

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Adair County Water District

We have audited the accompanying financial statements of the business-type activities and each major fund of Adair County Water District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Adair County Water District, as of December 31, 2020 and 2019, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of District's proportionate share of the net pension and OPEB liabilities, and schedules of required pension and OPEB contributions on pages 3 through 7 and pages 27 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2021 on our consideration of Adair County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Adair County Water District's internal control over financial reporting and compliance.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Campbellsville, KY

June 30, 2021

ADAIR COUNTY WATER DISTRICT

Management's Discussion and Analysis

The management of the Adair County Water District's offers all persons interested in the financial position of the Utility this narrative overview and analysis of the Utility's financial performance during the years ending December 31, 2020 and 2019. It provides an introduction to the District's 2020 financial statements. Information in this overview and analysis has been prepared by the District's CPA and should be considered in conjunction with the financial statements and notes.

Financial Highlights

Overview of the Financial Statements

The financial section of this annual report consists of the following three parts: management's discussion and analysis, basic financial statements and the notes to the financial statements. The basic financial statements include: the statements of net position, the statements of revenues, expenses, and changes in net position, and the statement of cash flows.

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years. Understanding the financial trend of the District begins with understanding the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. Looking at these two reports, you should be able to determine if the District is better off financially this year than it was in the past.

Required Financial Statements

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The statement of net position includes information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Districts creditors (liabilities). The statement of revenues, expense and changes in net position identifies the District's revenues and expenses for the fiscal year ended December 31, 2020. This statement normally provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the statements of cash flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the statements of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

Financial Analysis of the District

Net Position

A summary of the District's Statement of Net Position for the years ended December 31, 2020, and 2019 follows:

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and Investments	\$ 896,011	\$ 1,245,839
Other Assets	743,601	685,018
Capital Assets	<u>44,314,034</u>	<u>46,068,795</u>
Total Assets	45,953,646	47,999,652
Deferred Outflows:		
Pension	503,221	611,771
OPEB	<u>416,919</u>	<u>277,260</u>
Total Deferred Outflows	920,140	889,031
Liabilities:		
Current Liabilities	1,799,984	1,665,688
Other Liabilities	104,631	206,707
Long-Term Outstanding	<u>22,772,190</u>	<u>23,695,095</u>
Total Liabilities	24,676,805	25,567,490
Deferred Inflows:		
Advances for Construction	152,260	153,328
Premium on Debt Refunding	282,620	222,133
Pension	182,448	118,200
OPEB	<u>216,485</u>	<u>241,779</u>
Total Deferred Inflows	833,813	735,440
Net Position:		
Invested in Capital Assets (Net of Related Debt)	23,787,916	24,421,448
Restricted	734,476	1,060,992
Unrestricted	<u>(3,159,224)</u>	<u>(2,896,688)</u>
Total Net Position	<u>\$ 21,363,168</u>	<u>\$ 22,585,752</u>

Revenue, Expenses and Changes in Net Position

A summarized comparison of the District's statements of revenues, expenses and changes in net position for the years December 31, 2020, and 2019 follows:

Condensed Statement of Revenues, Expenses & Changes in Net Position Years Ended December 31, 2020 and 2019

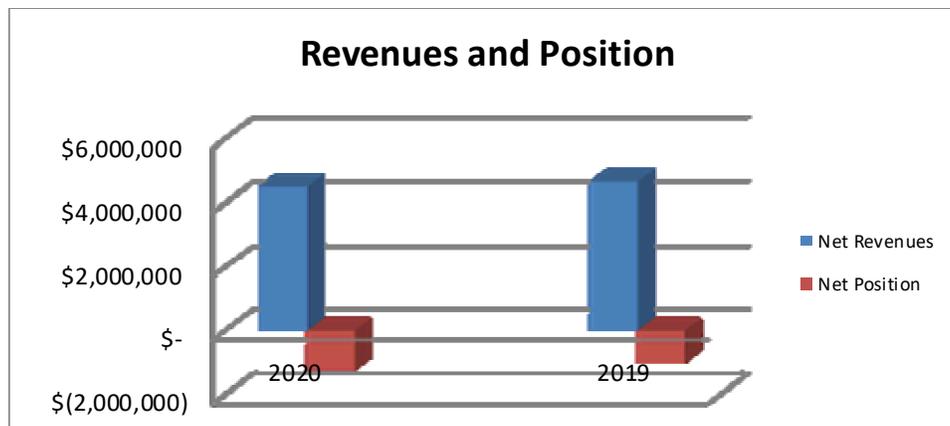
	2020	2019	Dollar Change	Percent Change
Operating Revenues	\$ 4,525,737	\$ 4,668,345	\$ (142,608)	-3.05%
Operating Expenses	(3,224,165)	(3,253,856)	29,691	-0.91%
Depreciation Expense	(1,963,885)	(1,962,477)	(1,408)	0.07%
Operating Income/(Loss)	(662,313)	(547,988)	(114,325)	20.86%
Non-Operating Revenues/(Expenses)				
Non-Utility Income	4,533	2,459	2,074	84.34%
Interest Income	23,120	1,106	22,014	1990.42%
Miscellaneous Nonutility Expenses	(179,330)	(1,855)	(177,475)	9567.39%
Interest Expense & Fiscal Charges	(505,930)	(528,939)	23,009	-4.35%
Amortization of Bond Debt	10,836	10,836	-	0.00%
Total Non-Operating Revenues/(Expenses)	(646,771)	(516,393)	(130,378)	25.25%
Income/(Loss) Before Capital Contributions	(1,309,084)	(1,064,381)	(244,703)	22.99%
Capital Contributions	86,500	76,950	9,550	12.41%
Grants	-	-	-	0.00%
Increase/(Decrease) in Net Position	(1,222,584)	(987,431)	(235,153)	23.81%
Beginning of Year, Restated	22,585,752	23,573,183	(987,431)	-4.19%
End of Year	<u>\$ 21,363,168</u>	<u>\$ 22,585,752</u>	<u>\$ (1,222,584)</u>	<u>-5.41%</u>

