

LYON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

And

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

Members:

American Institute of
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To the Members of the Commission
Lyon County Water District

Management is responsible for the accompanying financial statements of Lyon County Water District, as of and for the year ended December 31, 2015, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, Schedule of Proportionate Share of Net Pension Liability-County Employee Retirement System, and Schedule of Contributions-County Employee Retirement System on pages 2 through 4, 21, and 22 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. This information is the representation of management. This information was subject to our compilation engagement; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.

We are not independent with respect to Lyon County Water District.

Thurman Campbell Group, PLC

August 18, 2016
Princeton, KY

LYON COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

The Lyon County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2015. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

The District's operating revenues increased by \$36,149 over the prior year from \$948,769 to \$ 984,918.

The District's total net position decreased by \$127,503 during the year compared to a \$84,507 decrease in the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

Lyon County Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position. The statement of net position (formerly the Statement of Net Assets) presents the financial position of the District. It presents information on the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets, deferred outflows, liabilities, and deferred inflows have on cash during the course of the fiscal year.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District financial statements. The notes to the financial statements can be found on pages 9-20 of this report.

Required supplementary information. Required supplementary information can be found on pages 21-22 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$3,273,244 at December 31, 2015.

The District's overall financial position and operations for the past two years are summarized as follows, based on the information included in the financial statements.

	2015	2014
Current & other assets	\$ 359,547	\$ 410,158
Capital assets	4,769,502	4,828,319
Restricted assets	181,430	201,828
	<u>5,310,479</u>	<u>5,440,305</u>
Deferred outflows	37,648	-
	<u>37,648</u>	<u>-</u>
Long-term liabilities	1,517,575	1,312,310
Other liabilities	539,634	526,905
	<u>2,057,209</u>	<u>1,839,215</u>
Deferred inflows	17,674	-
	<u>17,674</u>	<u>-</u>
Net investment in capital assets	3,263,030	3,301,632
Restricted	181,430	201,828
Unrestricted	(171,216)	97,630
Total net position	<u>\$ 3,273,244</u>	<u>\$ 3,601,090</u>
	2015	2014
Revenues:		
Water & sewer sales	\$ 984,918	\$ 948,769
Expenses:		
Operating expenses	1,107,729	1,013,266
Operating income	<u>(122,811)</u>	<u>(64,497)</u>
Non-operating income	2,235	1,344
Non-operating expenses	(49,895)	(55,439)
Change in net position before capital contributions	(170,471)	(118,592)
Capital contributions	42,968	34,085
Change in net position	<u>(127,503)</u>	<u>(84,507)</u>
Net position, beginning , restated	3,400,747	3,685,597
Net position, end of year	<u>\$ 3,273,244</u>	<u>\$ 3,601,090</u>

A portion of the District's net position (\$3,306,126) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities. See Notes 3, 4, and 5 in the Notes to Financial Statements.

CAPITAL ASSETS

The District's investment in capital assets (net of accumulated depreciation) as of December 31, 2015 was \$4,769,502. The table below gives a brief description of capital assets of the District:

Assets not being depreciated:		
Land	\$	121,772
Construction in Progress		410,223
Assets being depreciated:		
Equipment		154,930
Distribution lines		3,120,461
Water Tanks		105,205
Building		37,402
Transportation		38,089
Improvements		33,433
Sewer Lines		747,987
Total Assets	\$	<u>4,769,502</u>

For the year ending December 31, 2015, the District purchased additional capital asset including a service vehicle, dump truck, paving improvements, and internal assets. For additional information on the District's capital assets see Note 3 Capital Assets.

LONG-TERM DEBT

The District's long-term debt at December 31, 2015 was \$1,229,402. The table below gives a brief description of long-term debt of the District:

Long Term Debt:		
BBT Governmental Finance		25,205
KY Rural Water		1,195,000
Capital Lease		9,197
Total Long Term Debt	\$	<u>1,229,402</u>

For additional information on the District's long-term debt see Note 4 Capital Lease and Note 5 Long-Term Debt.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Lyon County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Don Robertson, Chairman, Lyon County Water District, 5464 US 62W, Kuttawa, Kentucky 42055.

