

POWELL'S VALLEY
WATER DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
for the year ended December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Powell's Valley Water District
Clay City, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Powell's Valley Water District as of and for the year ended December 31, 2015, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Powell's Valley Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Management has elected to omit the Management's Discussion & Analysis which is required by the Governmental Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Powell's Valley Water District, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Powell's Valley Water District's basic financial statements. The statement of modernization costs and financial data schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of the water district's proportionate share of net pension liability, schedule of water district contributions, comparative statement of revenues and expenses and the statement of revenues and expenses – water and sewer are the responsibility of management and were derived from and relate directly to the underlying accounting and other 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of modernization costs, schedule of the Water District's proportionate share of net pension liability, schedule of Water District contributions and financial

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 08, 2016, on our consideration of the Powell's Valley 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 the Powell's Valley Water District's internal control over financial reporting and compliance.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

April 08, 2016

This report contains 20 pages.

POWELL'S VALLEY WATER DISTRICT
Statement of Net Position
Proprietary Fund
December 31, 2015

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 126,770
Cash and cash equivalents - restricted (note 1)	244,440
Accounts receivable - net of allowance for doubtful accounts (note 1)	93,194
Inventory (note 1)	10,452
Prepaid expenses	<u>3,459</u>
Total Current Assets	<u>478,315</u>
Noncurrent Assets	
Capital assets: (note 1)	
Land	16,888
Plant, equipment and lines	9,516,306
Less accumulated depreciation	<u>(3,364,431)</u>
Total Noncurrent Assets	<u>6,168,763</u>
Deferred Outflows of Resources	<u>45,395</u>
Total Assets and Deferred Outflow of Resources	<u><u>\$ 6,692,473</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 59,244
Bonds payable (note 2)	82,500
Payable from restricted assets	<u>121,367</u>
Total Current Liabilities	<u>263,111</u>
Noncurrent Liabilities	
Accrued pension	315,000
Bonds payable (note 2)	<u>1,717,400</u>
Total Noncurrent Liabilities	<u>2,032,400</u>
Deferred Inflows of Resources	<u>35,000</u>
Total Liabilities and Deferred Inflows of Resources	<u>2,330,511</u>

NET POSITION

Net investment in capital assets	4,368,863
Restricted	123,073
Unrestricted	<u>(129,974)</u>
Total Net Position	<u><u>\$ 4,361,962</u></u>

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

POWELL'S VALLEY WATER DISTRICT
 Statement of Revenues, Expenses and Changes in Fund Net Position
 Proprietary Fund
 for the year ended December 31, 2015

Operating Revenues	
User fees	\$ 1,194,984
Other water revenue	<u>42,588</u>
Total Operating Revenues	<u>1,237,572</u>
Expenses	
Water purchased	378,980
Salaries	240,369
Office	14,217
Insurance	29,439
Taxes	23,478
Outside services	47,740
Employee benefits	121,578
Miscellaneous	1,669
Depreciation	203,728
Supplies	92,362
Utilities	86,925
Vehicle expense	<u>20,661</u>
Total Operating Expenses	<u>1,261,146</u>
Operating Income (Loss)	<u>(23,574)</u>
Nonoperating Revenues (Expenses)	
Miscellaneous income	7,513
Interest income	1,428
Interest expense	<u>(82,216)</u>
Net Nonoperating Revenues (Expenses)	<u>(73,275)</u>
Change in Net Position	(96,849)
Total Net Position - beginning	4,778,270
Prior period adjustment	<u>(319,459)</u>
Total Net Position - ending	<u><u>\$ 4,361,962</u></u>

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

POWELL'S VALLEY WATER DISTRICT
Statement of Cash Flows
Proprietary Fund Type
December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 1,240,906
Cash paid to employees	(240,369)
Cash paid for general and administrative expenses	<u>(836,656)</u>
Net Cash provided/(used) by operating activities	<u>163,881</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	1,428
Customer deposits	<u>3,971</u>
Net Cash provided/(used) by investing activities	<u>5,399</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Miscellaneous revenue	7,513
Bond payments	(52,900)
Purchase of assets	(19,996)
Interest paid	<u>(82,216)</u>
Net Cash provided/(used) in capital and financing activities	<u>(147,599)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,681
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>349,529</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 371,210</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (142,474)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) in prepaid	(1,998)
(increase) in inventory	(1,609)
depreciation	322,628
(increase) in deferred outflows of resources	(45,395)
increase in deferred inflows of resources	35,000
decrease in accounts receivable	3,334
(decrease) in accounts payable	<u>(5,605)</u>
Net cash provided/(used) by operating activities	<u><u>\$ 163,881</u></u>

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

POWELL'S VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The Powell's Valley Water District is a water utility which services areas of Powell County. Its sales are primarily to residential customers. The District is a corporate body set forth in KRS 74.070 which was created November 1961. The District is subject to the regulatory authority of The Kentucky Public Service Commission pursuant to KRS 278.040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Powell's Valley Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$77,798 into this fund at December 31, 2015.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2015 was \$107,070. The District had set aside \$107,070.