Operating Revenue

A comparison of the District's Net Revenues and Net Position for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019	Dollar Change	Percentage Change
Net Revenues	\$ 4,525,737	\$ 4,668,345	\$ (142,608)	-3.05%
Net Position	\$ (1,222,584)	\$ (987,431)	\$ (235,153)	23.81%

The following graph shows the District's 2020 revenues and net position in comparison to the District's 2019 revenues and net position.



Operating revenues decreased by \$142,608 from 2019 to 2020.

The change in Net Position decreased by \$235,153 from 2019 to 2020.

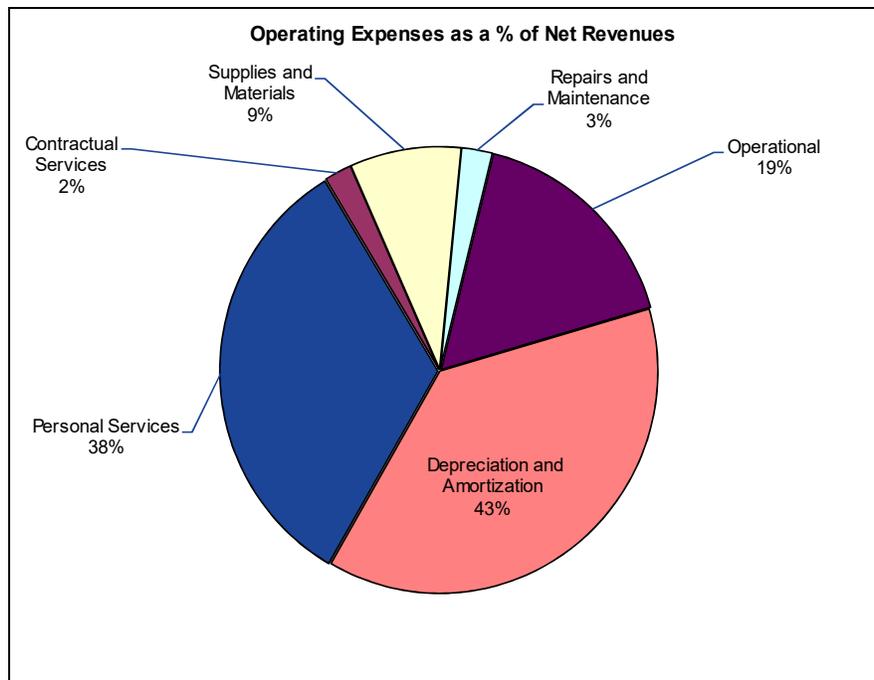
Operating Expenses

Total operating expenses decreased by \$28,283 from 2019 to 2020. The decrease is primarily due to a decrease in personal service and repairs and maintenance expenses.

Operating Expenses	2020	2019	Dollar Change	Percent Change
Personal Services	\$ 1,711,965	\$ 1,786,480	\$ (74,515)	-4.35%
Contractual Service	103,601	84,701	18,900	18.24%
Supplies and Materials	427,824	402,675	25,149	5.88%
Repairs and Maintenance	117,583	158,862	(41,279)	-35.11%
Operational	863,192	821,138	42,054	4.87%
Depreciation and Amortization	1,963,885	1,962,477	1,408	0.07%
	<u>\$ 5,188,050</u>	<u>\$ 5,216,333</u>	<u>\$ (28,283)</u>	<u>-0.55%</u>

Expenses as a Percentage of Revenues

The following pie chart shows the District's expenses as a percentage of revenues.



Debt Outstanding

At December 31, 2020, the District had \$20,421,487 in debt outstanding versus \$21,440,639 for December 31, 2019.

Economic Factors and Future Planning

The primary service area of the Utility is located in Adair County; we completed a merger with the City of Columbia in July of 2011 and are now the sole provider of water and sewer in all of Adair County including the City of Columbia. The population growth for the Utility's service area has averaged 140-180 persons annually over the past ten years, and this growth rate is expected to continue into the near future. In conjunction with its master plan the Utility has maintained project and financial planning to keep pace with this growth. Rate structures are also reviewed on a consistent basis to ensure that water services are provided to customers at the best value.