LYON COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2015

ASSETS	<u>2015</u>
Current assets:	
Cash	\$ 194,301
Restricted cash	77,309
Accounts receivable:	
Trade	124,641
Other	5,878
Inventory	23,648
Prepaid expenses	10,519
Total current assets	<u>436,296</u>
Non-current assets:	
Restricted cash	104,121
Capital assets:	
Capital assets (not being depreciated)	531,995
Capital assets (net of accumulated depreciation)	4,237,507
Total capital assets	<u>4,769,502</u>
Other assets:	
Deposits	560
Total other assets	<u>560</u>
Total non-current assets	4,874,183
Total assets	<u>5,310,479</u>
 DEFERRED OUTFLOWS	
Deferred outflows related to pensions	<u>37,648</u>
Total deferred outflows	<u>37,648</u>

LYON COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2015

LIABILITIES

Current liabilities:

Payable from restricted assets:

Current maturities of long-term debt	77,309
Total payable from restricted assets	77,309

Payable from unrestricted assets:

Interim financing	156,665
Accounts payable:	
Trade	32,393
Construction	218,678
Withholdings and related	6,360
Customer's deposit	17,250
Accrued expenses:	
Taxes	4,853
Interest	20,145
Payroll	5,981
Total payable from unrestricted assets	462,325

Total current liabilities	539,634
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Non-current liabilities:

Compensated absences	8,072
Long-term debt, less current maturities	1,272,498
Net pension liability	237,005
Total non-current liabilities	1,517,575

Total liabilities	2,057,209
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DEFERRED INFLOWS

Deferred inflows related to pensions	17,674
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Total deferred inflows	17,674
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NET POSITION

Net investment in capital assets	3,263,030
Restricted	181,430
Unrestricted	(171,216)

Total net position	\$ 3,273,244
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LYON COUNTY WATER DISTRICT
STATEMENT OF REVENUES , EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2015

	2015
Operating Revenues:	
Water and Sewer sales, net of refunds	\$ 984,918
Total operating revenues	984,918
Operating Expenses	
Water expenses	861,270
Wastewater expenses	23,537
Taxes	1,804
Deprecation	221,118
Total operating expenses	1,107,729
Operating income (loss)	(122,811)
Nonoperating Revenues (Expenses)	
Interest income	213
Miscellaneous receipts	2,022
Interest expense	(48,663)
Total non-operating expenses	(47,660)
Income (loss) before contributions	(170,471)
Capital Contributions	
Tap-on fees	12,200
Construction grants	30,768
Total capital contributions	42,968
Change in net position	(127,503)
Net position, beginning of year	3,601,090
Prior period adjustments (note 13)	(200,343)
Net position, restated	3,400,747
Net position, end of year	\$ 3,273,244

LYON COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

	2015
Cash flows from operating activities:	
Received from customers	\$ 964,275
Paid to suppliers for goods and services	(662,417)
Paid to employees	(205,766)
Net cash provided (used) by operating activities	96,092
Cash flows from non-capital financing activities:	
Miscellaneous receipts	2,022
Net cash provided (used) by non-capital financing activities	2,022
Cash flows from capital and related financing activities:	
Contributed capital, net	42,968
Acquisition and construction of property, plant and equipment	(170,925)
Principal paid on long-term debt	(62,896)
Sale of capital assets	11,168
Loan proceeds	42,683
Interest paid on debt	(48,663)
Net cash provided (used) by capital and related financing activities	(185,665)
Cash flows from investing activities:	
Interest income	213
Net cash provided (used) by investing activities	213
Net increase (decrease) in cash	(87,338)
Cash and cash equivalents, beginning of year	463,069
Cash and cash equivalents, end of year	\$ 375,731
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Cash flows from operating activities:	
Operating (loss) income	\$ (122,811)
Adjustments - operating activities:	
Deprecation	221,118
(Increase) decrease in:	
Accounts receivable	(21,493)
Inventory	7,266
Prepaid expenses	(2,102)
Deferred outflows	(29,469)
Increase (decrease) in:	
Accounts payable	(16,181)
Customer's deposits	850
Withholdings and related	(113)
Accrued liabilities	58,024
Compensated absences	912
Deferred inflows	(2,505)
Accrued taxes	2,596
Net cash provided (used) by operating activities	\$ 96,092

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Lyon County Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Kuttawa, Kentucky and primarily serves the Lyon County, Kentucky area.

