

Adair County Water District
dba Columbia/Adair Utilities District
Columbia, Kentucky
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Independent Auditors' Report
And Financial Statements
For the Year Ended December 31, 2025

Adair County Water District, dba Columbia/Adair Utilities District
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Independent Auditors' Report

Board of Commissioners
Adair County Water District
dba Columbia/Adair Utilities District
Columbia, Kentucky

Opinion

We have audited the accompanying financial statements of the Adair County Water District, dba Columbia/Adair Utilities District (the District), which comprise the statement of net position as of December 31, 2025, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Adair County Water District, dba Columbia/Adair Utilities District, as of December 31, 2025, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Adair County Water District, dba Columbia/Adair Utilities District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of the District's Proportionate Share of the Net OPEB Liability, Schedule of the District's Pension Contributions, and Schedule of the District's OPEB Contributions on pages 27-30 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2026, on our consideration of the 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 the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

August 19, 2026

Adair County Water District, dba Columbia/Adair Utilities District
Statement of Net Position
December 31, 2025

Assets	Water	Sewer	Total
Current Assets			
Cash and cash equivalents	\$ -	\$ 766,286	\$ 766,286
Investments	1,523,912		1,523,912
Customer accounts receivable, net	598,948	138,325	737,273
Due to (from) other funds	(860,275)	860,275	-
Inventory	110,561	4,091	114,652
Prepays	33,543		33,543
Total Current Assets	<u>1,406,689</u>	<u>1,768,977</u>	<u>3,175,666</u>
Noncurrent Assets			
Restricted cash and cash equivalents	1,167,001	-	1,167,001
Capital assets, net of depreciation	35,608,800	9,162,303	44,771,103
Total Noncurrent Assets	<u>36,775,801</u>	<u>9,162,303</u>	<u>45,938,104</u>
Total Assets	<u>38,182,490</u>	<u>10,931,280</u>	<u>49,113,770</u>
Deferred Outflows of Resources			
Deferred outflows - pension	213,468	49,626	263,094
Deferred outflows - OPEB	133,481	31,028	164,509
Total Deferred Outflows of Resources	<u>346,949</u>	<u>80,654</u>	<u>427,603</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 74,868	\$ 23,418	\$ 98,286
Accrued vacation and sick leave	185,407	35,524	220,931
Accrued expenses	124,431	7,874	132,305
Accrued interest	111,331	2,402	113,733
Customer deposits payable	30,879	-	30,879
Current portion of notes and bonds payable	1,164,541	76,343	1,240,884
Total Current Liabilities	<u>1,691,457</u>	<u>145,561</u>	<u>1,837,018</u>
Noncurrent Liabilities			
Noncurrent notes and bonds payable	15,377,837	2,249,443	17,627,280
Net OPEB liability	27,456	6,385	33,841
Net pension liability	1,594,116	370,573	1,964,689
Total Noncurrent Liabilities	<u>16,999,409</u>	<u>2,626,401</u>	<u>19,625,810</u>
Total Liabilities	<u>18,690,866</u>	<u>2,771,962</u>	<u>21,462,828</u>
Deferred Inflows of Resources			
Deferred inflows - pensions	199,100	46,284	245,384
Deferred inflows - OPEB	341,683	79,429	421,112
Total Deferred Inflows of Resources	<u>540,783</u>	<u>125,713</u>	<u>666,496</u>
Net Position			
Net investment in capital assets	20,230,963	6,912,860	27,143,823
Restricted	1,167,001	-	1,167,001
Unrestricted	(2,104,741)	1,215,002	(889,738)
Total Net Position	<u>\$ 19,293,224</u>	<u>\$ 8,127,862</u>	<u>\$ 27,421,086</u>

See accompanying notes to financial statements.