We completed a merger with the Columbia/Adair County Water Commission in January of 2015, which has been our main source of water since it became operation. We are still purchasing water from Jamestown Utilities and have emergency hookups with Campbellsville and Russell Springs.

We have three projects that will be constructed in 2021 the first is our Phase 18 Project which will replace sanitary gravity sewer lines and approximately 110 existing manholes in the downtown service area. This project will begin early in 2021. Phase 19 Project consists of replacing three lift stations, several manholes and gravity lines. This project will be funded by Kentucky Infrastructure. Phase 20 will also be funded by Kentucky Infrastructure and consist of water main replacement for existing undersized and asbestos-cement waterlines in the city of Columbia. Also in this project is the renovation and repainting of the City Industrial Tank and demolition of two elevated tanks.

Financial Contact

The District's financial statements are designed to provide the District's customers, commissioners, creditors and other interested parties with a general overview of the District's financial operations and financial condition. If you have questions about the report or need additional financial information, please contact the District's Manager, Lennon Stone at (270) 384-2181 or P.O. Box 567, 109 Grant Lane, Columbia, KY 42728

General information relating to Adair County Water District can be found at the Utility's web site www.caud.net

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF NET POSITION
 December 31, 2020 and 2019

	Water	Sewer	Total 2020	2019
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 137,305	\$ 24,230	\$ 161,535	\$ 184,847
Customer Accounts Receivable, net	376,025	149,725	525,750	436,361
Inventory	183,745	9,725	193,470	194,503
Prepaid Expenses	21,116	3,265	24,381	54,154
Restricted Cash and Investments	661,028	73,448	734,476	1,060,992
Total Current Assets	1,379,219	260,393	1,639,612	1,930,857
NON-CURRENT ASSETS				
Capital Assets:				
Land and Construction in Progress	632,431	95,901	728,332	559,020
Other Capital Assets				
Net of Accumulated Depreciation	33,567,828	10,017,874	43,585,702	45,509,775
Total Non-Current Assets	34,200,259	10,113,775	44,314,034	46,068,795
TOTAL ASSETS	35,579,478	10,374,168	45,953,646	47,999,652
Deferred Outflows of Resources				
Pension	260,369	65,006	325,375	451,832
Pension Contributions	142,315	35,531	177,846	159,939
OPEB	284,062	70,921	354,983	213,962
OPEB Contributions	49,562	12,374	61,936	63,298
Total Deferred Outflows of Resources	736,308	183,832	920,140	889,031

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
STATEMENT OF NET POSITION
December 31, 2020 and 2019

	Water	Sewer	Total 2020	2019
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable - Trade	\$ 283,608	\$ 24,071	\$ 307,679	\$ 264,243
Accrued and Withheld Taxes	56,978	26,156	83,134	79,821
Customer Deposits	48,271	8,519	56,790	55,359
Accrued Payroll	8,095	1,428	9,523	31,903
Accrued Sick Leave	53,962	12,001	65,963	82,117
Liabilities Payable from Restricted Assets:				
Interest Payable	85,691	18,940	104,631	206,707
Current Portion of Revenue Notes and Bonds Payable	950,431	81,150	1,031,581	1,051,035
Current Portion of Notes Payable	245,314	-	245,314	101,210
Total Current Liabilities	1,732,350	172,265	1,904,615	1,872,395
NON-CURRENT LIABILITIES				
Long-term Liabilities (Excluding Current Portion):				
Net Pension Liabilities	2,207,929	551,248	2,759,177	2,749,358
Net OPEB Liability	694,922	173,499	868,421	657,343
Non-Current Portion of Revenue Notes and Bonds Payable	17,818,142	1,326,450	19,144,592	20,288,394
Total Non-Current Liabilities	20,720,993	2,051,197	22,772,190	23,695,095
TOTAL LIABILITIES	22,453,343	2,223,462	24,676,805	25,567,490
DEFERRED INFLOWS				
Advances for Construction	152,260	-	152,260	153,328
Premium on Debt Refunding	282,620	-	282,620	222,133
Pension	145,997	36,451	182,448	118,200
OPEB	170,984	45,501	216,485	241,779
TOTAL DEFERRED INFLOWS	751,861	81,952	833,813	735,440
NET POSITION				
Invested in Capital Assets, Net of Related Debt			23,787,916	24,421,448
Restricted			734,476	1,060,992
Unrestricted			(3,159,224)	(2,896,688)
TOTAL NET POSITION			\$ 21,363,168	\$ 22,585,752

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 For the Years Ended December 31, 2020 and 2019