Principles determining scope of reporting entity - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District applies all Government Accounting Standards Board (GASB) pronouncements. Enterprise funds distinguish 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When the Utility incurs an expense for which both restricted and unrestricted resources may be used, it is the Utility's policy to use restricted resources first, then unrestricted resources.

Accounts receivable - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Lyon County. Due to the large amount of small account balances, the District does not feel these are at risk for loss due to credit concentrations.

Materials and supplies - Inventories consist of materials and supplies and are stated at cost. Cost is determined by the first-in, first-out method.

Capital assets - Capital assets are stated at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expense in the statement of revenue and expense. Capital assets are depreciated over the following estimated useful lives:

Buildings	20-40 years
Equipment	5-10 years
Water and Sewer Lines	25-40 years

The District does not have a capitalization policy.

Taxes on income - The Lyon County Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

Use of estimates - The preparation of financial statements in conformity with regulatory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Revenue recognition - Revenues are recognized when earned and expenses are recognized when incurred. The District customers are billed monthly. Unbilled utility service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$48,126 at December 31, 2015.

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 in the Kentucky Retirement Systems (KRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the County Employees Retirement System. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources - Effective for the fiscal year ending December 31, 2014, the District adopted provisions of Governmental Accounting Standards Board (GASB), Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflow of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

In addition to liabilities, assets and net position, the statement of net position/balance sheet will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows and inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an expenditure or revenue, respectively until that time. The District has items that arise under the modified accrual basis of accounting that qualifies for reporting in these categories. The Statement of Net Position reports deferred outflows and inflows related to pension requirements.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

2 CASH

Deposits - As of December 31, 2015, the carrying amount of the District's deposits was \$375,731 and the bank balance was \$397,371. All was covered by federal depository insurance.

Revenue fund - All income and revenues derived from the operation of the system shall be deposited promptly and as received to the Lyon County Water District Water Revenue Fund. The monies deposited into the Revenue Fund shall be expended only in the manner and order as follows:

- (1) Regions Sinking Fund
- (2) Depreciation Reserve Fund
- (3) Operation and Maintenance Fund.

Regions Sinking Fund - The District holds cash deposits in the amount of \$65,543 in the Regions Trust Cash Sweep III (RTCS). RTCS is a bank deposit account offered through Regions Institutional Services. The RTCS does not directly invest in securities. It is a deposit account that is collateralized by government securities. Collateral may include:

- Interest bearing obligations of the U.S. Government,
- Senior debt obligations of any U.S. Government Agency,
- And/or municipal securities with an underlying rating of A or better.

RTCS is FDIC Insured up to \$250,000. Deposit account amounts in excess of \$250,000 are secured by perfected liens on Regions Bank's securities in an amount not less than 105% of the total excess deposits. In the event of a default, the collateral reverts to the Collateral Agent to be distributed to the account owners. RTCS deposits are identified as "cash" on client statements; there are no market value fluctuations. The sinking fund was established for the purpose of paying the principal and interest on the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2013 C . The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1.

Depreciation Reserve - The ordinances requires Lyon County Water District to make monthly contributions to this fund after observing the priority of deposits into the KIA Loan Fund and the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. The District is to make \$510 monthly deposits until a required minimum balance of \$61,200 is met. The District is to make \$295 monthly deposits over the life of the loan. At December 31, 2015 the balance of the Depreciation Reserve Fund was \$115,887.

