

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2018, the District adopted a new accounting guidance, *GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of District's proportionate share of the net pension and OPEB liabilities, and schedules of required pension and OPEB contributions on pages 3 through 7 and pages 27 through 33 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

The accompanying Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards on pages 34 and 35 are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and Notes to the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and 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 of 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 information shown on the Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation 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 June 28, 2019 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

June 28, 2019



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, 2018 and 2017. It provides an introduction to the District's 2018 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, 2018. 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, 2018, and 2017 follows:

| | 2018 | 2017 |
|--|---------------|---------------|
| Assets: | | |
| Cash and Investments | \$ 1,241,967 | \$ 1,313,878 |
| Other Assets | 652,721 | 658,011 |
| Capital Assets | 47,967,052 | 48,735,316 |
| Total Assets | 49,861,740 | 50,707,205 |
| Deferred Outflows: | | |
| Pension | 491,090 | 665,828 |
| OPEB | 160,790 | 190,009 |
| Total Deferred Outflows | 651,880 | 855,837 |
| Liabilities: | | |
| Current Liabilities | 1,651,244 | 1,635,396 |
| Other Liabilities | 238,374 | 238,214 |
| Long-Term Outstanding | 24,320,186 | 24,565,481 |
| Total Liabilities | 26,209,804 | 26,439,091 |
| Deferred Inflows: | | |
| Advances for Construction | 166,140 | 166,387 |
| Premium on Debt Refunding | 232,968 | 243,804 |
| Pension | 194,493 | 255,579 |
| OPEB | 137,032 | 40,392 |
| Total Deferred Inflows | 730,633 | 706,162 |
| Net Position: | | |
| Invested in Capital Assets (Net of Related Debt) | 25,238,054 | 25,789,503 |
| Restricted | 1,134,478 | 1,080,975 |
| Unrestricted | (2,799,349) | (2,452,689) |
| Total Net Position | \$ 23,573,183 | \$ 24,417,789 |

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, 2018, and 2017 follows:

Condensed Statement of Revenues, Expenses & Changes in Net Position Years Ended December 31, 2018 and 2017

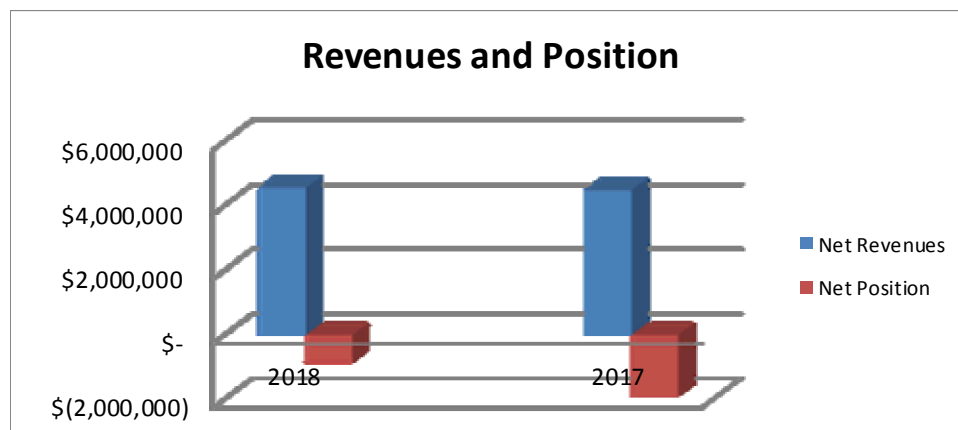
| | 2018 | 2017 | Dollar Change | Percent Change |
|--|----------------------|----------------------|---------------------|-------------------|
| Operating Revenues | \$ 4,557,728 | \$ 4,486,762 | \$ 70,966 | 1.58% |
| Operating Expenses | (3,286,914) | (4,010,755) | 723,841 | -18.05% |
| Depreciation Expense | (2,049,738) | (2,060,734) | 10,996 | -0.53% |
| Operating Income/(Loss) | (778,924) | (1,584,727) | 805,803 | -50.85% |
| Non-Operating Revenues/(Expenses) | | | | |
| Non-Utility Income | 6,210 | 2,019 | 4,191 | 207.58% |
| Interest Income | 13,423 | 1,427 | 11,996 | 840.64% |
| Miscellaneous Nonutility Expenses | (1,496) | (1,608) | 112 | -6.97% |
| Interest Expense & Fiscal Charges | (583,369) | (610,721) | 27,352 | -4.48% |
| Amortization of Bond Debt | 10,836 | 10,836 | - | 0.00% |
| Total Non-Operating Revenues/(Expenses) | (554,396) | (598,047) | 43,651 | -7.30% |
| Income/(Loss) Before Capital Contributions | (1,333,320) | (2,182,774) | 849,454 | -38.92% |
| Capital Contributions | 488,714 | 277,586 | 211,128 | 76.06% |
| Grants | - | - | - | 0.00% |
| Increase/(Decrease) in Net Position | (844,606) | (1,905,188) | 1,060,582 | -55.67% |
| Beginning of Year, Restated | 24,498,618 | 26,322,977 | (1,824,359) | -6.93% |
| End of Year | <u>\$ 23,654,012</u> | <u>\$ 24,417,789</u> | <u>\$ (763,777)</u> | <u>-3.13%</u> |

Operating Revenue

A comparison of the District's Net Revenues and Net Position for the years ended December 31, 2018 and 2017 is as follows:

| | 2018 | 2017 | Dollar Change | Percentage Change |
|--------------|--------------|----------------|------------------|----------------------|
| Net Revenues | \$ 4,557,728 | \$ 4,486,762 | \$ 70,966 | 1.58% |
| Net Position | \$ (844,606) | \$ (1,905,188) | \$ 1,060,582 | -55.67% |

The following graph shows the District's 2018 revenues and position in comparison to the District's 2017 revenues and position.