Adair County Water District, dba Columbia/Adair Utilities District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2025

	Water Fund	Sewer Fund	Total
Operating Revenues			
Water Sales	\$ 5,740,019	1,561,897	\$ 7,301,916
Other revenue	222,085	-	222,085
Total Operating Revenues	<u>5,962,104</u>	<u>1,561,897</u>	<u>7,524,001</u>
Operating Expenses			
Personnel services	1,462,584	332,603	1,795,187
Contractual services	143,776	20,223	163,999
Supplies and materials	592,151	38,717	630,868
Repairs and maintenance	182,539	123,747	306,285
Operational	1,408,128	343,826	1,751,954
Depreciation and amortization	1,567,637	582,596	2,150,233
Total Operating Expenses	<u>5,356,814</u>	<u>1,441,712</u>	<u>6,798,526</u>
Operating Income	<u>605,290</u>	<u>120,185</u>	<u>725,475</u>
Non-Operating Revenues (Expenses)			
Interest income	50,029	154	50,183
Interest expense	(337,187)	(8,775)	(345,962)
Amortization of bond premium	9,933	-	9,933
Total Non-Operating Revenues (Expenses)	<u>(277,225)</u>	<u>(8,621)</u>	<u>(285,846)</u>
Income (loss) before capital contributions	328,065	111,564	439,629
Capital contributions	91,200	2,500	93,700
KIA loan forgiveness	305,176	-	305,176
Grants	<u>3,756,750</u>	<u>-</u>	<u>3,756,750</u>
Change in net position	4,481,191	114,064	4,595,255
Beginning Net Position	<u>14,812,033</u>	<u>8,013,798</u>	<u>22,825,831</u>
Ending Net Position	<u><u>\$19,293,224</u></u>	<u><u>\$ 8,127,862</u></u>	<u><u>\$27,421,086</u></u>

Adair County Water District, dba Columbia/Adair Utilities District
Statement of Cash Flows
For The Year Ended December 31, 2025

	Water Fund	Sewer Fund	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 5,862,455	\$ 1,533,479	\$ 7,395,934
Payments to suppliers	(2,220,422)	(552,768)	(2,773,190)
Payments for employee services and benefits	(1,828,604)	(349,361)	(2,177,965)
Net Cash Provided by Operating Activities	<u>1,813,429</u>	<u>631,350</u>	<u>2,444,779</u>
Cash Flows From Noncapital Financing Activities			
Receipts (payments) on interfund loans	860,275	(860,275)	-
Net Cash Provided by (used) in Noncapital Financing Activities	<u>860,275</u>	<u>(860,275)</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities			
Principal paid on loans	(1,508,927)	(75,040)	(1,583,967)
Interest and service fees paid on loans	(377,771)	(8,775)	(386,546)
Purchases of capital assets	(3,688,330)	(95,417)	(3,783,747)
Capital contributed - grants	3,756,750	-	3,756,750
Other capital contributions	63,001	335,875	398,876
Net Cash Used by Capital and Related Financing Activities	<u>(1,755,277)</u>	<u>156,643</u>	<u>(1,598,634)</u>
Cash Flows From Investing Activities			
Purchase of certificates of deposit	(700,000)	-	(700,000)
Interest income	50,029	154	50,183
Net Cash Provided by Investing Activities	<u>(649,971)</u>	<u>154</u>	<u>(649,817)</u>
Net Decrease in Cash and Cash Equivalents	268,456	(72,128)	196,328
Cash and Cash Equivalents at Beginning of Year	898,545	838,414	1,736,959
Cash and Cash Equivalents at End of Year	<u>\$ 1,167,001</u>	<u>\$ 766,286</u>	<u>\$ 1,933,287</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating income	\$ 605,290	\$ 120,185	\$ 725,475
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,567,637	582,596	2,150,233
Net pension liability activity	(24,504)	(5,696)	(30,200)
Net OPEB liability activity	(346,948)	(8,534)	(355,482)
Changes in assets and liabilities:			
(Increase) decrease in receivables	(100,423)	(24,162)	(124,585)
(Increase) decrease in inventory	33,321	3,482	36,803
(Increase) decrease in prepaids	-	-	-
Increase (decrease) in accounts payable	(13,900)	(29,737)	(43,637)
Increase (decrease) in customer deposits	774	-	774
Increase (decrease) in accrued payroll	-	-	-
Increase (decrease) in accrued sick leave	5,432	(2,528)	2,904
Increase (decrease) in accrued expenses	86,750	(4,256)	82,494
Net Cash Provided by Operating Activities	<u>\$ 1,813,429</u>	<u>\$ 631,350</u>	<u>\$ 2,444,779</u>