Enterprise Funds

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water District's principal ongoing operations. The principal operating revenues of the Water District are operating grants and tenant rental revenue. Operating expenses of the Water District include the cost of producing the revenue 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.

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into net investment in capital assets, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded at cost as an asset at that time.

Deposits

The District considers all highly liquid investments with a maturity date of twelve months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. At December 31, 2015, the carrying amount of the District's deposits was \$371,210 and the bank balance was \$373,052. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Capital Assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Lines and tanks	50 years
Equipment	10 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

Accounts Receivable

The receivable reflected in the statements in the amount of \$93,194 are net of allowance for uncollectibles in the amount of \$21,569.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - Bonds Payable

The amount shown in the accompanying financial statements as bonds payable represents the District's future obligation to make payments from future revenues. At December 31, 2015, seven separate bonds had outstanding balances. Details of each of these bonds are summarized as follows:

Note A

Lender – Rural Development
Balance of loan - \$126,000
Rate - 5%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – Rural Development
Balance of loan - \$121,000
Rate – 5%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – Rural Development
Balance of loan - \$437,000
Rate – 4.5%
Principal due – January 1
Interest due – January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note D

Lender – Rural Development
Balance of loan - \$310,500
Rate – 4.5%
Principal due – January 1
Interest due – January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note E

Lender – Rural Development
Balance of loan - \$257,000
Rate – 4.5%
Principle due – January 1
Interest due – January 1 and July 1
Prepayment provision – subject to payment prior to its state maturity without penalty or premium, at any time upon ten (10) days notice.

Note F

Lender – Rural Development
Balance of loan - \$524,000
Rate – 4.5%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note G

Lender – Rural Development
Balance of loan - \$24,400
Rate – 4.375%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Five-Year Maturities	
2016	82,500
2017	85,000
2018	87,500
2019	90,000
2020	92,500
Thereafter	<u>1,362,400</u>
	<u>\$1,799,900</u>

A summary of all bonds outstanding follows:

	Outstanding 1/1/2015	Issued	Retired	Outstanding 12/31/2015	Due Within One Year
Rural Development	\$ 1,852,800	\$ -	\$ 52,900	\$ 1,799,900	\$ 82,500

Note 2 – Defined Benefit Pension Plan

General Information About the Pension Plan

Plan description - Regular, full-time, employees of the Water District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested as a whole each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

Benefits provided - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the Legislature.

Contributions - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The Water District's contractually required contribution rate for the year ended December 31, 2015 was 17.76%/17.06% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water District were \$39,854 for the year ended December 31, 2015.

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

At December 31, 2015, the Water District reported a liability of \$315,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to

calculate the net pension liability was determined by an actuarial valuation as of that date. The Water District's portion of the net pension liability was based on the Water District's proportionate share of retirement contributions for the fiscal year ended June 30, 2014. At June 30, 2014 the Water District's proportionate share was 0.009721%.

For the year ended December 31, 2015, the Water District recognized pension expense of \$25,000. At December 31, 2015, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -0-	\$ 35,000
Water District's contributions subsequent to the measure date	<u>45,395</u>	<u>-0-</u>
Total	\$ 45,395	\$ 35,000

\$45,395 reported as deferred outflows of resources related to pensions resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2016	\$ (9,079)
December 31, 2017	(9,079)
December 31, 2018	(9,079)
December 31, 2019	(9,079)
December 31, 2020	(9,079)
Thereafter	<u>-0-</u>
Total	\$ (45,395)

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

Inflation	3.5%
Salary increases	4.5% average including inflation
Investment rate of return	7.75%, net of pension plan investment expense including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of September 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005-September 30, 2008.

The long-term expected return on system 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 and net of investment expense) 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 time frame. 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. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Unexpected Nominal Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5%
Cash	<u>1%</u>	3.25%
	100%	

Discount rate - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Water District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Water District's proportionate share of the net pension liability to changes in the discount rate - The following presents the Water District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Water District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease <u>6.75%</u>	Current Discount Rate <u>7.75%</u>	1% Increase <u>8.75%</u>
Water District's proportionate share of the net pension liability	\$ 415,000	\$ 315,000	\$ 227,000

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

Note 4 - Leave Policies

Annual and Sick Leave

The District no longer requires that sick and annual leave be paid annually. No additional accrued leave days are permitted. District employees accrue sick leave at the rate of one day per month. They accrue annual leave at the rate of five days per year for less than three years employment and ten days for employment exceeding three years and fifteen days for employment exceeding ten years. No leave may be collected on termination.

Note 5 - Changes in Capital Assets

The following is a summary of changes in the capital assets for the fiscal year:

	Balance 1/1/2015	Transfers/ Additions	Deletions	Balance 12/31/2015
Land, non-depreciable	\$ 16,888			\$ 16,888
Plant, equipment & lines	9,496,310	19,996		9,516,306
Construction in process	-	-	-	-
Total	<u>\$ 9,513,198</u>	<u>\$ 19,996</u>	<u>\$ -</u>	<u>\$ 9,533,194</u>
Accumulated depreciation	<u>\$ 3,160,703</u>	<u>\$ 322,628</u>	<u>\$ -</u>	<u>\$ 3,483,331</u>
 Capital assets, net of accumulated depreciation	 <u>\$ 6,352,495</u>	 <u>\$ (302,632)</u>	 <u>\$ -</u>	 <u>\$ 6,049,863</u>

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account. The District also must transfer \$456 per month into a depreciation fund.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Deposit account	\$ 76,469
Depreciation reserve fund	60,901
Debt reserve fund	<u>107,070</u>
	\$ 244,440

Note 8 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2015. Areas of noncompliance, if any, as a result of examinations would be included as a part of the "Findings and Questioned Costs" section of this report.