Operating revenues increased by \$70,966 from 2017 to 2018.

The change in Net Position increased by \$1,060,582 from 2017 to 2018.

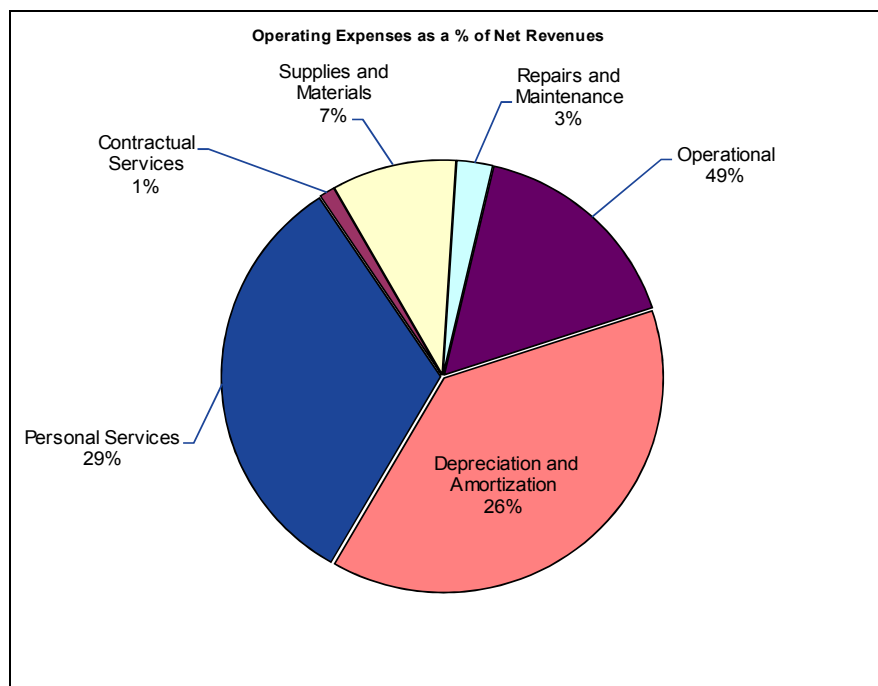
Operating Expenses

Total operating expenses decreased by \$734,837 from 2017 to 2018. The increase is primarily due to a decrease in personal services expenses. This includes changes due to pension and OPEB expense calculations.

| | 2018 | 2017 | Dollar Change | Percent Change |
|-------------------------------|---------------------|---------------------|---------------------|-------------------|
| Operating Expenses | | | | |
| Personal Services | \$ 1,725,791 | \$ 2,497,075 | \$ (771,284) | -44.69% |
| Contractual Service | 60,435 | 96,878 | (36,443) | -60.30% |
| Supplies and Materials | 490,975 | 411,118 | 79,857 | 16.26% |
| Repairs and Maintenance | 140,872 | 143,986 | (3,114) | -2.21% |
| Operational | 868,841 | 861,698 | 7,143 | 0.82% |
| Depreciation and Amortization | 2,049,738 | 2,060,734 | (10,996) | -0.54% |
| | <u>\$ 5,336,652</u> | <u>\$ 6,071,489</u> | <u>\$ (734,837)</u> | <u>-13.77%</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, 2018, the District had \$22,490,624 in debt outstanding versus \$22,707,599 for December 31, 2017.

Economic Factors and Future Planning

The primary service area of the Utility is located in Adair County. 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 applying for funding to replace sewer lines in the City of Columbia and scattered lines in the county as well as a water main along the southern bypass of Columbia. We will also apply to update telemetry at various sites and new influent pumps at the wastewater treatment plant.

We completed the Burkesville Street project this year which upgraded lines in the city limits of Columbia. These lines help with our water loss and pressure problems. 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 alongside 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, 2018 and 2017

| | Water | Sewer | Total 2018 | 2017 |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and Cash Equivalents | \$ 91,366 | \$ 16,123 | \$ 107,489 | \$ 232,903 |
| Customer Accounts Receivable, net | 293,664 | 109,638 | 403,302 | 428,204 |
| Inventory | 194,202 | 10,221 | 204,423 | 196,117 |
| Prepaid Expenses | 42,746 | 2,250 | 44,996 | 33,690 |
| Restricted Cash and Investments | <u>1,021,030</u> | <u>113,448</u> | <u>1,134,478</u> | <u>1,080,975</u> |
| Total Current Assets | 1,643,008 | 251,680 | 1,894,688 | 1,971,889 |
| NON-CURRENT ASSETS | | | | |
| Capital Assets: | | | | |
| Land and Construction in Progress | 463,119 | 95,901 | 559,020 | 559,020 |
| Other Capital Assets | | | | |
| Net of Accumulated Depreciation | <u>36,375,828</u> | <u>11,032,204</u> | <u>47,408,032</u> | <u>48,176,296</u> |
| Total Non-Current Assets | 36,838,947 | 11,128,105 | 47,967,052 | 48,735,316 |
| TOTAL ASSETS | 38,481,955 | 11,379,785 | 49,861,740 | 50,707,205 |
| Deferred Outflows of Resources | | | | |
| Pension | 356,948 | 52,756 | 409,704 | 597,597 |
| Pension Contributions | 65,956 | 15,430 | 81,386 | 68,231 |
| OPEB | 110,280 | 24,117 | 134,397 | 167,868 |
| OPEB Contributions | <u>21,389</u> | <u>5,004</u> | <u>26,393</u> | <u>22,141</u> |
| Total Deferred Outflows of Resources | 554,573 | 97,307 | 651,880 | 855,837 |