Operations and Maintenance Fund - Transfers shall be made monthly from the Revenue Fund to the Operations and Maintenance Fund so that the various operation and maintenance expenses of such system are met and a two (2) month operating reserve established and maintained. Any funds remaining in such Operation and Maintenance Fund after meeting the expenses of operating such system shall be transferred to the Revenue Fund and disbursed in accordance with the above provisions until such time as the Sinking Fund and Depreciation Fund are current and the required balances established; and then excess funds may be invested in direct obligations of or obligations which are fully guaranteed by the United State Government with such maturities so that moneys shall be available in the respective Funds for the purposes for which same are established.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

3 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015:

	Balance January 1, 2015	Additions	Reduction	Balance December 31, 2015
Assets being depreciated:				
Equipment	\$ 194,362	\$ 88,592	\$ (33,000)	\$ 249,954
Distribution lines	6,485,812	12,200	-	6,498,012
Water Tanks	422,707	-	-	422,707
Building	73,976	-	-	73,976
Transportation	54,129	33,000	-	87,129
Improvements	-	34,000	-	34,000
Sewer Lines	867,725	-	-	867,725
Total Depreciable assets	<u>8,098,711</u>	<u>167,792</u>	<u>(33,000)</u>	<u>8,233,503</u>
Accumulated Depreciation:				
Equipment	(100,959)	(14,665)	20,600	(95,024)
Distribution lines	(3,216,126)	(161,425)	-	(3,377,551)
Water Tanks	(303,038)	(14,464)	-	(317,502)
Building	(34,506)	(2,068)	-	(36,574)
Transportation	(42,804)	(6,236)	-	(49,040)
Improvements	-	(567)	-	(567)
Sewer Lines	(98,045)	(21,693)	-	(119,738)
Total Accumulated Depreciation	<u>(3,795,476)</u>	<u>(221,118)</u>	<u>20,600</u>	<u>(3,995,996)</u>
Assets not being depreciated:				
Land	121,772	-	-	121,772
Construction in Progress	407,090	3,133	-	410,223
Total Non-depreciable assets	<u>525,084</u>	<u>3,133</u>	<u>-</u>	<u>531,995</u>
Total business-type capital assets	<u>\$ 4,828,319</u>	<u>\$ (50,193)</u>	<u>\$ (12,400)</u>	<u>\$ 4,769,502</u>

Depreciation charged to income was \$221,118.

4 CAPITAL LEASES

In fiscal year 2012, the District entered into a capitalized lease for a backhoe. This lease agreement met the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Amortization of backhoe under capital assets is included as depreciation expense.

Capital assets consisting of a Case backhoe have been capitalized in the amount of \$72,490. This amount represents the present value of the minimum lease payments at the time of acquisition. The accumulated depreciation as of December 31, 2015 for this equipment was \$25,371; leaving a current book value of \$47,119. A corresponding liability is recorded in the financial statements. Principal payments in fiscal year 2015 totaled \$14,712.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

4 CAPITAL LEASES (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2015:

	Principal	Interest	Total
2016	15,292	679	15,971
2017	9,197	119	9,316
	\$ 24,489	\$ 798	25,287
Less: Interest			798
Present Value of Minimum Lease Payments			\$ 24,489

5 LONG-TERM DEBT

The District's long-term debt at December 31, 2015 consisted of the following:

Capital lease (see note 4)	\$	24,489
Note payable to BBT Governmental Finance, bearing interest at 1.970%, due September 16, 2018. Common principle due monthly.		39,222
Note payable to Kentucky Association of Counties Leasing Trust, bearing interest at 4.45 percent, due January 1, 2016. Common principal due annually January 1.		8,000
Kentucky Rural Water Revenue Bonds Series 2013 C bearing interest at 3.50 percent due January 1, 2040. Interest due semi-annually on January 1 and July 1 and Principal due annually on January 1, net of unamortized premium of \$43,097.		1,278,096
		1,349,807
Less Current Portion		77,309
	\$	1,272,498