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 1 – Summary of Significant Accounting Policies

Nature of Organization and Operations

The Adair County Water District, dba Columbia/Adair Utilities District (the "District"), provides water and sewer services to customers in the city and county of Columbia and Adair County, Kentucky and surrounding areas. The District's Commissioners have financial accountability and control over all activities related to the District.

Basis of Financial Statements

All activities of the District are accounted for within the water and sewer proprietary (enterprise) funds. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles (GAAP) applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

Measurement Focus and Basis of Accounting

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

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

Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of 90 days or less, when purchased, to be cash equivalents. Investments are valued at cost. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Accounts Receivable and Allowance for Doubtful Accounts

Receivables include amounts due from customers for water and sewer services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the twenty first day after the end of each billing period. Accounts receivable are presented net of uncollectible accounts. Management provides for probable uncollectible amounts of accounts receivable through a charge to earnings and a credit to a valuation allowance based on an estimate calculated using a percentage of accounts past due more than 30 days. At December 31, 2025, the allowance for doubtful accounts totaled \$73,226 and \$3,118, in the Water and Sewer funds, respectively.

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 1 – Summary of Significant Accounting Policies (Continued)

Inventory

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

Capital Assets

The utility plant and equipment have been recorded at cost. Depreciation is computed using the straight-line method over the plant's estimated useful life of 40 years.

The office building is depreciated on a straight-line basis over an estimated useful life of 20 years. Machinery, office equipment, and service vehicles are depreciated on a straight-line basis over their estimated useful life, ranging from 5 to 10 years.

Grants-in-Aid of Construction

Grants-in-aid of construction are accrued as qualifying expenditures are incurred. Such grants are recognized as revenue in the period earned.

Compensated Absences

In accordance with GASB Statement No. 101, accrued compensated absences include accrued vacation leave and accrued sick leave. The compensated absences liability at December 31, 2025 is \$220,931.

Use of Estimates

The preparation of financial statements in conformity with generally accepted 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.

Net Position

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

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

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted components of net position.

The District would typically use restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Pensions and Other Post-Employment Benefits

For purposes of measuring net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's 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. The plan's financial statements are prepared using the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) that apply to governmental accounting for fiduciary funds. Investments are reported at fair value.

Note 2 – Kentucky Revised Statute

At December 31, 2025, all of the total bank balances of the District of \$8,459,977 were covered by federal depository insurance and securities pledged as collateral on behalf of the District. In accordance with Kentucky Revised Statute (KRS) 66.480, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), the financial institution shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 66.480, the District is allowed to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest-bearing deposits of insured national or state banks.

Note 3 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest. The Adair County Water District's deposits at December 31, 2025, were either entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name or were invested in federal obligations. As of December 31, 2025, \$3,412,389 of the District's bank balances of \$3,662,453 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Uninsured and collateral held by pledging bank	3,412,389
	-
Total	<u><u>\$ 3,412,389</u></u>

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 4 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2025:

	Balance December 31, 2024	Additions	Dispositions	Balance December 31, 2025
Historical Cost				
Land and land rights	\$ 565,520	\$ -	\$ -	\$ 565,520
Office equipment	689,053	141,340	-	830,393
Service equipment	895,021	240,883		1,135,904
Building	8,947,187	-	-	8,947,187
Plant and equipment	73,494,311	27,622		73,521,933
Construction in process	382,300	3,373,903	-	3,756,203
Total at Historical Cost	84,973,392	3,783,748	-	88,757,140
Less: Accumulated Depreciation	41,826,767	2,150,233	-	43,977,000
Capital Assets - Net	<u>\$ 43,146,625</u>	<u>\$ 1,633,515</u>	<u>\$ -</u>	<u>\$ 44,780,140</u>

Depreciation expense for the year ended December 31, 2025 for the Water and Sewer Fund was as follows:

Water	\$ 1,567,637
Sewer	<u>582,596</u>
Total Water and Sewer	<u>\$ 2,150,233</u>

Note 5 – Restricted Assets

The District includes all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2025, the District held restricted cash of \$1,167,001 and \$0 in the Water and Sewer fund, respectively.

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 6 –Long-Term Debt

The following is a summary of long-term debt activity for the Water Fund for the year ended December 31, 2025:

	Balance as of 12/31/2025
2009 Water Revenue Bonds with interest at 2.38% maturing January 1, 2050	\$ 842,200
2011 Water Revenue Bonds with interest at 3.00% maturing January 1, 2051	927,000
2012 Revenue Bonds with interest at 2.13% maturing May 1, 2052	1,161,000
2013-D Revenue Bonds with interest at 4.20% maturing August 1, 2040	1,250,000
2020-G Revenue Bonds with interest at 1.38% maturing July 1, 2045	4,385,000
2020 Revenue Bonds with interest at 1.38% maturing January 1, 2061	1,794,000
Kentucky Infrastructure Authority Loan F06-01 with interest at 1.00% maturing June 1, 2028	615,886
Kentucky Infrastructure Authority Loan F07-01 with interest at 1.00% maturing December 1, 2028	189,572
Kentucky Infrastructure Authority Loan F10-01 with interest at 1.00% maturing December 1, 2032	1,491,608
Kentucky Infrastructure Authority Loan F10-02 with interest at 1.00% maturing June 1, 2032	588,023
Kentucky Infrastructure Authority Loan F11-10 with interest at 1.00% maturing December 1, 2034	581,538
Kentucky Infrastructure Authority Loan F12-04 with interest at 1.00% maturing December 1, 2044	1,959,460
Kentucky Infrastructure Authority Loan F20-09 with interest at .50% maturing December 1, 2052	442,811
Kentucky Infrastructure Authority Loan F23-006S interest at 1.25% maturity date to be determined after project is completed and loan is closed out	87,788
Bond Premium	<u>226,492</u>
Total Water Fund Long-Term Debt	<u><u>\$ 16,542,378</u></u>

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 6 –Long-Term Debt (Continued)

The following is a summary of long-term debt for the Sewer Fund as of December 31, 2025:

Kentucky Infrastructure Authority Loan A20-16 with interest at .50% maturing December 1, 2052	\$ 1,754,286
2014 Revenue Bonds with interest at 1.875% maturing January 1, 2054	<u>571,500</u>
Total Sewer Fund long-term debt	<u>2,325,786</u>
Total Water and Sewer Fund long-term debt	<u><u>\$ 18,868,164</u></u>

The changes in Water and Sewer Fund long-term debt is as follows:

	Balance December 31, 2024	Additions	Retirements	Balance December 31, 2025
Revenue bonds	\$ 11,452,900	\$ -	\$ 522,200	\$ 10,930,700
Bond premium	236,424	-	9,932	226,492
Direct borrowings - KIA	<u>8,762,807</u>	-	1,051,835	<u>7,710,972</u>
Total	<u><u>\$ 20,452,131</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,583,967</u></u>	<u><u>\$ 18,868,164</u></u>

The aggregate annual debt service requirements on long-term debt are summarized as follows:

Year Ended December 31	Principal	Interest and Servicing Fee	Total
2026	\$ 1,240,884	\$ 355,827	\$ 1,596,711
2027	1,271,228	329,147	1,600,375
2028	1,150,712	302,712	1,453,424
2029	943,958	278,455	1,222,413
2030	950,619	261,594	1,212,213
2031-2035	3,871,011	1,044,810	4,915,821
2036-2040	3,228,594	712,424	3,941,018
2041-2045	3,140,917	389,085	3,530,002
2046-2050	1,683,523	150,269	1,833,792
2051-2055	709,942	43,174	753,116
2056-2060	301,000	14,692	315,692
2061-2062	<u>61,500</u>	<u>428</u>	<u>61,928</u>
	18,553,888	3,882,617	22,436,505
KIA F-23-006S	87,784	-	87,784
Bond Premiums	<u>226,492</u>	-	<u>226,492</u>
Totals	<u><u>\$ 18,868,164</u></u>	<u><u>\$ 3,882,617</u></u>	<u><u>\$ 22,750,781</u></u>

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 7 – Retirement Plan

The Adair County Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Public Pensions Authority (KPPA) administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pension Authority's website.

Plan Description

CERS is a cost sharing, multiple employer, defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Benefits Provided

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the District. All employees meeting the requirements for membership are required to contribute a percentage of their gross wages. For the year ended December 31, 2025, plan members in non-hazardous positions were required to contribute 5% of the employee's total compensation subject to contribution. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565, normal contribution and past service contribution rates shall be determined by the KPPA Board of Trustees on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements in accordance with the actuarial basis adopted by the Board. For the year ended December 31, 2025, participating employers contributed 23.34% through June 30th and 19.71% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 8. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on or after January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. A Cash Balance Plan resembles a defined contribution plan because it determines the value of benefits for each participant based on individual accounts. However, the assets of the plan remain in a single investment pool like a traditional defined benefit plan. A Cash Balance Plan resembles a defined benefit plan since it uses a specific formula to determine benefits. Members and employers contribute specified percentages of the member's wages each month to the member's account. Non-hazardous plan members are required to contribute 5% of wages to their individual account. All members are required to contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. Each month, when employer contributions are received, an Employer Pay Credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% Employer Pay Credit. The Employer Pay Credit represents a portion of

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 7 – Retirement Plan (Continued)

Contributions (Continued)

the employer contribution. The account earns a guaranteed amount of interest, 4% on both the member contributions and the Employer Pay Credit Balance, at the end of each fiscal year. If the member contributed to the plan during the fiscal year, there may be additional interest credit added to the members' account depending on KPPA's investment returns. This "upside" interest sharing is based on the 5-year average geometric investment return. If it exceeds 4%, the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30 of the previous year.

The District's total payroll for the year ended December 31, 2025 totaled \$1,273,605 all of which was covered by CERS. The District's contribution requirements for CERS for the year ended December 31, 2025, were \$243,651 (\$243,651 allocated to the CERS pension fund and \$0 allocated to the CERS insurance fund).

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

At December 31, 2025 the District reported a liability of \$1,964,689 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating plan members, as actuarially determined. At the June 30, 2025 measurement date, the District's proportion was 0.035307 percent.

For financial reporting, the actuarial valuation as of June 30, 2025, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2025 were based on an actuarial valuation date of June 30, 2024. The total pension liability was rolled forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025, using generally accepted actuarial principles. There have been no other plan provision changes that should materially impact the total pension liability since June 30, 2024.

The total pension liability as of June 30, 2025 is determined using these updated benefit provisions. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	2% for CERS non-hazardous and hazardous
Salary Increase	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS non-hazardous and hazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2023. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2023.