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
STATEMENT OF NET POSITION
December 31, 2018 and 2017

| | Water | Sewer | Total 2018 | 2017 |
|---|------------|-----------|---------------------|---------------------|
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts Payable - Trade | \$ 241,481 | \$ 18,332 | \$ 259,813 | \$ 249,492 |
| Accrued and Withheld Taxes | 59,606 | 15,468 | 75,074 | 67,260 |
| Customer Deposits | 46,147 | 8,144 | 54,291 | 51,733 |
| Accrued Payroll | 24,432 | 4,312 | 28,744 | 26,288 |
| Accrued Sick Leave | 66,697 | 14,777 | 81,474 | 80,829 |
| Liabilities Payable from Restricted Assets: | | | | |
| Interest Payable | 213,488 | 24,886 | 238,374 | 238,214 |
| Current Portion of Revenue Notes and Bonds Payable | 952,640 | 75,950 | 1,028,590 | 1,013,606 |
| Current Portion of Notes Payable | 123,258 | - | 123,258 | 146,188 |
| Total Current Liabilities | 1,727,749 | 161,869 | 1,889,618 | 1,873,610 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term Liabilities (Excluding Current Portion): | | | | |
| Net Pension Liabilities | 1,951,844 | 356,625 | 2,308,469 | 2,246,207 |
| Net OPEB Liability | 550,479 | 122,462 | 672,941 | 771,469 |
| Non-Current Portion of Revenue Notes and Bonds Payable | 19,754,126 | 1,584,650 | 21,338,776 | 21,547,805 |
| Total Non-Current Liabilities | 22,256,449 | 2,063,737 | 24,320,186 | 24,565,481 |
| TOTAL LIABILITIES | 23,984,198 | 2,225,606 | 26,209,804 | 26,439,091 |
| DEFERRED INFLOWS | | | | |
| Advances for Construction | 166,140 | - | 166,140 | 166,387 |
| Premium on Debt Refunding | 232,968 | - | 232,968 | 243,804 |
| Pension | 168,160 | 26,333 | 194,493 | 255,579 |
| OPEB | 109,210 | 27,822 | 137,032 | 40,392 |
| TOTAL DEFERRED INFLOWS | 676,478 | 54,155 | 730,633 | 706,162 |
| NET POSITION | | | | |
| Invested in Capital Assets, Net of Related Debt | | | 25,238,054 | 25,789,503 |
| Restricted | | | 1,134,478 | 1,080,975 |
| Unrestricted | | | (2,799,349) | (2,452,689) |
| TOTAL NET POSITION | | | <u>\$23,573,183</u> | <u>\$24,417,789</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, 2018 and 2017

| | Water | Sewer | Total 2018 | Total 2017 |
|--|-------------|------------|---------------------|---------------------|
| OPERATING REVENUES | | | | |
| Water Sales | \$3,724,027 | \$ 673,687 | \$ 4,397,714 | \$ 4,314,986 |
| Service Charges and Other | 160,014 | - | 160,014 | 171,776 |
| Total Operating Revenues | 3,884,041 | 673,687 | 4,557,728 | 4,486,762 |
| OPERATING EXPENSES | | | | |
| Personal Service | 1,363,713 | 362,078 | 1,725,791 | 2,497,075 |
| Contractual Services | 43,688 | 16,747 | 60,435 | 96,878 |
| Supplies and Materials | 440,325 | 50,650 | 490,975 | 411,118 |
| Repairs and Maintenance | 86,737 | 54,135 | 140,872 | 143,986 |
| Operational | 633,448 | 235,393 | 868,841 | 861,698 |
| Depreciation and Amortization | 1,515,247 | 534,491 | 2,049,738 | 2,060,734 |
| Total Operating Expenses | 4,083,158 | 1,253,494 | 5,336,652 | 6,071,489 |
| OPERATING INCOME/(LOSS) | (199,117) | (579,807) | (778,924) | (1,584,727) |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Other Non-Utility Income | 6,210 | - | 6,210 | 2,019 |
| Interest Income | 13,370 | 53 | 13,423 | 1,427 |
| Bond Issuance Costs | (1,122) | (374) | (1,496) | (1,608) |
| Interest Expenses | (501,684) | (81,685) | (583,369) | (610,721) |
| Amortization of Bond Debt | 7,260 | 3,576 | 10,836 | 10,836 |
| Total Non-Operating Revenues (Expenses) | (475,966) | (78,430) | (554,396) | (598,047) |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (675,083) | (658,237) | (1,333,320) | (2,182,774) |
| Capital Contributions | 484,214 | 4,500 | 488,714 | 277,586 |
| Grants | - | - | - | - |
| INCREASE (DECREASE) IN NET POSITION | (190,869) | (653,737) | (844,606) | (1,905,188) |
| NET POSITION | | | | |
| Beginning of Year, Restated | | | 24,417,789 | 26,322,977 |
| End of Year | | | <u>\$23,573,183</u> | <u>\$24,417,789</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, 2018 and 2017