	Water	Sewer	Total 2020	Total 2019
OPERATING REVENUES				
Water Sales	\$3,783,548	\$ 677,785	\$ 4,461,333	\$ 4,413,604
Service Charges and Other	64,404	-	64,404	254,741
Total Operating Revenues	3,847,952	677,785	4,525,737	4,668,345
OPERATING EXPENSES				
Personal Service	1,360,923	351,042	1,711,965	1,786,480
Contractual Services	77,389	26,212	103,601	84,701
Supplies and Materials	395,802	32,022	427,824	402,675
Repairs and Maintenance	46,111	71,472	117,583	158,862
Operational	610,456	252,736	863,192	821,138
Depreciation and Amortization	1,444,896	518,989	1,963,885	1,962,477
Total Operating Expenses	3,935,577	1,252,473	5,188,050	5,216,333
OPERATING INCOME/(LOSS)	(87,625)	(574,688)	(662,313)	(547,988)
NON-OPERATING REVENUES (EXPENSES)				
Other Non-Utility Income	4,533	-	4,533	2,459
Interest Income	23,050	70	23,120	1,106
Bond Issuance Costs	(179,010)	(320)	(179,330)	(1,855)
Interest Expenses	(456,530)	(49,400)	(505,930)	(528,939)
Amortization of Bond Debt	7,260	3,576	10,836	10,836
Total Non-Operating Revenues (Expenses)	(600,697)	(46,074)	(646,771)	(516,393)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(688,322)	(620,762)	(1,309,084)	(1,064,381)
Capital Contributions	82,500	4,000	86,500	76,950
Grants	-	-	-	-
INCREASE (DECREASE) IN NET POSITION	(605,822)	(616,762)	(1,222,584)	(987,431)
NET POSITION				
Beginning of Year, Restated			22,585,752	23,573,183
End of Year			<u>\$21,363,168</u>	<u>\$22,585,752</u>

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS
 For the Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 4,436,348	\$ 4,635,285
Cash Payments to Employees for Services	(1,518,445)	(1,561,337)
Cash Payments to Suppliers for Goods and Services	(1,439,026)	(1,474,995)
Customer Deposits Received	20,600	32,120
Customer Deposits Returned	(19,169)	(31,052)
Net Cash Provided/(Used) By Operating Activities	1,480,308	1,600,021
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(209,125)	(64,219)
Debt Retired	(6,298,463)	(1,050,986)
Debt Issued	5,279,312	1,000
Interest Paid on Debt	(608,006)	(562,459)
Capital Grants and Contributions	86,500	76,950
Net Cash Provided/(Used) By Financing Activities	(1,749,782)	(1,599,714)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Bond Issuance Cost	(108,007)	-
Miscellaneous Non-Operating Income	4,533	2,459
Net Cash Provided/(Used) by Noncapital Financing Activities	(103,474)	2,459
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	23,120	1,106
Net Cash Provided/(Used) By Investing Activities	23,120	1,106
Net Increase/(Decrease) In Cash and Cash Equivalents	(349,828)	3,872
Cash and Cash Equivalents - Beginning of Year	1,245,839	1,241,967
Cash and Cash Equivalents - End of Year	\$ 896,011	\$ 1,245,839
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and Cash Equivalents	\$ 161,535	\$ 184,847
Restricted Cash	734,476	1,060,992
TOTAL CASH AND CASH EQUIVALENTS	\$ 896,011	\$ 1,245,839

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS (CONTINUED)
 For the Years Ended December 31, 2020 and 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (662,313)	\$ (547,988)
ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Depreciation	1,963,885	1,962,477
Change in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(89,389)	(33,059)
(Increase)/Decrease in Inventory	1,033	9,920
(Increase)/Decrease in Prepaid Expenses	29,773	(9,158)
(Increase)/Decrease in Deferred Outflows	(31,109)	(237,151)
Increase/(Decrease) in Accounts Payable	43,436	4,430
Increase/(Decrease) in Salaries and Wages Payable	(22,381)	3,159
Increase/(Decrease) in Customer Deposits	1,431	1,068
Increase/(Decrease) in Accrued and Withheld Taxes	3,313	4,747
Increase/(Decrease) in Accrued Sick Leave	(16,154)	643
Increase/(Decrease) in Pension/OPEB Deferred Inflows	38,954	28,454
Increase/(Decrease) in Advances for Construction	(1,068)	(12,812)
Increase/(Decrease) in Net Pension Liability	9,819	440,889
Increase/(Decrease) in Net OPEB Liability	211,078	(15,598)
Total Reconciling Adjustments	2,142,621	2,148,009
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	\$ 1,480,308	\$ 1,600,021

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 1: DESCRIPTION OF ENTITY

Reporting Entity - The Adair County Water District Commissioners have financial accountability and control over all activities related to the water district. The district's primary source of income is derived from water sales. The district also receives funding from federal government sources and must comply with the requirements of those funding source entities.

The District operates under rules established by the Public Service Commission (PSC) of Kentucky. Accounting records of the District are maintained in accordance with the Uniform System of Accounts prescribed by the PSC.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Cash, Cash Equivalents and Investments – The District considers all highly liquid investments with a remaining maturity of 90 days or less, when purchased, to be cash equivalents. Investments are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Accounts Receivable – Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the twenty first day after the end of each billing period. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2020 and 2019, the allowance for doubtful accounts was \$547,209 and \$512,249, respectively.

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

Use of Estimates – The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets and Related Depreciation – The utility plant and equipment was recorded at cost. Depreciation is computed using the straight-line method over the plant's estimated useful life of 40 years.

