138 | \$ 667,733 | \$ 4,336,871 | \$ 4,294,373 |
| Service Charges and Other | 153,205 | - | 153,205 | 157,173 |
| Total Operating Revenues | 3,822,343 | 667,733 | 4,490,076 | 4,451,546 |
| OPERATING EXPENSES | | | | |
| Personal Service | 1,108,115 | 231,494 | 1,339,609 | 1,574,665 |
| Contractual Services | 60,376 | 24,787 | 85,163 | 56,247 |
| Supplies and Materials | 360,310 | 22,163 | 382,473 | 331,058 |
| Repairs and Maintenance | 78,677 | 104,466 | 183,143 | 141,602 |
| Operational | 586,433 | 237,170 | 823,603 | 769,460 |
| Depreciation and Amortization | 1,518,854 | 549,006 | 2,067,860 | 2,266,598 |
| Total Operating Expenses | 3,712,765 | 1,169,086 | 4,881,851 | 5,139,630 |
| OPERATING INCOME/(LOSS) | 109,578 | (501,353) | (391,775) | (688,084) |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Other Non-Utility Income | 3,597 | - | 3,597 | 4,736 |
| Operating Lease -Water Plant | - | - | - | (53,720) |
| Interest Income | 2,628 | 89 | 2,717 | 2,338 |
| Bond Issuance Costs | (1,211) | (386) | (1,597) | (1,596) |
| Interest Expenses | (529,729) | (53,941) | (583,670) | (588,779) |
| Amortization of Bond Debt | 8,573 | 2,263 | 10,836 | 10,836 |
| Total Non-Operating Revenues (Expenses) | (516,142) | (51,975) | (568,117) | (626,185) |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (406,564) | (553,328) | (959,892) | (1,314,269) |
| Capital Contributions | 352,760 | 467,415 | 820,175 | 269,511 |
| Grants | - | 377,522 | 377,522 | 1,595,755 |
| INCREASE (DECREASE) IN NET POSITION | (53,804) | 291,609 | 237,805 | 550,997 |
| Capital Contributed - Water Plant | | | - | 2,964,812 |
| NET POSITION | | | | |
| Beginning of Year | | | 26,085,172 | 22,569,363 |
| End of Year | | | <u>\$ 26,322,977</u> | <u>\$ 26,085,172</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, 2016 and 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received From Customers | \$ 4,413,239 | \$ 4,424,453 |
| Cash Payments to Employees for Services | (1,407,951) | (1,370,721) |
| Cash Payments to Suppliers for Goods and Services | (1,593,628) | (1,296,763) |
| Customer Deposits Received | 32,550 | 30,300 |
| Customer Deposits Returned | (25,578) | (29,664) |
| Net Cash Provided/(Used) By Operating Activities | 1,418,632 | 1,757,605 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and Construction of Capital Assets | (531,698) | (3,071,959) |
| Debt Retired | (2,280,017) | (888,275) |
| Debt Issued | 753,836 | 1,160,320 |
| Interest Paid on Debt | (580,034) | (512,007) |
| Operating Transfer | - | (53,720) |
| Capital Grants and Contributions | 1,195,358 | 2,031,698 |
| Net Cash Provided/(Used) By Financing Activities | (1,442,555) | (1,333,943) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Miscellaneous Non-Operating Income | 3,597 | 4,736 |
| Net Cash Provided/(Used) by Noncapital Financing Activities | 3,597 | 4,736 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest | 2,717 | 2,338 |
| Net Cash Provided/(Used) By Investing Activities | 2,717 | 2,338 |
| Net Increase/(Decrease) In Cash and Cash Equivalents | (17,609) | 430,736 |
| Cash and Cash Equivalents - Beginning of Year | 1,387,492 | 956,756 |
| Cash and Cash Equivalents - End of Year | \$ 1,369,883 | \$ 1,387,492 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS | | |
| Cash and Cash Equivalents | \$ 78,581 | \$ 158,973 |
| Restricted Cash | 1,291,302 | 1,228,519 |
| TOTAL CASH AND CASH EQUIVALENTS | \$ 1,369,883 | \$ 1,387,492 |