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

5 LONG-TERM DEBT (continued)

The schedule of principal maturity and annual debt service for the District is as follows:

	Amortization of			
	Principal	Premiums	Total	Interest
2016	\$ 77,309	\$ 1,724	\$ 79,033	\$ 47,892
2017	63,492	1,724	65,216	45,499
2018	50,910	1,724	52,634	43,382
2019	45,000	1,724	46,724	41,465
2020	45,000	1,724	46,724	39,530
2021-2025	250,000	8,619	258,619	165,798
2026-2030	305,000	8,619	313,619	112,763
2031-2035	360,000	8,619	368,619	55,305
2036-2039	110,000	8,619	118,619	11,270
	<u>\$ 1,306,711</u>	<u>\$ 43,096</u>	<u>\$ 1,349,807</u>	<u>\$ 562,904</u>

In an ordinance of the Board of Commissioners, adopted on October 3, 1995, the District authorized and thereafter issued its \$996,000 "Water Revenue Bonds, Series 1995" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

In an ordinance of the Board of Commission, adopted on September 13, 2002, the District authorized and thereafter issued its \$594,000 "Water Revenue Bonds, Series 2002" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

Both bonds were refinanced under Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds Series 2013 C as of March 27, 2013.

The Series 2013 C bond referred to above mature as to principal in installments on January 1, in each of the years and shall bear interest from their issue dates until payment of principal. Interest is payable semiannually on June 1 and January 1, of each year as established by the ordinance.

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Note 2.

If there is any default in the payment of the principal or interest on any of the outstanding bonds, and suit is filed by a holder of said bond, and court-having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds, and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution, and the provisions of the applicable laws of Kentucky.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

5 LONG-TERM DEBT (continued)

The bond covenants require that the rates for all utility services rendered by the District must be reasonable. The District must maintain adequate public liability insurance including fire, windstorm, fidelity bonds, and the hazards covered by a standard extended coverage policy. The bond covenant also requires an audit of the books of record and account pertinent to the system of the District within 60 days of year-end. The audit requirement was not met for the year ended December 31, 2015.

The District entered into an agreement with Lyon County Fiscal Court in May 2001. The fiscal court obtained a lease through KY Association of Counties to refinance previous indebtedness for water system improvements. The District agreed to pay the fiscal court the annual amount of the lease payment until the lease was paid in full January 2016.

In September 2015 the District entered into a note payable with BBT Governmental Finance to purchase a Dump Truck. The note bears interest of 1.970%. Final principle payment is due September 16, 2018. The principle balance at December 31, 2015 is \$39,222.

See Note 4 for detail on the District's capital lease obligation. Principal and interest payments are due monthly.

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

	Balance January 1, 2015	Additions	Debt Payments	Balance December 31, 2015	Less current portion	Long-term debt December 31, 2015
Compensated absences	\$ 4,183	\$ 3,889	\$ -	\$ 8,072	\$ -	\$ -
Capital Lease	39,201	-	14,712	24,489	15,292	9,197
BBT Governmental Finance	-	42,683	3,461	39,222	14,017	25,205
Lyon County Fiscal Court	16,000	-	8,000	8,000	8,000	-
Ky Rural Water-2013	1,270,000	-	35,000	1,235,000	40,000	1,195,000
Premium on Debt	44,820	-	1,724	43,096	-	43,096
	<u>1,370,021</u>	<u>42,683</u>	<u>62,897</u>	<u>1,349,807</u>	<u>77,309</u>	<u>1,272,498</u>
	<u>\$ 1,374,204</u>	<u>\$ 46,572</u>	<u>\$ 62,897</u>	<u>\$ 1,357,879</u>	<u>\$ 77,309</u>	<u>\$ 1,272,498</u>

Interest Expense for the year was \$48,663.

6 CONTRACTS FOR WATER SUPPLY

The District entered into contracts with the City of Eddyville, the City of Kuttawa, the City of Princeton, Kentucky, and the Crittenden-Livingston Water District which states that the Cities and Water District will provide water to the District.