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

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2020 and 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations - Long-term debt and other obligations are reported as district liabilities on the statement of net position. Premiums on debt refunding are being amortized and charged to expense over the term of the outstanding revenue bonds by use of the straight-line method.

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

Revenues and Expenses - Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Charges for Services - District billings are rendered and recorded monthly based on metered usage.

Capital Contributions - Cash and capital assets are contributed to the District by external parties. The value of property contributed to the District is reported as revenue on the statement of revenue, expenses and changes in net position.

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

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

Restricted—this component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position—this component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS

A comparison of the District's cash and investments is shown below:

	December 31, 2020	December 31, 2019
Unrestricted:		
Cash	\$ 161,535	\$ 184,847
Certificates of Deposit and Savings	-	-
Total Unrestricted	<u>161,535</u>	<u>184,847</u>
Restricted:		
Cash	343,173	560,390
Certificates of Deposit and Savings	391,303	500,602
Total Restricted	<u>734,476</u>	<u>1,060,992</u>
 Total Cash and Cash Equivalents	 <u>\$ 896,011</u>	 <u>\$ 1,245,839</u>

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
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NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

There are three categories of credit risk that apply to the district's bank balance:

1. Insured or collateralized with securities held by the district or by the district's agent in the district's name.
2. Collateralized with securities held by the pledging financial institution's trust department or the district's agent in the district's name.
3. Uncollateralized.

	2020	2019
Insured (FDIC) or Collateral Held by Pledging Bank Securities in District's Name	\$ 896,011	\$ 1,245,839
Uninsured or Uncollateralized	-	-
Total (Memorandum Only)	\$ 896,011	\$ 1,245,839

The District's investment policy is conservative.

Deposits - The carrying amount of the District's deposits at December 31, 2020 was \$896,011 and the bank balance was \$904,388. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$500,000 was insured by federal depository insurance and the rest was collateralized by the pledging financial institution's trust department. The district's deposits are not subject to custodial credit risk.

Restricted Assets - The District includes all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2020 and 2019 restricted cash amounted to \$734,476 and \$1,060,992 respectively. This includes restrictions for customer deposits of \$39,219 and \$39,508 and restrictions for debt service of \$694,758 and \$1,021,483 respectively.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2020 and 2019 was as follows:

	Balance 12/31/19	Additions	Deletions	Balance 12/31/20
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 559,020	\$ -	\$ -	\$ 559,020
Construction in Progress	-	169,312	-	169,312
Total Assets Not Being Depreciated	559,020	169,312	-	728,332
Capital Assets Being Depreciated				
Office Equipment	583,311	23,008	-	606,319
Service Equipment	839,546	10,850	1,706	848,690
Building	7,677,826	-	-	7,677,826
Plant and Equipment	67,689,749	5,955	-	67,695,704
Total Assets Being Depreciated	76,790,432	39,813	1,706	76,828,539
Total Capital Assets	77,349,452	209,125	1,706	77,556,871
Less: Accumulated Depreciation				
Office Equipment	1,366,347	176,775	-	1,543,122
Service Equipment	1,182,677	138,893	1,706	1,319,864
Plant and Equipment	28,731,634	1,648,217	-	30,379,851
Total Accumulated Depreciation	31,280,658	1,963,885	1,706	33,242,837
Net Capital Assets	\$46,068,794	\$ (1,754,760)	\$ -	\$44,314,034

Depreciation expense for the year ended December 31, 2020 was \$1,963,885.

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NOTE 4: CAPITAL ASSETS (CONTINUED)

	Balance 12/31/18	Additions	Deletions	Balance 12/31/19
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 559,020	\$ -	\$ -	\$ 559,020
Total Assets Not Being Depreciated	559,020	-	-	559,020
Capital Assets Being Depreciated				
Office Equipment	549,382	33,929	-	583,311
Service Equipment	835,556	3,990	-	839,546
Building	7,677,826	-	-	7,677,826
Plant and Equipment	67,663,449	26,300	-	67,689,749
Total Assets Being Depreciated	76,726,213	64,219	-	76,790,432
Total Capital Assets	77,285,233	64,219	-	77,349,452
Less: Accumulated Depreciation				
Office Equipment	1,190,713	175,634	-	1,366,347
Service Equipment	1,044,746	137,931	-	1,182,677
Plant and Equipment	27,082,722	1,648,912	-	28,731,634
Total Accumulated Depreciation	29,318,181	1,962,477	-	31,280,658
Net Capital Assets	<u>\$47,967,052</u>	<u>\$ (1,898,258)</u>	<u>\$ -</u>	<u>\$46,068,794</u>

NOTE 5: SHORT-TERM DEBT

As of December 31, 2020, the District has a loan payable to the Bank of Columbia for \$245,314, maturing July 2021, with an interest rate of 5.0%.