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, 2016 and 2015

| | 2016 | 2015 |
|---|--------------|--------------|
| RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES | | |
| Operating Income (Loss) | \$ (391,775) | \$ (688,084) |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES | | |
| Depreciation | 2,067,860 | 2,266,598 |
| Change in Assets and Liabilities: | | |
| (Increase)/Decrease in Accounts Receivable | (66,746) | (26,457) |
| (Increase)/Decrease in Inventory | (7,531) | 3,047 |
| (Increase)/Decrease in Prepaid Expenses | (7,091) | (6,789) |
| (Increase)/Decrease in Deferred Outflows - Pension | (275,002) | (173,604) |
| Increase/(Decrease) in Accounts Payable | 20,519 | 5,346 |
| Increase/(Decrease) in Accounts Payable - CIP | (125,143) | - |
| Increase/(Decrease) in Salaries and Wages Payable | 5,242 | (7,294) |
| Increase/(Decrease) in Customer Deposits | 6,972 | 909 |
| Increase/(Decrease) in Accrued and Withheld Taxes | 25,909 | 2,856 |
| Increase/(Decrease) in Deferred Inflows - Pension | 54,309 | 21,090 |
| Increase/(Decrease) in Advances for Construction | (10,091) | - |
| Increase/(Decrease) in Net Pension Liability | 121,200 | 359,987 |
| Total Reconciling Adjustments | 1,810,407 | 2,445,689 |
| NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES | \$ 1,418,632 | \$ 1,757,605 |

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, 2016 and 2015

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 in addition to assets, the statement of financial position will 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. 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 2016 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 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.

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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 exchange's 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, 2016 and 2015, the allowance for doubtful accounts was \$377,100 and \$334,794, respectively.

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.

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 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 revenue, expenses and changes in net position.

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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, 2016 | December 31, 2015 |
|-------------------------------------|----------------------|----------------------|
| Unrestricted: | | |
| Cash | \$ 78,581 | \$ 158,973 |
| Certificates of Deposit and Savings | - | - |
| Total Unrestricted | 78,581 | 158,973 |
| Restricted: | | |
| Cash | 800,564 | 1,004,019 |
| Certificates of Deposit and Savings | 490,738 | 224,500 |
| Total Restricted | 1,291,302 | 1,228,519 |
| Total Cash and Cash Equivalents | \$ 1,369,883 | \$ 1,387,492 |

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.

| | 2016 | 2015 |
|--|--------------|--------------|
| Insured (FDIC) or Collateral Held by Pledging Bank Securities in District's Name | \$ 1,369,883 | \$ 1,387,492 |
| Uninsured or Uncollateralized | - | - |
| Total (Memorandum Only) | \$ 1,369,883 | \$ 1,387,492 |

The District's investment policy is conservative.

ADAIR COUNTY WATER DISTRICT
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NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Deposits - The carrying amount of the District's deposits at December 31, 2016 was \$1,369,883 and the bank balance was \$1,390,399. 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, 2016 and 2015 restricted cash amounted to \$1,291,302 and \$1,228,519 respectively. This includes restrictions for customer deposits of \$40,410 and \$40,660 and restrictions for debt service of \$1,250,717 and \$1,187,574 respectively. This also includes \$175 restricted at December 31, 2016 for capital projects.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015 was as follows:

| | Balance 12/31/15 | Additions | Deletions | Balance 12/31/16 |
|---|----------------------|-----------------------|------------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Rights | \$ 559,020 | \$ - | \$ - | \$ 559,020 |
| Construction in Progress | 36,488 | - | 36,488 | - |
| Total Assets Not Being Depreciated | 595,508 | - | 36,488 | 559,020 |
| Capital Assets Being Depreciated | | | | |
| Office Equipment | 459,451 | 42,257 | 1,515 | 500,193 |
| Service Equipment | 763,597 | 3,800 | 774 | 766,623 |
| Building | 7,669,203 | - | - | 7,669,203 |
| Plant and Equipment | 65,328,922 | 523,644 | - | 65,852,566 |
| Total Assets Being Depreciated | 74,221,173 | 569,701 | 2,289 | 74,788,585 |
| Total Capital Assets | \$ 74,816,681 | \$ 569,701 | \$ 38,777 | \$ 75,347,605 |
| Less: Accumulated Depreciation | | | | |
| Office Equipment | \$ 523,042 | \$ 231,183 | \$ 1,514 | \$ 752,711 |
| Service Equipment | 626,236 | 140,578 | - | 766,814 |
| Plant and Equipment | 21,995,837 | 1,696,099 | - | 23,691,936 |
| Total Accumulated Depreciation | 23,145,115 | 2,067,860 | 1,514 | 25,211,461 |
| Net Capital Assets | \$ 51,671,566 | \$ (1,498,159) | \$ 37,263 | \$ 50,136,144 |

Depreciation expense for the year ended December 31, 2016 was \$2,067,860.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

NOTE 4: CAPITAL ASSETS (CONTINUED)

| | 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 |

For the year ended December 31, 2015 accumulated depreciation for the District increased by \$5,617,336 as presented above. Depreciation expense for the same period was \$2,266,598. This difference is due to the completion of the asset purchase agreement with the Columbia/Adair Water Commission. Upon transfer of the assets, the District assumed \$3,350,738 of accumulated depreciation from the Commission.

NOTE 5: SHORT-TERM DEBT

As of December 31, 2016, the District has a loan payable to the Bank of Columbia for \$167,980, maturing July 2017, with an interest rate of 5.0%.

NOTE 6: LONG-TERM OBLIGATIONS

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

| | 2016 | 2015 |
|--|------------|------------|
| 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% | \$ 420,500 | \$ 429,000 |
| 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% | 1,060,000 | 1,080,000 |
| 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%. | 3,107,000 | 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% | 675,000 | 686,000 |

ADAIR COUNTY WATER DISTRICT
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NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

| | 2016 | 2015 |
|--|------------|------------|
| 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% | \$ 278,400 | \$ 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% | 104,600 | 106,300 |
| 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% | 1,030,100 | 1,048,300 |
| 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%. | 1,138,500 | 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% | 1,410,500 | 1,435,000 |
| 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% | 3,100,000 | 3,340,000 |
| 2014 Water District Water Revenue Bond, original amount \$694,000 maturing January 2054, with interest payments due semi-annually on January and July 1, at a rate of 1.875% | 694,000 | - |
| 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%. | 2,710,130 | 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%. | 623,762 | 672,450 |
| 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%. | 3,262,534 | 3,449,669 |
| 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%. | 1,341,760 | 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%. | 820,824 | 846,109 |

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NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

| | 2016 | 2015 |
|--|---------------|---------------|
| 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%. | \$ 1,342,773 | \$ 1,303,879 |
| Total Debt | 23,120,383 | 23,347,944 |
| Payments Due in Less Than One Year | (981,303) | (960,454) |
| Total Long-Term Obligations | \$ 22,139,080 | \$ 22,387,490 |

The annual requirements to amortize all bonded debt outstanding as of December 31, 2016 are as follows:

| | Principal | Interest | Total |
|-----------|---------------|--------------|---------------|
| 2017 | \$ 371,600 | \$ 469,020 | \$ 840,620 |
| 2018 | 388,800 | 454,391 | 843,191 |
| 2019 | 375,100 | 439,072 | 814,172 |
| 2020 | 392,000 | 424,369 | 816,369 |
| 2021 | 408,200 | 408,967 | 817,167 |
| 2022-2026 | 2,151,100 | 1,793,524 | 3,944,624 |
| 2027-2031 | 1,982,700 | 1,399,051 | 3,381,751 |
| 2032-2036 | 1,999,800 | 1,033,788 | 3,033,588 |
| 2037-2041 | 2,100,500 | 664,241 | 2,764,741 |
| 2042-2046 | 1,900,500 | 263,256 | 2,163,756 |
| 2047-2051 | 815,800 | 60,992 | 876,792 |
| 2052-2056 | 132,500 | 3,442 | 135,942 |
| | \$ 13,018,600 | \$ 7,414,113 | \$ 20,432,713 |

The annual requirements to amortize all loans outstanding as of December 31, 2016 are as follows:

| | Principal | Interest | Total |
|-----------|---------------|------------|---------------|
| 2017 | \$ 609,703 | \$ 95,874 | \$ 705,577 |
| 2018 | 615,710 | 89,868 | 705,578 |
| 2019 | 621,776 | 83,802 | 705,578 |
| 2020 | 627,902 | 77,675 | 705,577 |
| 2021 | 634,772 | 71,696 | 706,468 |
| 2022-2026 | 3,258,679 | 264,129 | 3,522,808 |
| 2027-2031 | 2,371,398 | 115,402 | 2,486,800 |
| 2032-2036 | 654,236 | 40,749 | 694,985 |
| 2037-2041 | 404,891 | 22,099 | 426,990 |
| 2042-2046 | 302,716 | 5,193 | 307,909 |
| | \$ 10,101,783 | \$ 866,487 | \$ 10,968,270 |

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NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

Long – term liabilities for the year ending December 31, 2016 was as follows:

| | Balance 12/31/2015 | Addition | Reductions | Balance 12/31/2016 | Due within One Year |
|---|-----------------------|-------------------|-------------------|-----------------------|------------------------|
| Revenue Bonds | \$ 12,723,000 | \$ 694,000 | \$ 398,400 | \$ 13,018,600 | \$ 371,600 |
| Kentucky Infrastructure Authority (KIA) | | | | | |
| State Revolving Loans | 10,624,944 | 59,836 | 582,997 | 10,101,783 | 609,703 |
| Net Pension Liability | 1,766,987 | 121,200 | - | 1,888,187 | - |
| | <u>\$ 25,114,931</u> | <u>\$ 875,036</u> | <u>\$ 981,397</u> | <u>\$ 25,008,570</u> | <u>\$ 981,303</u> |

In 2016 the District agreed on the terms of a water revenue bond totaling \$694,000 with an interest rate of 1.875%. Interest will be paid semi-annually on January and July 1st of each year for the 30 year term of the bond, maturing in December 2054.

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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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:

| | Required contribution |
|--------|-----------------------|
| 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, 2016, 2015, and 2014 was \$108,953 \$120,848, and \$187,902 from the District and \$46,240 \$47,494, and \$47,761 from employees. The total covered payroll for CERS during the years ended December 31, 2016, 2015 and 2014 was \$938,186 \$927,360, and \$951,820.

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

At December 31, 2016, the District reported a liability of \$1,888,187 for its proportionate share of the net pension liability for CERS. The net pension liability for each plan was measured as of June 30, 2016, 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, 2016, the District's proportion was 0.03835% percent.

For the year ended December 31, 2016, the District recognized pension expense of \$68,469. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows Resources | Deferred Inflows of Resources |
|---|--|--|
| Differences between expected and actual experience | \$ 19,166 | \$ - |
| Changes of assumptions | 232,568 | - |
| Net difference between projected and actual earnings on pension plan investments | 151,511 | 94,200 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | 138,199 |
| District contributions subsequent to the measurement date | 219,316 | - |
| Total | \$ 622,561 | \$ 232,399 |

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NOTE 8: PENSION PLAN (CONTINUED)

\$219,316 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, 2017. 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: | |
|---------------------|--------|
| 2017 | 21,380 |
| 2018 | 21,380 |
| 2019 | 21,380 |
| 2020 | 49,612 |
| 2021 | 14,110 |
| Thereafter | 42,984 |

Actuarial assumptions—the total pension liability in the June 30, 2016 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 7.50%. 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 7.50%. 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 | 6.50% | 7.50% | 8.50% |
| District's proportionate share of net pension liability | 2,353,012 | 1,888,187 | 1,489,777 |