| | 2018 | 2017 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received From Customers | \$ 4,582,630 | \$ 4,460,180 |
| Cash Payments to Employees for Services | (1,511,631) | (1,448,757) |
| Cash Payments to Suppliers for Goods and Services | (1,570,661) | (1,509,754) |
| Customer Deposits Received | 25,939 | 28,925 |
| Customer Deposits Returned | (23,381) | (25,117) |
| Net Cash Provided/(Used) By Operating Activities | 1,502,896 | 1,505,477 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and Construction of Capital Assets | (1,279,547) | (659,906) |
| Debt Retired | (1,398,724) | (1,167,475) |
| Debt Issued | 1,181,749 | 585,102 |
| Interest Paid on Debt | (586,633) | (600,235) |
| Capital Grants and Contributions | 488,714 | 277,586 |
| Net Cash Provided/(Used) By Financing Activities | (1,594,441) | (1,564,928) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Miscellaneous Non-Operating Income | 6,211 | 2,019 |
| Net Cash Provided/(Used) by Noncapital Financing Activities | 6,211 | 2,019 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest | 13,423 | 1,427 |
| Net Cash Provided/(Used) By Investing Activities | 13,423 | 1,427 |
| Net Increase/(Decrease) In Cash and Cash Equivalents | (71,911) | (56,005) |
| Cash and Cash Equivalents - Beginning of Year | 1,313,878 | 1,369,883 |
| Cash and Cash Equivalents - End of Year | <u>\$ 1,241,967</u> | <u>\$ 1,313,878</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS | | |
| Cash and Cash Equivalents | \$ 107,489 | \$ 232,903 |
| Restricted Cash | 1,134,478 | 1,080,975 |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 1,241,967</u> | <u>\$ 1,313,878</u> |

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, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES | | |
| Operating Income (Loss) | \$ (778,924) | \$ (1,584,727) |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES | | |
| Depreciation | 2,049,738 | 2,060,734 |
| Change in Assets and Liabilities: | | |
| (Increase)/Decrease in Accounts Receivable | 24,902 | (26,582) |
| (Increase)/Decrease in Inventory | (8,306) | (10,774) |
| (Increase)/Decrease in Prepaid Expenses | (11,306) | (9,373) |
| (Increase)/Decrease in Deferred Outflows | 203,957 | (233,275) |
| Increase/(Decrease) in Accounts Payable | 10,321 | 24,205 |
| Increase/(Decrease) in Salaries and Wages Payable | 2,456 | 2,442 |
| Increase/(Decrease) in Customer Deposits | 2,558 | 3,808 |
| Increase/(Decrease) in Accrued and Withheld Taxes | 7,814 | 5,261 |
| Increase/(Decrease) in Accrued Sick Leave | 645 | 80,829 |
| Increase/(Decrease) in Deferred Inflows | 35,554 | 63,572 |
| Increase/(Decrease) in Advances for Construction | (247) | (132) |
| Increase/(Decrease) in Net Pension Liability | 62,262 | 358,020 |
| Increase/(Decrease) in Net OPEB Liability | (98,528) | 771,469 |
| Total Reconciling Adjustments | <u>2,281,820</u> | <u>3,090,204</u> |
| NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES | <u>\$ 1,502,896</u> | <u>\$ 1,505,477</u> |

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, 2018 and 2017

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.

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.

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, 2018 and 2017, the allowance for doubtful accounts was \$473,633 and \$433,441, 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.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Postemployment Benefits Other Than OPEB's (OPEB) - For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position have been determined on the same basis that are reported by CERS.

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.

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, 2018 | December 31, 2017 |
|-------------------------------------|----------------------|----------------------|
| Unrestricted: | | |
| Cash | \$ 107,489 | \$ 232,903 |
| Certificates of Deposit and Savings | - | - |
| Total Unrestricted | <u>107,489</u> | <u>232,903</u> |
| Restricted: | | |
| Cash | 633,876 | 590,237 |
| Certificates of Deposit and Savings | 500,602 | 490,738 |
| Total Restricted | <u>1,134,478</u> | <u>1,080,975</u> |
| Total Cash and Cash Equivalents | <u>\$ 1,241,967</u> | <u>\$ 1,313,878</u> |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

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

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.

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Insured (FDIC) or Collateral Held by Pledging Bank Securities in District's Name | \$ 1,241,967 | \$ 1,313,878 |
| Uninsured or Uncollateralized | - | - |
| Total (Memorandum Only) | <u>\$ 1,241,967</u> | <u>\$ 1,313,878</u> |

The District's investment policy is conservative.

Deposits - The carrying amount of the District's deposits at December 31, 2018 was \$1,241,967 and the bank balance was \$1,267,894. 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, 2018 and 2017 restricted cash amounted to \$1,134,478 and \$1,080,975 respectively. This includes restrictions for customer deposits of \$41,540 and \$41,536 and restrictions for debt service of \$1,092,913 and \$1,039,414 respectively. This also includes \$25 restricted at December 31, 2018 for capital projects.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2018 and 2017 was as follows:

| | Balance 12/31/17 | Additions | Deletions | Balance 12/31/18 |
|--------------------------------------|---------------------|---------------------|-------------------|---------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Rights | \$ 559,020 | \$ - | \$ - | \$ 559,020 |
| Total Assets Not Being Depreciated | 559,020 | - | - | 559,020 |
| Capital Assets Being Depreciated | | | | |
| Office Equipment | 512,467 | 36,915 | - | 549,382 |
| Service Equipment | 797,797 | 37,759 | - | 835,556 |
| Building | 7,677,826 | - | - | 7,677,826 |
| Plant and Equipment | 66,458,576 | 1,204,873 | - | 67,663,449 |
| Total Assets Being Depreciated | <u>75,446,666</u> | <u>1,279,547</u> | <u>-</u> | <u>76,726,213</u> |
| Total Capital Assets | <u>\$76,005,686</u> | <u>\$ 1,279,547</u> | <u>\$ -</u> | <u>\$77,285,233</u> |
| Less: Accumulated Depreciation | | | | |
| Office Equipment | \$ 972,251 | \$ 218,462 | \$ - | \$ 1,190,713 |
| Service Equipment | 906,543 | 140,130 | 1,927 | 1,044,746 |
| Plant and Equipment | 25,391,576 | 1,691,146 | - | 27,082,722 |
| Total Accumulated Depreciation | <u>27,270,370</u> | <u>2,049,738</u> | <u>1,927</u> | <u>29,318,181</u> |
| Net Capital Assets | <u>\$48,735,316</u> | <u>\$ (770,191)</u> | <u>\$ (1,927)</u> | <u>\$47,967,052</u> |

Depreciation expense for the year ended December 31, 2018 was \$2,049,738.

ADAIR COUNTY WATER DISTRICT
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For the Years Ended December 31, 2018 and 2017

NOTE 4: CAPITAL ASSETS (CONTINUED)

| | Balance 12/31/16 | Additions | Deletions | Balance 12/31/17 |
|--------------------------------------|---------------------|-----------------------|-----------------|---------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Rights | \$ 559,020 | \$ - | \$ - | \$ 559,020 |
| Construction in Progress | - | - | - | - |
| Total Assets Not Being Depreciated | 559,020 | - | - | 559,020 |
| Capital Assets Being Depreciated | | | | |
| Office Equipment | 500,193 | 12,274 | - | 512,467 |
| Service Equipment | 766,623 | 32,999 | 1,825 | 797,797 |
| Building | 7,669,203 | 8,623 | - | 7,677,826 |
| Plant and Equipment | 65,852,566 | 606,010 | - | 66,458,576 |
| Total Assets Being Depreciated | 74,788,585 | 659,906 | 1,825 | 75,446,666 |
| Total Capital Assets | <u>\$75,347,605</u> | <u>\$ 659,906</u> | <u>\$ 1,825</u> | <u>\$76,005,686</u> |
| Less: Accumulated Depreciation | | | | |
| Office Equipment | \$ 752,711 | \$ 219,540 | \$ - | \$ 972,251 |
| Service Equipment | 766,814 | 141,554 | 1,825 | 906,543 |
| Plant and Equipment | 23,691,936 | 1,699,640 | - | 25,391,576 |
| Total Accumulated Depreciation | <u>25,211,461</u> | <u>2,060,734</u> | <u>1,825</u> | <u>27,270,370</u> |
| Net Capital Assets | <u>\$50,136,144</u> | <u>\$ (1,400,828)</u> | <u>\$ -</u> | <u>\$48,735,316</u> |

NOTE 5: SHORT-TERM DEBT

As of December 31, 2018, the District has a loan payable to the Bank of Columbia for \$123,258, maturing July 2019, with an interest rate of 5.0%.

NOTE 6: LONG-TERM OBLIGATIONS

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

| | 2018 | 2017 |
|--|------------|------------|
| 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% | \$ 403,000 | \$ 412,000 |
| 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% | 1,017,000 | 1,039,000 |
| 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%. | 3,000,500 | 3,055,000 |
| 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% | 651,500 | 663,500 |
| 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% | 269,900 | 274,200 |
| 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% | 101,100 | 102,900 |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

| | 2018 | 2017 |
|--|---------------------|---------------------|
| 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% | \$ 992,200 | \$ 1,011,400 |
| 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%. | 1,095,000 | 1,117,000 |
| 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% | 1,359,500 | 1,385,500 |
| 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% | 2,700,000 | 2,905,000 |
| 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% | 668,500 | 681,500 |
| 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%. | 2,260,853 | 2,486,612 |
| 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%. | 524,917 | 574,586 |
| 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%. | 2,882,619 | 3,073,524 |
| 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%. | 1,180,062 | 1,261,314 |
| 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%. | 769,490 | 795,285 |
| 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%. | 2,491,225 | 1,723,090 |
| Total Debt | 22,367,366 | 22,561,411 |
| Payments Due in Less Than One Year | (1,028,590) | (1,013,606) |
| Total Long-Term Obligations | <u>\$21,338,776</u> | <u>\$21,547,805</u> |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2018 are as follows:

| | Principal | Interest | Total |
|-----------|----------------------|---------------------|----------------------|
| 2019 | \$ 375,100 | \$ 439,072 | \$ 814,172 |
| 2020 | 392,000 | 424,369 | 816,369 |
| 2021 | 408,200 | 408,967 | 817,167 |
| 2022 | 426,100 | 392,889 | 818,989 |
| 2023 | 428,600 | 376,083 | 804,683 |
| 2024-2028 | 2,116,400 | 1,626,638 | 3,743,038 |
| 2029-2033 | 1,972,300 | 1,255,157 | 3,227,457 |
| 2034-2038 | 1,997,900 | 885,903 | 2,883,803 |
| 2039-2043 | 2,197,800 | 502,200 | 2,700,000 |
| 2044-2048 | 1,351,900 | 150,706 | 1,502,606 |
| 2049-2053 | 566,400 | 26,980 | 593,380 |
| 2054-2059 | 25,500 | 478 | 25,978 |
| | <u>\$ 12,258,200</u> | <u>\$ 6,489,442</u> | <u>\$ 18,747,642</u> |

The annual requirements to amortize all loans outstanding as of December 31, 2018 are as follows:

| | Principal | Interest | Total |
|-----------|----------------------|-------------------|----------------------|
| 2019 | \$ 653,490 | \$ 93,345 | \$ 746,835 |
| 2020 | 659,855 | 86,921 | 746,776 |
| 2021 | 666,282 | 80,494 | 746,776 |
| 2022 | 672,772 | 74,004 | 746,776 |
| 2023 | 679,325 | 67,450 | 746,775 |
| 2024-2028 | 3,371,518 | 236,676 | 3,608,194 |
| 2029-2033 | 1,740,068 | 105,387 | 1,845,455 |
| 2034-2038 | 576,651 | 56,326 | 632,977 |
| 2039-2043 | 600,651 | 32,327 | 632,978 |
| 2044-2048 | 488,554 | 9,691 | 498,245 |
| | <u>\$ 10,109,166</u> | <u>\$ 842,621</u> | <u>\$ 10,951,787</u> |

Long – term liabilities for the year ending December 31, 2018 was as follows:

| | Balance 12/31/2017 | Addition | Reductions | Balance 12/31/2018 | Due within One Year |
|---|-----------------------|--------------------|--------------------|-----------------------|------------------------|
| Revenue Bonds | \$12,647,000 | \$ - | \$ 388,800 | \$12,258,200 | \$ 375,100 |
| Kentucky Infrastructure Authority (KIA) | | | | | |
| State Revolving Loans | 9,914,411 | 1,181,749 | 986,994 | 10,109,166 | 653,490 |
| Net Pension Liability | 2,246,207 | 62,262 | - | 2,308,469 | - |
| Net OPEB Liability | 771,469 | - | 98,528 | 672,941 | - |
| | <u>\$25,579,087</u> | <u>\$1,244,011</u> | <u>\$1,474,322</u> | <u>\$25,348,776</u> | <u>\$ 1,028,590</u> |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

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 |

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 |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 8: PENSION PLAN (CONTINUED)

The District's contribution requirement for CERS for the years ended December 31, 2018, 2017, and 2016 was \$137,763, \$131,476, and \$108,953 from the District and \$48,502, \$46,292, and \$46,240 from employees. The total covered payroll for CERS during the years ended December 31, 2018, 2017 and 2016 was \$976,350, \$948,537, and \$938,186.

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

At December 31, 2018, the District reported a liability of \$2,308,469 for its proportionate share of the net pension liability for CERS. The net pension liability for each plan was measured as of June 30, 2018, 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, 2087, the District's proportion was 0.03790% percent.

For the year ended December 31, 2018, the District recognized pension expense of \$325,102. At December 31, 2018, 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 | \$ 75,296 | \$ 33,791 |
| Changes of assumptions | 225,605 | - |
| Net difference between projected and actual earnings on pension plan investments | 107,346 | 135,025 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 1,457 | 25,677 |
| District contributions subsequent to the measurement date | 81,386 | - |
| Total | <u>\$ 491,090</u> | <u>\$ 194,493</u> |

\$81,386 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

| Year Ended December 31: | |
|-------------------------|----------|
| 2019 | 170,753 |
| 2020 | 86,634 |
| 2021 | (29,787) |
| 2022 | (12,389) |
| 2023 | - |
| Thereafter | - |

ADAIR COUNTY WATER DISTRICT
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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 8: PENSION PLAN (CONTINUED)

Actuarial assumptions—the total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | CERS |
|---|-------|
| Inflation | 2.30% |
| Projected salary increases | 3.05% |
| Investment rate of return, net of investment expense & inflation | 6.25% |

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 6.25%. 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 calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|-------------|--------------------------|-------------|
| CERS | 5.25% | 6.25% | 7.25% |
| District's proportionate share of net pension liability | 2,906,124 | 2,308,469 | 1,807,739 |

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

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 8: PENSION PLAN (CONTINUED)

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, 2018, employees contributed approximately \$16,015 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: POST EMPLOYMENT BENEFIT PLAN

General Information about the OPEB Plan – CERS

Medical Insurance Plan

Plan description - Employees whose positions do not require a degree beyond a high school diploma are covered by the Kentucky Retirement Systems' Insurance Fund, a component of the 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 – To be eligible for medical benefits, the member must have retired either for service or disability. The Kentucky Retirement Systems' Insurance Fund offers coverage for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance based on years of service.

Contributions – In order to fund the post-retirement healthcare benefit, for Tier 1 plan members (those participating prior to September 1, 2008) 4.70% of the gross annual payroll of members is contributed, all of which is paid by the District. For Tier 2 plan members (those participating on, or after September 1, 2008 and before January 1, 2014) an additional 1% of the gross annual payroll is contributed by the plan member. Tier 3 plan members (those whose participation began after January 1, 2014) also contribute an additional 1% of their annual payroll into a Cash Balance Plan. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2018, the District reported a liability of \$672,941 for its proportionate share of the net OPEB liability for CERS. The net OPEB liability for the plan was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB 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, 2018, the District's proportion was 0.03790 percent.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 9: POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

For the year ended December 31, 2018, the District recognized OPEB expense of \$83,768. At December 31, 2018, the Company 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 | \$ - | \$ 78,423 |
| Changes of assumptions | 134,397 | 1,555 |
| Net difference between projected and actual earnings on pension plan investments | - | 46,353 |
| Changes in proportion and differences between Company contributions and proportionate share of contributions | - | 10,701 |
| Company contributions subsequent to the measurement date | <u>26,393</u> | <u>-</u> |
| Total | <u><u>\$ 160,790</u></u> | <u><u>\$ 137,032</u></u> |

Of the total amount reported as deferred outflows of resources related to OPEB, \$26,393 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Company's OPEB expense as follows:

| <u>Year Ended December 31:</u> | |
|--------------------------------|---------|
| 2019 | 311 |
| 2020 | 311 |
| 2021 | 311 |
| 2022 | 9,314 |
| 2023 | (7,927) |
| Thereafter | (4,955) |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 9: POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

Actuarial assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------------|---|
| Actuarial Valuation as of: | June 30, 2016 |
| Actuarial cost method: | Entry age normal |
| Asset valuation method: | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Amortization method: | Level percent of pay |
| Amortization period: | 27 years, closed |
| Payroll growth rate: | 4.00% |
| Investment return: | 7.50% |
| Inflation: | 3.25% |
| Salary increases: | 4.00%, average |
| Mortality: | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) |
| Healthcare trend rates (Pre-65) | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Healthcare trend rates (Post-65) | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years. |

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class.

These ranges are 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 by adding expected inflation.

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 9: POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

CERS – The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

Discount rate – For CERS, the projection of cash flows used to determine the discount rate of 5.84% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contributions rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 6.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity of CERS proportionate share of net OPEB liability to changes in the discount rate—The following table present the net OPEB liability of the District, calculated using the discount rates selected by each OPEB system, as well as what the District's net OPEB liability would be if it were 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 | 4.85% | 5.85% | 6.85% |
| District's proportionate share of net OPEB liability | 874,044 | 672,942 | 501,640 |

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the City and the Campbellsville Water and Sewer Company's proportionate share of the collective net OPEB liability, as well as what the City and the Campbellsville Water and Sewer Company's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | <u>1% Decrease</u> | <u>Current Trend Rate</u> | <u>1% Increase</u> |
|---|--------------------|-------------------------------|--------------------|
| CERS | 4.85% | 5.85% | 6.85% |
| District's proportionate share of net OPEB liability | 501,012 | 672,942 | 875,599 |

NOTE 10: 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.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 11: RESTATEMENT OF BEGINNING BALANCES

Effective January 1, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Additionally, prior year GASB No. 68 deferred inflows and outflows were incorrectly reported and accrued sick leave not previously recorded has been added to the books. As a result of the aforementioned items, the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position were restated. A reconciliation of the prior period ending net position to the current year beginning net position is as follows:

| | |
|---|-----------------------------|
| Net Position, January 1, 2018, as Previously Reported | \$ 25,429,004 |
| Increase in Net OPEB Liability | (771,469) |
| Corrections to Pension Deferred Inflows and Outflows | (158,917) |
| Increase in Accrued Sick Leave | <u>(80,829)</u> |
| Net Position, January 1, 2018, Restated | <u><u>\$ 24,417,789</u></u> |

NOTE 12: SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through June 28, 2019, 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, 2018

| | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
|--|-----------------|--------------|---|
| OPERATING REVENUES | | | |
| Charges for Services | \$ 4,590,000 | \$ 4,397,714 | \$ (192,286) |
| Service Charges and Other | 150,000 | 160,014 | 10,014 |
| Total Operating Revenues | 4,740,000 | 4,557,728 | (182,272) |
| OPERATING EXPENSES | | | |
| Contractual Services | 98,000 | 60,435 | 37,565 |
| Supplies & Materials | 475,000 | 490,975 | (15,975) |
| Depreciation & Amortization | 2,000,000 | 2,049,738 | (49,738) |
| Personal Service | 1,570,000 | 1,725,791 | (155,791) |
| Operational | 1,027,000 | 1,009,713 | 17,287 |
| Total Operating Expenses | 5,170,000 | 5,336,652 | (166,652) |
| OPERATING INCOME (LOSS) | (430,000) | (778,924) | (348,924) |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest Income | 4,000 | 13,423 | 9,423 |
| Interest Expenses and Fiscal Charges | (551,000) | (583,369) | (32,369) |
| Miscellaneous Non-Utility Expense | (1,000) | (1,496) | (496) |
| Miscellaneous Non-Utility Income | 15,000 | 17,046 | 2,046 |
| Total Non-operating Revenues (Expenses) | (533,000) | (554,396) | (21,396) |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (963,000) | (1,333,320) | (370,320) |
| Capital Contributions | 500,000 | 488,714 | (11,286) |
| CHANGE IN NET POSITION | (463,000) | (844,606) | (381,606) |
| NET POSITION | | | |
| Beginning of Year | 24,417,789 | 24,417,789 | - |
| End of Year | \$23,954,789 | \$23,573,183 | \$ (381,606) |

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY
 December 31, 2018

| | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|
| District's proportion of the net pension liability (asset) | 0.03790% | 0.03838% | 0.03835% | 0.04110% |
| District's proportionate share of the net pension liability (asset) | 2,308,469 | 2,246,207 | 1,888,187 | 1,766,987 |
| District's covered-employee payroll | 976,350 | 948,537 | 938,186 | 927,360 |
| District's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll | 236.44% | 236.81% | 201.26% | 190.54% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.54% | 53.30% | 55.50% | 59.97% |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS
December 31, 2018

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 137,763 | \$ 131,476 | \$ 108,953 | \$ 120,848 |
| Contributions in relation to the contractually required contribution | <u>(137,763)</u> | <u>(131,476)</u> | <u>(108,953)</u> | <u>(120,848)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 976,350 | \$ 948,537 | \$ 938,186 | \$ 927,360 |
| Contributions as a percentage of covered- employee payroll | 14.11% | 13.86% | 11.61% | 13.03% |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS
For the Year Ended December 31, 2018

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 (setback one 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 THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY
 December 31, 2018

| | 2018 | 2017 |
|---|----------|----------|
| District's proportion of the net OPEB liability (asset) | 0.03790% | 0.03838% |
| District's proportionate share of the net OPEB liability (asset) | 672,942 | 771,469 |
| District's covered-employee payroll | 976,350 | 948,537 |
| District's proportionate share of the net OPEB liability (asset) as a percentage of it covered-employee payroll | 68.92% | 81.33% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 57.62% | 52.40% |

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF CONTRIBUTIONS TO CERS - OPEB
 December 31, 2018

| | <u>2018</u> | <u>2017</u> |
|---|-----------------|-----------------|
| Contractually required contribution | \$ 45,921 | \$ 43,825 |
| Contributions in relation to the contractually required contribution | <u>(45,921)</u> | <u>(43,825)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 927,360 | \$ 948,537 |
| Contributions as a percentage of covered- employee payroll | 4.95% | 4.62% |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS - OPEB
For the Year Ended December 31, 2018

NOTE 1 – CHANGES OF BENEFIT TERMS

With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP – participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP “Shared Responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

NOTE 2 – METHODS AND ASSUMPTIONS USED IN ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine the contribution rates reported in that schedule for the year ending June 30, 2018.

| | |
|--|---|
| Valuation date | June 30, 2016 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percent of Payroll |
| Amortization period | 30 years, Open |
| Asset valuation method | Five-year smoothed value |
| Inflation | 3.00% |
| Real Wage Growth | 0.50% |
| Wage Inflation | 3.50% |
| Salary increases, including wage inflation | 3.50% - 7.20% |
| Discount Rate | 8.00% |
| Healthcare cost trend rates: | |
| Under 65 | 7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023 |
| Ages 65 and Older | 5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020 |
| Medicare Part B Premiums | 1.02% for FY 2017 with an ultimate rate of 5.00% by 2029 |
| Under age 65 claims | The current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized). |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

| Federal Grantor/Pass-Through Grantor <u>Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity ID Num.</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|--|---------------------------------|
| <u>U.S. Environmental Protection Agency</u> | | | |
| Passed Through the Kentucky Environmental Protection Agency: | | | |
| Capitalization Grants for Clean Water - State Revolving Funds | 66.458 | F12-04 | <u>\$ 830,411</u> |
| Total U.S. Environmental Protection Agency | | | <u>830,411</u> |
| Total Federal Financial Assistance | | | <u><u>\$ 830,411</u></u> |

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Adair County Water District under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Adair County Water District, it is not intended to and does not present the financial position, change in net assets, or cash flows of the Adair County Water District.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? Yes X 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 Uniform Guidance 2 CFR 200.516(a)? Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 66.458 | Capitalization Grant for Clean Water State Revolving Funds |

Dollar threshold used to distinguish Between type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes x No

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 PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2018

The audit of Adair County Water District for the year ended December 31, 2017, 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, 2018 and 2017, 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 June 29, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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
Certified Public Accountants

Campbellsville, KY
June 29, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORMED GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on each of Adair County Water District's major federal programs for the year ended December 31, 2018. 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the audit requirements prescribed by the Kentucky State Committee for Schools District Audits Independent Auditor's Contract, Appendix I of the Independent Auditor's Contract – Audit Extension Request, and Appendix II of the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report. Those standards and the Uniform Guidance 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 on 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, 2018.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wise, Buckner, Sprowles & Associates PLLC

Wise, Buckner, Sprowles & Associates PLLC
Certified Public Accountants

Campbellsville, Kentucky
June 28, 2019