7 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

8 CONTINGENCIES

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2015, there have been no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from grant funds are recognized and are recorded as revenue.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

9 SHORT-TERM DEBT

The District entered into a short term interim financing with Kentucky Infrastructure Authority in 2013 to pay engineering cost associated with a system upgrade that is not fully complete as of December 31, 2015.

	Balance January 1, 2015	Additions	Debt Payments	Balance December 31, 2015
KIA Interim Financing	\$ 156,665	\$ -	\$ -	\$ 156,665
	<u>\$ 156,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 156,665</u>

Interest of \$3,133 was capitalized during 2015.

10 CONCENTRATION OF CREDIT RISK

The District provides water service to the citizens of Lyon County, Kentucky. It extends credit to all of these customers.

11 PENSION PLAN

General Information about the Pension Plan

Plan description. Employees with membership in the Kentucky Retirement Systems (KRS) are provided with pensions through the County Employee Retirement System (CERS), a cost sharing multiple-employer pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Chapter 61. The KRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the KRS. The Kentucky Department of Revenue, an agency in the legislative branch of state government, administers the plans of the KRS. The KRS issues a publically available financial report that can be obtained at www.kyret.ky.gov.

Benefits provided. Kentucky Revised Statute Chapter 61 established the benefit terms and can be amended only by the Kentucky General Assembly.

Members of the CERS (nonhazardous), participating prior to September 1, 2008 (Tier 1), are eligible to retire with an unreduced benefit at age 65 or any age with over 27 years of service credit. Benefits are determined by a formula using the member's five highest annual compensations and the member's years of service. A reduced early retirement benefit is available at age 65 with at least 25 years, but less than 27 years of service credit, or at age 55 with 5 years of service credit. Members of the CERS (nonhazardous), participating after September 1, 2008 but before January 1, 2014 (Tier 2), are eligible to retire with an unreduced benefit at age 57 if age plus service credits equal 87 years at retirement or after age 65 with 5 years of service credit. Benefits are determined by a formula using the member's last five consecutive years compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 with at least 10 years of service credit. Members of the CERS (nonhazardous), participating after January 1, 2014 (Tier 3), are eligible to retire with an unreduced benefit at age 57 if age plus service credits equals 87 years at retirement or after age 65 with 5 years of service credit.

Service related disability benefits are provided for all three tiers regardless of length of service. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustment (COLAs) after retirement. The COLA has increased annually by 1.5% since July 1, 2003. A member who leaves employment may withdraw their employee contribution, plus any accumulated interest.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

11 PENSION PLAN (continued)

Contributions. Contributions for members are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. CERS covered employees are required to contribute 5% of gross pay and all employees that began participating after September 1, 2008 are required to contribute an additional 1% for health coverage. The agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the CERS are required to be paid. Employer contributions by the Lyon County Water District, Kentucky for the year ended June 30, 2015 to the CERS were \$16,458 which is 11.77% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability. At June 30, 2015, the Lyon County Water District reported a liability of \$237,005 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan during the year ended June 30, 2015, relative to the contributions of all members for the year ended June 30, 2015. At the June 30, 2015 measurement date, District's proportion was 0.005512%. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2014, using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service cost), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2014, are shown for CERS submitted on March 16, 2015.

Pension expense. For the year ended June 30, 2015, the District recognized a pension expense of \$23,647.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,970	\$ -
Change of assumptions	23,899	-
Net difference between projected and actual earnings on plan investments	2,125	17,674
Employer contributions subsequent to the Measurement Date	9,654	-
	\$ 37,648	\$ 17,674

The amount shown for "Employer contributions subsequent to the Measurement Date" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

11 PENSION PLAN (continued)

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	
2016	(4,342)
2017	(4,342)
2018	(4,342)
2019	(4,342)
2020	(306)

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	
2016	5,599
2017	5,599
2018	5,599
2019	5,599
2020	5,598

In the tables above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	3.25%	
Salary increases	4.00%, average, including inflation	
Investment rate of return	7.50 %, net of pension plan investment expense, including inflation	

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 1 year for females). For disabled members, the RP-2000 Combined Disabled 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.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. 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

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

11 PENSION PLAN (continued)

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.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

Discount rate. The discount rate used to measure the total pension liability was 7.50%. The discount rate determination does not use a municipal bond rate.