NOTE 6: LONG-TERM OBLIGATIONS

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

	2020	2019
2004 Utilities Revenue Bond, original amount \$495,000 maturing October 1, 2043, with interest payments due semi-annually on April 1, and October 1 at a rate of 4.25%	\$ -	\$ 393,500
2005 Water District Water Revenue Bond, original amount \$1,238,000 maturing January 1, 2045, with interest payments due annually on January 1 at a rate of 4.25%	-	994,000
2006 Water Revenue Bond, original amount \$3,480,000 maturing July 1, 2045, with interest payments due semi-annually on January 1, and July 1, at a rate of 4.375%.	-	2,943,500
2007 Water District Water Revenue Bond, original amount \$752,000 maturing January 1, 2046, with interest payments due annually on January 1 at a rate of 4.25%	-	639,000
2008 Water Revenue Bond, original amount \$300,000 maturing July 1, 2048, with interest payments due semi-annually on January 1, and July 1, at a rate of 4.375%	-	265,400
2008 Utilities Revenue Bond, original amount \$115,000 maturing October 1, 2047 with interest payments due semi-annual on April 1, October 1 at a rate of 4.125%	-	99,200
2009 Water District Water Revenue Bond, original amount \$1,100,000 maturing January 1, 2050, with interest payments due semi-annually on January 1, and July 1, at a rate of 2.38%	952,200	972,500

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NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

	2020	2019
2011 Water Revenue Bond, original amount \$1,200,000 maturing January 1, 2051, with interest payments due semi-annually on January 1, and July 1, at a rate of 3%.	\$ 1,049,500	\$ 1,072,500
2012 Water District Water Revenue Bond, original amount \$1,459,000 maturing May 2052, with interest payments due semi-annually on January and July 1, at a rate of 2.375%	1,306,000	1,333,000
2013-D Water District Water Revenue Bond Refunding, original amount \$3,780,000 maturing August 2040, with interest payments due semi-annually on February and August 1, at a rate of 3.332%	2,320,000	2,515,000
2014 Water District Water Revenue Bond, original amount \$694,000 maturing January 2054, with interest payments due semi-annually on January and July 1, at a rate of 1.875%	642,000	655,500
2020-G Public Projects Refunding and Improvement Revenue Bond, original amount \$5,110,000 maturing July 2045, with interest payments due semi-annually on January and July 1, at a rate of 2.25%	5,110,000	-
Kentucky Infrastructure Authority Loan, F06-01, original amount \$4,405,817, maturing June 1, 2028, with interest payments due semi-annually on June 1, and, December 1, at a rate of 1.00%, plus a service fee of .25%.	1,802,523	2,032,831
Kentucky Infrastructure Authority Loan, F07-01, original amount \$1,000,000 maturing December 1, 2028, with interest payments due semi-annually on June 1, and, December 1, at a rate of 1.00%.	424,080	474,750
Kentucky Infrastructure Authority Loan, F10-01, original amount \$4,000,000 maturing December 1, 2032, with interest payments due semi-annually on June 1, and, December 1, at a rate of 1.00%.	2,495,048	2,689,800
Kentucky Infrastructure Authority Loan, F10-02, original amount \$1,694,000, maturing June 1, 2032, with interest payments due semi-annually on June 1, and, December 1, at a rate of 1.00%, plus a service fee of .25%.	1,015,105	1,097,955
Kentucky Infrastructure Authority Loan, F11-10, original amount \$345,089, maturing December 2034, with interest payments due semi-annually June and December, at a rate of 1.00% plus service fee of .25%.	717,122	743,437
Kentucky Infrastructure Authority Loan, F12-04, original amount \$3,833,658, maturing December 2044, with interest payments due semi-annually June and December, at a rate of .75% plus service fee of .25%.	2,342,595	2,417,516
Total Debt	20,176,173	21,339,389
Payments Due in Less Than One Year	(1,031,581)	(1,051,035)
Total Long-Term Obligations	\$19,144,592	\$20,288,354

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NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2020 are as follows:

	Principal	Interest	Total
2021	\$ 365,300	\$ 298,786	\$ 664,086
2022	462,900	314,625	777,525
2023	459,500	299,663	759,163
2024	471,600	284,877	756,477
2025	483,700	269,710	753,410
2026-2030	2,105,100	1,103,078	3,208,178
2031-2035	2,093,500	772,513	2,866,013
2036-2040	1,985,500	511,642	2,497,142
2041-2045	1,886,000	256,318	2,142,318
2046-2050	810,100	78,390	888,490
2051-2055	256,500	7,775	264,275
	<u>\$ 11,379,700</u>	<u>\$ 4,197,377</u>	<u>\$ 15,577,077</u>

The annual requirements to amortize all loans outstanding as of December 31, 2020 are as follows:

	Principal	Interest	Total
2021	\$ 666,281	\$ 80,494	\$ 746,775
2022	672,772	74,004	746,776
2023	679,325	67,450	746,775
2024	685,943	60,832	746,775
2025	692,626	54,150	746,776
2026-2030	2,822,835	176,001	2,998,836
2031-2035	1,138,678	77,123	1,215,801
2036-2040	586,132	46,846	632,978
2041-2045	576,766	22,528	599,294
2046-2050	275,115	3,622	278,737
	<u>\$ 8,796,473</u>	<u>\$ 663,050</u>	<u>\$ 9,459,523</u>

Long – term liabilities for the year ending December 31, 2020 was as follows:

	Balance 12/31/2019	Addition	Reductions	Balance 12/31/2020	Due within One Year
Revenue Bonds	\$11,883,100	\$5,110,000	\$6,273,255	\$10,719,845	\$ 365,300
Kentucky Infrastructure Authority (KIA)					
State Revolving Loans	9,456,329	-	659,855	8,796,474	666,281
Net Pension Liability	2,749,358	9,819	-	2,759,177	-
Net OPEB Liability	657,343	211,078	-	868,421	-
	<u>\$24,746,130</u>	<u>\$5,330,897</u>	<u>\$6,933,110</u>	<u>\$23,143,917</u>	<u>\$ 1,031,581</u>

On October 1, 2020, the District issued \$5,110,000 of Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2020 G with an average interest rate of 2.80% with annual maturities from July 2021 through July 2045. The net proceeds of \$5,463,274 (after issuance costs of \$85,260, plus premium of \$219,121, plus \$4,676 of excess bond savings) were used to advance refund the Series 200, Series 2005, Series 2006, Series 2007, and Series 2008 bonds with a total principal amount of \$5,334,600 and an average interest rate of 4.27%.

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NOTE 7: RISK MANAGEMENT

The Adair County Water District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions and natural disasters. The District purchases commercial insurance to cover any of these instances. The District did not have settled claims that exceeded the District's commercial insurance coverage in any of the past three years.

NOTE 8: PENSION PLAN

General information about the County Employees retirement system Hazardous & Non-Hazardous ("CERS")

Plan description – Employees of the Adair County Water District are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement Administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, death, and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General assembly. Retirement is based on a factor of the number of years' service and the hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for non-service related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

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NOTE 8: PENSION PLAN (CONTINUED)

The District's contribution requirement for CERS for the years ended December 31, 2020, 2019, and 2018 was \$177,846, \$159,939, and \$137,763 from the District and \$45,710, \$48,511, and \$48,502 from employees. The total covered payroll for CERS during the years ended December 31, 2020, 2019 and 2018 was \$984,165, \$981,872, and \$976,350.

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

At December 31, 2020, the District reported a liability of \$2,759,176 for its proportionate share of the net pension liability for CERS. The net pension liability for each plan was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2020, the District's proportion was 0.035974% percent.

For the year ended December 31, 2020, the District recognized pension expense of \$378,369. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 68,805	\$ -
Changes of assumptions	107,741	-
Net difference between projected and actual earnings on pension plan investments	119,601	50,556
Changes in proportion and differences between District contributions and proportionate share of contributions	29,228	131,892
District contributions subsequent to the measurement date	177,846	-
Total	\$ 503,221	\$ 182,448

\$177,846 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2021	68,905
2022	21,320
2023	24,971
2024	27,731
2025	-
Thereafter	-

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NOTE 8: PENSION PLAN (CONTINUED)

Actuarial assumptions—the total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of December 31, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated

August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate—for CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earning were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table present the net pension liability of the Adair County Water District, calculated using the discount rates selected by CERS, as well as what the Adair County Water District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	3,402,664	2,759,176	2,226,343

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

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NOTE 8: PENSION PLAN (CONTINUED)

DEFERRED COMPENSATION:

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans. For the year ended December 31, 2020, employees contributed approximately \$15,285 to the plan.

The County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE 9: POST EMPLOYMENT BENEFIT PLAN

General Information about the OPEB Plan – CERS

Medical Insurance Plan

Plan description - Employees whose positions do not require a degree beyond a high school diploma are covered by the Kentucky Retirement Systems' Insurance Fund, a component of the cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – To be eligible for medical benefits, the member must have retired either for service or disability. The Kentucky Retirement Systems' Insurance Fund offers coverage for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance based on years of service.

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

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

At December 31, 2020, the District reported a liability of \$868,421 for its proportionate share of the net OPEB liability for CERS. The net OPEB liability for the plan was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2020, the District's proportion was 0.035964 percent.

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NOTE 9: POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

For the year ended December 31, 2020, the District recognized OPEB expense of \$106,701. At December 31, 2020, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 145,095	\$ 145,208
Changes of assumptions	151,055	918
Net difference between projected and actual earnings on pension plan investments	46,584	17,720
Changes in proportion and differences between Company contributions and proportionate share of contributions	12,249	52,639
Company contributions subsequent to the measurement date	<u>61,936</u>	<u>-</u>
Total	<u><u>\$ 416,919</u></u>	<u><u>\$ 216,485</u></u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$61,936 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Company's OPEB expense as follows:

<u>Year Ended December 31:</u>	
2021	36,691
2022	45,234
2023	28,888
2024	29,009
2025	(1,324)
Thereafter	-

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NOTE 9: POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

Actuarial assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 9: POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

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

Discount rate – For CERS, the projection of cash flows used to determine the discount rate of 5.68% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contributions rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 6.56%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity of CERS proportionate share of net OPEB liability to changes in the discount rate—The following table present the net OPEB liability of the District, calculated using the discount rates selected by each OPEB system, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage- point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	115,666	868,421	665,351

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
CERS	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	672,375	868,421	1,106,328

NOTE 10: BASIS FOR EXISTING RATES

Current water rates were approved by the PSC in January 2012 and became effective with the February 2012 billing period and current sewer rates were approved by the PSC in July 2014 and became effective with the February 2015 billing period.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

NOTE 11: SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through June 30, 2021, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY SCHEDULES

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION -
 BUDGET TO ACTUAL
 For the Year Ended December 31, 2020

	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
OPERATING REVENUES			
Charges for Services	\$ 4,825,000	\$ 4,461,333	\$ (363,667)
Service Charges and Other	235,000	64,404	(170,596)
Total Operating Revenues	<u>5,060,000</u>	<u>4,525,737</u>	<u>(534,263)</u>
OPERATING EXPENSES			
Contractual Services	111,000	103,601	7,399
Supplies & Materials	410,000	427,824	(17,824)
Depreciation & Amortization	2,000,000	1,963,885	36,115
Personal Service	1,665,000	1,711,965	(46,965)
Operational	1,187,000	980,775	206,225
Total Operating Expenses	<u>5,373,000</u>	<u>5,188,050</u>	<u>184,950</u>
OPERATING INCOME (LOSS)	<u>(313,000)</u>	<u>(662,313)</u>	<u>(349,313)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	16,000	23,120	7,120
Interest Expenses and Fiscal Charges	(530,000)	(505,930)	24,070
Miscellaneous Non-Utility Expense	(32,000)	(179,330)	(147,330)
Miscellaneous Non-Utility Income	13,280	15,369	2,089
Total Non-operating Revenues (Expenses)	<u>(532,720)</u>	<u>(646,771)</u>	<u>(114,051)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(845,720)</u>	<u>(1,309,084)</u>	<u>(463,364)</u>
Capital Contributions	75,000	86,500	11,500
CHANGE IN NET POSITION	<u>(770,720)</u>	<u>(1,222,584)</u>	<u>(451,864)</u>
NET POSITION			
Beginning of Year	<u>22,585,752</u>	<u>22,585,752</u>	<u>-</u>
End of Year	<u>\$21,815,032</u>	<u>\$21,363,168</u>	<u>\$ (451,864)</u>

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY
 December 31, 2020

	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.035974%	0.039092%	0.03790%	0.03838%	0.03835%	0.04110%	0.017693%
District's proportionate share of the net pension liability (asset)	2,759,176	2,749,358	2,308,469	2,246,207	1,888,187	1,766,987	1,407,000
District's covered-employee payroll	984,165	981,872	976,350	948,537	938,186	927,360	951,820
District's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll	280.36%	280.01%	236.44%	236.81%	201.26%	190.54%	147.82%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF CONTRIBUTIONS TO CERS
 December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 177,846	\$ 159,939	\$ 137,763	\$ 131,476	\$ 108,953	\$ 120,848	\$ 187,902
Contributions in relation to the contractually required contribution	<u>(177,846)</u>	<u>(159,939)</u>	<u>(137,763)</u>	<u>(131,476)</u>	<u>(108,953)</u>	<u>(120,848)</u>	<u>(187,902)</u>
Contribution deficiency (excess)	<u>\$ -</u>						
District's covered-employee payroll	984,165	981,872	\$ 976,350	\$ 948,537	\$ 938,186	\$ 927,360	\$ 951,820
Contributions as a percentage of covered-employee payroll	18.07%	16.29%	14.11%	13.86%	11.61%	13.03%	19.74%

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS
For the Year Ended December 31, 2020

NOTE 1 – CHANGES OF BENEFIT TERMS

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

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

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

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

NOTE B – CHANGES OF ASSUMPTION

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

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

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

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

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

2015:

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

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY
 December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability (asset)	0.035964%	0.039082%	0.03790%	0.03838%
District's proportionate share of the net OPEB liability (asset)	868,421	657,342	672,942	771,469
District's covered-employee payroll	984,165	981,872	976,350	948,537
District's proportionate share of the net OPEB liability (asset) as a percentage of it covered-employee payroll	88.24%	66.95%	68.92%	81.33%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.40%

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF CONTRIBUTIONS TO CERS - OPEB
 December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 61,936	\$ 51,867	\$ 45,921	\$ 43,825
Contributions in relation to the contractually required contribution	<u>(61,936)</u>	<u>(51,867)</u>	<u>(45,921)</u>	<u>(43,825)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	984,165	981,872	\$ 976,350	\$ 948,537
Contributions as a percentage of covered-employee payroll	6.29%	5.28%	4.70%	4.62%

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS - OPEB
 For the Year Ended December 31, 2020

NOTE 1 – CHANGES OF BENEFIT TERMS

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

NOTE 2 – METHODS AND ASSUMPTIONS USED IN ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine the contribution rates reported in that schedule for the year ending June 30, 2020.

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

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

To the Board of Commissioners of
Adair County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Adair County Water District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Adair County Water District's basic financial statements, and have issued our report thereon dated June 30, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Certified Public Accountants

Campbellsville, KY
June 30, 2021