Note 9 – Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 9 –Prior Period Adjustment

To record net pension liability in accordance with GASB 68 - \$ (319,459)

SUPPLEMENTAL INFORMATION

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American Institute of CPA's
Kentucky Society of CPA's

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

Board of Commissioners
Powell's Valley Water District
Clay City, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Powell's Valley Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Powell's Valley Water District's basic financial statements, and have issued our report thereon dated April 08, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Powell's Valley Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Powell's Valley Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell's Valley Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency. [2015-001]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Powell's Valley Water District's financial statements are free from 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.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

April 08, 2016

**Powell's Valley Water District
 Schedule of the Water District's Proportionate
 Share of Net Pension Liability
 December 31, 2015**

	12/31/2015
Water District's proportion of the net pension liability	0.009721%
Water District's proportionate share of the net pension liability	\$ 315,000
Water District's covered employee payroll	\$ 358,287
Water District's proportionate of the net pension liability as a percentage of its covered employee payroll	87.92%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

**Powell's Valley Water District
Schedule of Water District Contributions
December 31, 2015**

	<u>12/31/2015</u>
Contractually required contribution	\$ 45,395
Contributions in relation to the contractually required contribution	<u>45,395</u>
Contribution deficiency	<u>\$ -</u>
Water District's covered payroll	<u>\$ 358,287</u>
Contributions as a percentage of covered payroll	12.67%

POWELL'S VALLEY WATER DISTRICT
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
 for the years ended December 31, 2014 and 2015

	2014	2015
Revenues		
User fees	\$ 1,167,458	\$ 1,194,984
Other water revenue	42,088	42,588
Total Revenues	1,209,546	1,237,572
Expenses		
Water purchased	361,064	378,980
Salaries	237,730	240,369
Office	12,983	14,217
Insurance	28,534	29,439
Taxes	22,525	23,478
Outside services	43,649	47,740
Employee benefits	187,493	121,578
Miscellaneous	2,676	1,669
Depreciation	207,184	203,728
Supplies	82,231	92,362
Utilities	89,843	86,925
Vehicle expense	28,389	20,661
Total Operating Expenses	1,304,301	1,261,146
Operating Income (Loss)	(94,755)	(23,574)
Nonoperating Revenues (Expenses)		
Miscellaneous income	2,933	7,513
Interest income	1,414	1,428
Interest expense	(84,084)	(82,216)
Net Nonoperating Revenues (Expenses)	(79,737)	(73,275)
Change in Net Position	\$ (174,492)	\$ (96,849)

POWELL'S VALLEY WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
WATER AND SEWER
for the year ended December 31, 2015

	Water	Sewer	Total
Revenues			
User fees	\$ 1,108,885	\$ 86,099	\$ 1,194,984
Other water revenue	42,588	-	42,588
Total Revenues	1,151,473	86,099	1,237,572
Expenses			
Water purchased	378,980	-	378,980
Salaries	240,369	-	240,369
Office	12,838	1,379	14,217
Insurance	19,960	9,479	29,439
Taxes	22,721	757	23,478
Outside services	44,395	3,345	47,740
Employee benefits	121,578	-	121,578
Miscellaneous	1,669	-	1,669
Depreciation	184,119	19,609	203,728
Supplies	62,786	29,576	92,362
Utilities	68,064	18,861	86,925
Vehicle expense	20,661	-	20,661
Total Operating Expenses	1,178,140	83,006	1,261,146
Operating Income (Loss)	(26,667)	3,093	(23,574)
Nonoperating Revenues (Expenses)			
Miscellaneous income	7,717	(204)	7,513
Interest income	1,368	60	1,428
Interest expense	(69,578)	(12,638)	(82,216)
Net Nonoperating Revenues (Expenses)	(60,493)	(12,782)	(73,275)
Change in Net Position	\$ (87,160)	\$ (9,689)	\$ (96,849)

POWELL'S VALLEY WATER DISTRICT
Clay City, Kentucky
Schedule of Findings
December 31, 2015

PRIOR FINDINGS

2014-01 Lack of Segregation of Duties – repeated as 2015-001

CURRENT FINDINGS

2015-001 Lack of Segregation of Duties

Condition: The District has an inadequate segregation of duties within its internal control process.

Criteria: All governmental entities should design their internal control to provide an adequate segregation of duties.

Cause: The District does not have sufficient employees to adequately design its internal control.

Recommendation: The District should continue to design and implement its internal control policies to provide the maximum segregation of duties possible.

Response: We will do as recommended.