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, 2016, employees contributed approximately \$16,025 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: SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through July 31, 2017, 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, 2016

| | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|----------------------|----------------------|---|
| OPERATING REVENUES | | | |
| Charges for Services | \$ 4,500,000 | \$ 4,336,871 | \$ (163,129) |
| Service Charges and Other | 215,000 | 153,205 | (61,795) |
| Total Operating Revenues | <u>4,715,000</u> | <u>4,490,076</u> | <u>(224,924)</u> |
| OPERATING EXPENSES | | | |
| Contractual Services | 70,000 | 85,163 | (15,163) |
| Supplies & Materials | 225,000 | 382,473 | (157,473) |
| Depreciation & Amortization | 1,225,000 | 2,067,860 | (842,860) |
| Personal Service | 1,523,000 | 1,339,609 | 183,391 |
| Operational | 947,500 | 1,006,746 | (59,246) |
| Total Operating Expenses | <u>3,990,500</u> | <u>4,881,851</u> | <u>(891,351)</u> |
| OPERATING INCOME (LOSS) | <u>724,500</u> | <u>(391,775)</u> | <u>(1,116,275)</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest Income | 2,000 | 2,717 | 717 |
| Interest Expenses and Fiscal Charges | (462,762) | (583,670) | (120,908) |
| Miscellaneous Non-Utility Expense | (1,000) | (1,597) | (597) |
| Miscellaneous Non-Utility Income | 2,000 | 14,433 | 12,433 |
| Total Non-operating Revenues (Expenses) | <u>(459,762)</u> | <u>(568,117)</u> | <u>(108,355)</u> |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | <u>264,738</u> | <u>(959,892)</u> | <u>(1,224,630)</u> |
| Capital Contributions | 3,275,000 | 1,197,697 | (2,077,303) |
| CHANGE IN NET POSITION | <u>3,539,738</u> | <u>237,805</u> | <u>(3,301,933)</u> |
| NET POSITION | | | |
| Beginning of Year | <u>26,085,172</u> | <u>26,085,172</u> | <u>-</u> |
| End of Year | <u>\$ 29,624,910</u> | <u>\$ 26,322,977</u> | <u>\$ (3,301,933)</u> |

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY
 December 31, 2016

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|
| District's proportion of the net pension liability (asset) | 0.03835% | 0.04110% | 0.017693% |
| District's proportionate share of the net pension liability (asset) | 1,888,187 | 1,766,987 | 1,407,000 |
| District's covered-employee payroll | 938,186 | 927,360 | 951,820 |
| District's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll | 201.26% | 190.54% | 147.82% |
| Plan fiduciary net position as a percentage of the total pension liability | 55.50% | 59.97% | 66.80% |

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF CONTRIBUTIONS TO CERS
 December 31, 2016

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|------------------|
| Contractually required contribution | \$ 108,953 | \$ 120,848 | \$ 187,902 |
| Contributions in relation to the contractually required contribution | <u>(108,953)</u> | <u>(120,848)</u> | <u>(187,902)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 938,186 | \$ 927,360 | \$ 951,820 |
| Contributions as a percentage of covered-employee payroll | 11.61% | 13.03% | 19.74% |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS
For the Year Ended December 31, 2016

NOTE 1 – CHANGES OF BENEFIT TERMS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for member whose participation date in on or after January 1, 2014.

NOTE B – CHANGES OF ASSUMPTION

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

2015:

1. The assumed investment rate of return was decreased from 7.75% to 7.50%.
2. The assumed rate of inflation was reduced from 3.50% to 3.25%.
3. The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
4. Payroll growth assumption was reduced from 4.50% to 4.00%.
5. The mortality table used for active members is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
6. For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
7. The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2016

Internal Control Over Financial Reporting

2016-1 - 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, 2016

The audit of Adair County Water District for the year ended December 31, 2015, revealed no audit findings requiring corrective action.



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, 2016 and 2015, 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 July 31, 2017.

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 responses (Finding 2016-1) 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*.

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

July 31, 2017