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 7 – Retirement Plan (Continued)

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

For the year ended December 31, 2025, the District recognized pension expense of \$110,271. At December 31, 2025, 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	\$ 65,133	\$ -
Net difference between projected and actual earnings on pension plan investments	-	196,457
Changes in proportion and differences between District contributions and proportionate share of contributions	71,949	48,927
District contributions subsequent to the measurement date	126,012	-
Total	<u>\$ 263,094</u>	<u>\$ 245,384</u>

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net pension liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The \$126,012 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2026	\$ 29,574
2027	(40,454)
2028	(63,839)
2029	(33,665)
2030	-
Thereafter	-
	<u>\$ (108,384)</u>

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the Plan fiscal year ending June 30, 2025:

Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service, for CERS non-hazardous
Investment Rate of Return	6.50%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. 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 long-term expected rate of return was determined by using the building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target allocation percentage. The target 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
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Expected Real Return	100.00%	5.00%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		7.30%

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 7 – Retirement Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.50 percent, as well as what the 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Commission's proportionate share of net pension liability	\$ 2,597,451	\$ 1,964,689	\$ 1,442,646

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At December 31, 2025, the District reported a payable of \$38,025 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2025. The payable includes the pension and insurance contribution allocations as well as contributions withheld from employees.

Note 8 – OPEB Plan

As a participating employer of the County Employees' Retirement System (CERS), the District also participates in the Kentucky Retirement Systems Insurance Fund (Insurance Fund). Under the provisions of Kentucky Revised Statute Sections 61.645 and 61.701, the Board of Trustees of Kentucky Public Pension Authority (KPPA) administers the Kentucky Retirement Systems Insurance Fund (KERS), County Employees Retirement System Insurance Fund (CERS), and State Police Retirement System Insurance Fund (SPRS). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems (KERS, CERS, and SPRS). The assets of the Insurance Fund are also segregated by plan. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Public Pension Authority website.

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 8 – OPEB Plan (Continued)

Plan Description

CERS Insurance Fund is a cost sharing, multiple-employer, defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Plan Membership

The net OPEB liability was calculated based on the Insurance plan membership as of June 30, 2025:

Membership Status	<u>Non-Hazardous</u>
Inactive plan members currently receiving benefits	38,993
Inactive plan members entitled to but not yet receiving benefits	26,288
Active plan members	<u>80,072</u>
	<u><u>145,353</u></u>

Benefits Provided

The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KPPA submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays a proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. The amount of contribution paid by the Insurance Fund is based on years of service. Additional details can be found in the publicly available KPPA Comprehensive Annual Financial Report (CAFR) which may be downloaded from the KPPA website.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the District. See Note 7 for a description of the District's covered payroll and contribution requirements as well as the breakdown of contributions between the pension and insurance funds.

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

At December 31, 2025, the District reported a liability of \$33,841 for its proportionate share of the net OPEB liability/asset. The net OPEB liability was measured as of June 30, 2025, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating plan members, as actuarially determined. At the June 30, 2025 measurement date, the District's proportion was 0.035235 percent.

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 8 – OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

For financial reporting, the actuarial valuation as of June 30, 2025 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2025, were based on an actuarial valuation date of June 30, 2024. The total OPEB liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025, using generally accepted actuarial principles. Actuarial assumptions can be readily obtained from KPPA's 2025 Annual Report.

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2025:

Valuation Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.5% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same as those adopted for the CERS Pension Plan and are summarized in the table in Note 7.

The District recognized OPEB expense (benefit) of \$(125,052) for the year ended December 31, 2025. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 109,757	\$ 290,930
Changes of assumptions	22,571	19,376
Net difference between projected and actual earnings on OPEB plan investments	-	76,639
Changes in proportion and differences between District contributions and proportionate share of contributions	32,181	34,167
Total	<u>\$ 164,509</u>	<u>\$ 421,112</u>

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 8 – OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net OPEB liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

Amounts reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources related to pensions will be recognized in OPEB expense as follows:

Year Ended December 31:	
2026	\$ (144,355)
2027	(121,660)
2028	2,905
2029	6,507
2030	-
Thereafter	-
	<u>\$ (256,603)</u>

Investment Policy

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Kentucky Public Pension Authority. The Board has established an Investment Committee which is specifically charged with oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the "Prudent Person Rule" (set forth in Kentucky Revised Statute 61.650) and manage those funds consistent with the long-term nature of the systems. The Investment Committee has adopted a Statement of Investment Policy that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of Kentucky Retirement Systems. The Statement of Investment Policy contains the specific guidelines for the investment of Pension and Insurance assets. The target allocation and best estimates of arithmetic real rates of return for each major asset class adopted by the KPPA Board for the Insurance Plan are the same as those adopted for the CERS Pension Plan (See Note 7).

The components of the net OPEB liability (asset) of the participating employers in the CERS Non-Hazardous System and the District's proportionate share at June 30, 2025 were as follows:

	Total CERS Non-Hazardous System	The District's Proportionate Share
Total OPEB liability	\$ 4,107,333,000	\$ 1,447,219
Plan fiduciary net position	(4,011,291,000)	(1,413,378)
Employers' Net OPEB Liability	<u>\$ 96,042,000</u>	<u>\$ 33,840</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	97.66%	97.66%

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 8 – OPEB Plan (Continued)

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the Plan fiscal year ending June 30, 2025:

Valuation Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.50%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 4.05% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 8.50% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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

Discount Rate

The discount rate used to measure the total OPEB liability increased from 6.00% to 6.26%. The projection of 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 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.50% and a municipal bond rate of 5.20%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2025.

Adair County Water District, dba Columbia/Adair Utilities District
Notes to Financial Statements (Continued)
December 31, 2025

Note 8 – OPEB Plan (Continued)

Sensitivity of the Commission's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 6.26 percent, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.26 percent) or 1-percentage-point higher (7.26 percent) than the current rate:

	1% Decrease (5.26%)	Current Discount Rate (6.26%)	1% Increase (7.26%)
District's proportionate share of net OPEB liability (asset)	\$ 203,054	\$ 33,841	\$ (108,578)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Utility District's proportionate share of the net OPEB liability (asset) calculated using the healthcare cost trend rate, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability (asset)	\$ (78,206)	\$ 33,481	\$ 165,006

Note 9 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 10 – Subsequent Events

Management has evaluated subsequent events through August 19, 2026, the date on which the financial statements were available to be issued.



Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Commissioners
Adair County Water District
dba Columbia/Adair Utilities District
Columbia, 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 Adair County Water District, dba Columbia/Adair Utilities District (the District), as of and for the year ended December 31, 2025 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 19, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a material weakness (See item 2025-1).

Although not considered significant deficiencies, we noted other matters involving internal controls and disclosed to management in a memorandum dated August 19, 2026.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Adair County Water District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

August 19, 2026

Adair County Water District, dba Columbia/Adair Utilities District
Schedule of Findings and Responses
December 31, 2025

A. Findings – Financial Statement Audit

2025-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

There is not appropriate segregation of duties in the areas of accounts receivable, cash receipts, and general ledger and subsidiary maintenance. Those individuals charged with maintaining the accounts receivable ledgers for utility services also have the duties to approve and record customer adjustments and credit memos and are in charge of collecting payments, both mail in and over the counter, without mitigating controls in place. Those individuals charged with maintaining the accounts receivable subsidiary ledgers also have the duties to maintain and update the accounts receivable general ledger accounts without mitigating controls in place.

Effect:

This condition could provide an opportunity for misappropriation of funds and concealment of such activity.

Views of responsible officials and planned corrective actions:

The District has limited resources that prevent being able to further segregate duties, but will consider implementing stronger internal controls to help mitigate any risk associated with the process.

Adair County Water District, dba Columbia/Adair Utilities District
Schedule of the District's Proportionate Share of the Net Pension Liability
County Employee's Retirement System (CERS) Pension Plan
Last Ten Fiscal Years*

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
District's proportion of the net pension liability (asset)	0.035307%	0.033357%	0.036213%	0.033816%	0.035327%	0.033597%	0.039092%	0.037900%	0.038380%	0.038350%
District's proportionate share of the net pension liability (asset)	\$ 1,964,689	\$ 1,994,889	\$ 2,323,610	\$ 2,444,491	\$ 2,252,373	\$ 2,759,176	\$ 2,749,358	\$ 2,308,469	\$ 2,246,207	\$ 1,888,187
District's covered-employee payroll	\$ 1,273,605	\$ 1,018,191	\$ 1,023,322	\$ 954,574	\$ 984,165	\$ 981,872	\$ 981,872	\$ 976,350	\$ 948,537	\$ 938,186
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	154.26%	195.92%	227.07%	256.08%	228.86%	281.01%	280.01%	236.44%	236.81%	201.26%
Plan fiduciary net position as a percentage of the total pension liability	65.34%	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.30%	55.50%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the Commission will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Adair County Water District, dba Columbia/Adair Utilities District
Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employee's Retirement System (CERS) OPEB Plan
Last Eight Fiscal Years*

	2025	2024	2023	2022	2021	2020	2019	2018
District's proportion of the net OPEB liability	0.035235%	0.033390%	0.036211%	0.033810%	0.035319%	0.035964%	0.039082%	0.037900%
District's proportionate share of the net OPEB liability (asset)	\$ 33,841	\$ (57,762)	\$ (49,998)	\$ 667,243	\$ 676,165	\$ 868,421	\$ 657,342	\$ 672,942
District's covered-employee payroll	\$ 1,273,605	\$ 1,018,191	\$ 1,023,322	\$ 954,574	\$ 984,165	\$ 981,872	\$ 976,350	\$ 948,537
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	2.66%	-5.67%	-4.89%	69.90%	68.70%	88.45%	67.33%	70.95%
Plan fiduciary net position as a percentage of the total OPEB liability	69.13%	104.89%	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the Commission will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Adair County Water District, dba Columbia/Adair Utilities District
Schedule of the District's Pension Contributions
County Employee's Retirement System (CERS) Pension Plan
Last Ten Fiscal Years*

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 389,974	\$ 246,343	\$ 237,934	\$ 236,848	\$ 174,151	\$ 177,846	\$ 159,939	\$ 137,763	\$ 131,476	\$ 108,953
Contributions in relation to the contractually required contribution	<u>(389,974)</u>	<u>(246,343)</u>	<u>(237,934)</u>	<u>(236,848)</u>	<u>(174,151)</u>	<u>(177,846)</u>	<u>(159,939)</u>	<u>(137,763)</u>	<u>(131,476)</u>	<u>(108,953)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,273,605	\$ 1,211,481	\$ 1,018,191	\$ 1,023,322	\$ 954,574	\$ 984,165	\$ 981,872	\$ 976,350	\$ 948,537	\$ 938,186
Contributions as a percentage of covered-employee payroll	30.62%	20.34%	23.37%	23.15%	18.24%	18.07%	16.29%	14.11%	13.86%	11.61%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the District will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Adair County Water District, dba Columbia/Adair Utilities District
Schedule of the District's OPEB Contributions
County Employee's Retirement System (CERS) OPEB Plan
Last Eight Fiscal Years*

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ -	\$ -	\$ 16,280	\$ 37,973	\$ 62,943	\$ 61,936	\$ 51,867	\$ 45,921
Contributions in relation to the actuarially determined contribution	-	-	(16,280)	(37,973)	(62,943)	(61,936)	(51,867)	(45,921)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,273,605	\$ 1,211,481	\$ 1,642,997	\$ 1,488,529	\$ 1,453,057	\$ 1,381,673	\$ 1,323,175	\$ 1,432,605
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.99%	2.55%	4.33%	4.48%	3.92%	3.21%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the District will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.