Projected cash flows. The projection of the cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents the net pension liability of the District, calculated using the discount rate of percent, as well as what the system's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate for non-hazardous:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Lyon County Water District's net pension liability	\$ 302,547	\$ 237,005	\$ 180,846

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

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

12 NEW PRONOUNCEMENTS

Effective for the fiscal year ending December 31, 2015, the District adopted the provisions of Governmental Accounting Standards Board (GASB), Statement No. 68, Accounting and Financial Reporting for Pensions. The objective of this statement is to improve financial reporting by state and local governmental pension plans. In addition, it requires the liability of the employers and non-employer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payment to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this statement requires additional changes to Required Supplementary Information, among other extensive changes.

Effective for the fiscal year ending December 31, 2015, the District adopted the provision of Governmental Accounting Standards Board (GASB), Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date. The objective of this statement is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

13 PRIOR PERIOD ADJUSTMENT

Changes in accounting principle

The net position was restated to reflect implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (which amends GASB Statement No. 27), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 changed how governments' measure and report long-term obligations and annual costs associated with the pension benefits they provide. GASB Statement No. 71 addressed the issue of contributions made to defined benefit pension plans after the measurement date for the year in which GASB Statement No. 68 is implemented.

Correction of an error

For year ended December 31, 2015 Lyon County Water District recognized three prior period adjustments due to error. In the past the district did not recognized accrued payroll or compensated absences. Interest had not been capitalized in the past on the interim financing. These adjustments correct net position as of December 31, 2014.

Previously reported net position, as of December 31, 2014	\$ 3,601,090
Change in accounting principle	
GASB 68 implementation	(192,777)
Correction of an error	
Accrued Payroll	(4,183)
Compensated Absences	(7,160)
Capitalized interest	3,777
Restated Net Position, as of December 31, 2014	\$ 3,400,747

14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2015, the date which the financial statements were available to be issued. A system upgrade through Rural Development and Kentucky Infrastructure Authority has been approved. Estimated grant funding for the project is \$550,000.

LYON COUNTY WATER DISTRICT
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEE RETIRMENT SYSTEM OF THE KRS
 Last ten fiscal years

Total net pension liability (asset) for Employee Retirement System	\$ 4,299,525,565
Lyon County Water District's proportion of the net pension liability	0.005512%
Lyon County Water District's proportionate share of the net pension liability	\$ 237,005
Lyon County Water District's covered-employee payroll	\$ 131,644
Lyon County Water District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	180.03%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

*The amounts presented were determined as of June 30, 2015.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Purpose is to provide information that serves as a surrogate for the funding progress of the plan.

LYON COUNTY WATER DISTRICT
 SCHEDULE OF CONTRIBUTIONS
 COUNTY EMPLOYEE RETIRMENT SYSTEM OF THE KRS
 Last ten fiscal years

	2014	2015
Actuarially Determined Contribution (ADC)	\$ 24,146	\$ 16,458
Contribution in relation to the actuarially determined contribution	24,146	16,458
Contribution deficiency (excess)	\$ -	\$ -
Lyon County Water District's covered-employee payroll	\$131,644	\$139,779
Contributions as a percentage of Lyon County Water District's covered-employee payroll	18.34%	11.77%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retrospectively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

LYON COUNTY WATER DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Notes Related to Schedule of the Lyon County Water District Proportionate Share of the Net Pension Liability- County Employee Retirement System of the KRS

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 members whose participation date is on or after January 1, 2014.

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

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 1 year for females). For disabled members, the RP-2000 Combined Disabled 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.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Notes Related to Schedule of the Lyon County Water District Contributions- County Employee Retirement System of the KRS

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation	5-year smoothed market
Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation