

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
Columbia, Kentucky**



**FINANCIAL STATEMENTS  
December 31, 2023**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the accompanying financial statements of the Adair County Water District dba Columbia/Adair Utilities District (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Adair County Water District dba Columbia/Adair Utilities District, as of December 31, 2023, 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 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 for 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 reasonable 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 management's discussion and analysis and the pension and OPEB schedules on pages 4–7 and 25–28 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2024, 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 solely 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.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
May 8, 2024

# **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, 2023 and 2022. It provides an introduction to the District's 2023 financial statements. Information in this overview and analysis has been prepared by the District 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 (MD&A), basic financial statements and the notes to the financial statements. The basic financial statements include: the statement of net position, the statement 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 District's creditors (liabilities). The statement of revenues, expense and changes in net position identifies the District's revenues and expenses for the calendar year ended December 31, 2023. This statement normally provides information on the District's operations over the past year 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 statement of cash flows, the reader can obtain information on the source and use of cash and the change in the cash and cash equivalents balance for the past year.

## Financial Analysis of the District

### Net Position

A summary of the District's Statement of Net Position for the years ended December 31, 2023 and 2022 follows:

	<b>2023</b>	<b>2022</b>
Assets:		
Cash and Investments	\$ 2,906,914	\$ 2,329,495
Other Assets	790,347	732,085
Capital Assets	<u>43,201,967</u>	<u>44,854,846</u>
Total Assets	<u>46,899,228</u>	<u>47,916,426</u>
Deferred Outflows:		
Pension	352,038	206,265
OPEB	<u>190,879</u>	<u>250,768</u>
Total Deferred Outflows	<u>542,917</u>	<u>457,033</u>
Liabilities:		
Current Liabilities	1,828,099	1,802,128
Long-term Outstanding	<u>22,698,789</u>	<u>25,424,775</u>
Total Liabilities	<u>24,526,888</u>	<u>27,226,903</u>
Deferred Inflows:		
Pension	282,858	108,900
OPEB	<u>826,583</u>	<u>299,932</u>
Total Deferred Inflows	<u>1,109,441</u>	<u>408,832</u>
Net Position:		
Investment in Capital Assets, Net	21,545,991	21,293,080
Restricted	809,023	747,647
Unrestricted	<u>(549,198)</u>	<u>(1,303,003)</u>
Total Net Position	<u>\$ 21,805,816</u>	<u>\$ 20,737,724</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, 2023 and 2022 follows:

	<b>2023</b>	<b>2022</b>	<b>Dollar Change</b>
Operating Revenues	\$ 6,591,506	\$ 5,953,698	\$ 637,808
Operating Expenses	(3,868,823)	(3,788,687)	(80,136)
Depreciation Expense	<u>(2,137,245)</u>	<u>(1,996,833)</u>	<u>(140,412)</u>
Operating Income/(Loss)	<u>585,438</u>	<u>168,178</u>	<u>417,260</u>
Non-Operating Revenues/(Expenses)			
Non-Utility Income	50,778	6,982	43,796
Interest Income	27,676	4,546	23,130
Interest Expense	(423,801)	(456,659)	32,858
Amortization of Bond Debt	<u>10,836</u>	<u>10,836</u>	<u>-</u>
Total Non-Operating Revenues/Expenses	<u>(334,511)</u>	<u>(434,295)</u>	<u>99,784</u>
Income/(Loss) Before Capital Contributions	250,927	(266,117)	517,044
Capital Contributions	93,900	88,700	5,200
KIA loan forgiveness	671,265	-	671,265
Grants	<u>52,000</u>	<u>369,400</u>	<u>(317,400)</u>
Increase/(Decrease) in Net Position	1,068,092	191,983	876,109
Beginning of Year	<u>20,737,724</u>	<u>20,545,741</u>	<u>191,983</u>
End of Year	<u>\$ 21,805,816</u>	<u>\$ 20,737,724</u>	<u>\$ 1,068,092</u>

### **Operating Revenue**

A comparison of the District's Net Revenues and Net Position for the years ended December 31, 2023 and 2022 is as follows:

	<b>2023</b>	<b>2022</b>	<b>Dollar Change</b>
Net Revenues	\$ 6,591,506	\$ 5,953,698	\$ 637,808
Net Position	\$ 21,805,816	\$ 20,737,724	\$ 1,068,092

Net revenues increased by \$637,808 from 2022 to 2023.

The Net Position increased by \$1,068,092 from 2022 to 2023.

### **Operating Expenses**

Total operating expenses increased by \$220,548 from 2022 to 2023. The increase of material cost sustainably along with availability of products.

<b>Operating Expenses</b>	<b>2023</b>	<b>2022</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Personal Services	\$ 1,516,286	\$ 1,667,553	\$ (151,267)	(9.07)%
Contractual Services	91,523	48,018	43,505	90.60%
Supplies and Materials	864,501	781,292	83,209	10.65%
Repairs and Maintenance	331,063	258,227	72,836	28.21%
Operational	1,065,450	1,033,597	31,853	3.08%
Depreciation and Amortization	<u>2,137,245</u>	<u>1,996,833</u>	<u>140,412</u>	<u>7.03%</u>
Total Operating Expenses	<u>\$ 6,006,068</u>	<u>\$ 5,785,520</u>	<u>\$ 220,548</u>	<u>3.81%</u>



**Capital Assets at Year End Without Depreciation**

At December 31, 2023, the District had \$82,773,221 in capital assets before depreciation versus \$82,288,853 for December 31, 2022. The changes in Water and Sewer Fund capital assets before depreciation is as follows:

	January 1, 2023	Additions	Deductions	December 31, 2023
<b>Water and Sewer Funds:</b>				
Capital assets not depreciated:				
Land and land rights	\$ 559,020	\$ -	\$ -	\$ 559,020
Construction in progress	-	57,100	-	57,100
Totals	559,020	57,100	-	616,120
Capital assets that are depreciated:				
Office equipment	663,993	6,398	-	670,391
Service equipment	895,021	-	-	895,021
Building	7,677,826	-	-	7,677,826
Plant and equipment	72,492,993	420,870	-	72,913,863
Totals	81,729,833	427,268	-	82,157,101
Total capital assets	\$ 82,288,853	\$ 484,368	\$ -	\$ 82,773,221

**Debt Outstanding**

At December 31, 2023, the District had \$21,655,976 in debt outstanding versus \$23,561,766 for December 31, 2022. The changes in Water and Sewer Fund long-term debt is as follows:

	Balance December 31, 2022	Additions	Retirements	Balance December 31, 2023
Revenue bonds	\$ 12,459,500	\$ -	\$ (497,000)	\$ 11,962,500
Bond premium	258,095	-	(10,835)	247,260
Direct borrowings - KIA	10,844,171	25,037	(1,422,992)	9,446,216
Total	\$ 23,561,766	\$ 25,037	\$ (1,930,827)	\$ 21,655,976

**Economic Factors and Future Planning**

Since the mergers in 2011 and 2015 the District has experienced a steady growth. The water plant now serves the water needs not only for our district, we now also sell water to Casey County, Metcalfe County, Green/Taylor and we now have Cumberland County inquiring. The District has been fortunate to receive low interest loans and principal forgiveness allowing us to complete several major system upgrades.

At this time, we have 2 projects completely funded; Phase 22 and Phase 23. These projects are allowing us to do updates at the water plants as well as other updates in the District. We also will be putting in a much-needed lake crossing that will allow us to have another feed into the northeastern end of the county.

Our future planning includes working on our sewer system and improving the visual/maintenance of our water tanks, as well as serving as many of our unserved petitions as feasibly possible.

**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](http://www.caud.net).

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2023**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 390,261	\$ 243,976	\$ 634,237
Investments	963,654	500,000	1,463,654
Customer accounts receivable, net	459,571	109,159	568,730
Inventory	135,395	7,126	142,521
Prepays	29,098	-	29,098
Total current assets	<u>1,977,979</u>	<u>860,261</u>	<u>2,838,240</u>
Noncurrent assets			
Restricted cash and cash equivalents	809,023	-	809,023
Net OPEB asset	40,083	9,915	49,998
Capital assets			
Nondepreciable capital assets	520,219	95,901	616,120
Property, plant and equipment, net	<u>32,533,844</u>	<u>10,052,003</u>	<u>42,585,847</u>
Total noncurrent assets	<u>33,903,169</u>	<u>10,157,819</u>	<u>44,060,988</u>
Total assets	<u>35,881,148</u>	<u>11,018,080</u>	<u>46,899,228</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	282,247	69,791	352,038
Deferred outflows - OPEB	<u>153,038</u>	<u>37,841</u>	<u>190,879</u>
Total deferred outflows of resources	<u>435,285</u>	<u>107,632</u>	<u>542,917</u>
Total assets and deferred outflows of resources	<u>\$ 36,316,433</u>	<u>\$ 11,125,712</u>	<u>\$ 47,442,145</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 151,994	\$ 18,655	\$ 170,649
Accrued payroll	17,032	4,311	21,343
Accrued sick leave	70,175	12,913	83,088
Accrued expenses	61,888	14,255	76,143
Accrued interest	156,033	6,411	162,444
Customer deposits payable	33,635	-	33,635
Current portion of notes and bonds payable	<u>1,206,058</u>	<u>74,739</u>	<u>1,280,797</u>
Total current liabilities	<u>1,696,815</u>	<u>131,284</u>	<u>1,828,099</u>
Noncurrent liabilities			
Noncurrent notes and bonds payable	17,974,353	2,400,826	20,375,179
Net pension liability	<u>1,862,958</u>	<u>460,652</u>	<u>2,323,610</u>
Total noncurrent liabilities	<u>19,837,311</u>	<u>2,861,478</u>	<u>22,698,789</u>
Total liabilities	<u>21,534,126</u>	<u>2,992,762</u>	<u>24,526,888</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	226,782	56,076	282,858
Deferred inflows - OPEB	<u>662,714</u>	<u>163,869</u>	<u>826,583</u>
Total deferred inflows of resources	<u>889,496</u>	<u>219,945</u>	<u>1,109,441</u>
<b>NET POSITION</b>			
Net investment in capital assets	13,873,652	7,672,339	21,545,991
Restricted	809,023	-	809,023
Unrestricted	<u>(789,864)</u>	<u>240,666</u>	<u>(549,198)</u>
Total net position	<u>13,892,811</u>	<u>7,913,005</u>	<u>21,805,816</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 36,316,433</u>	<u>\$ 11,125,712</u>	<u>\$ 47,442,145</u>

The accompanying notes are an integral part of the 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, 2023**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>OPERATING INCOME</b>			
Water sales	\$ 5,091,254	\$ 1,347,975	\$ 6,439,229
Other revenue	<u>151,740</u>	<u>537</u>	<u>152,277</u>
Total operating income	<u>5,242,994</u>	<u>1,348,512</u>	<u>6,591,506</u>
<b>OPERATING EXPENSES</b>			
Personnel services	1,242,111	274,175	1,516,286
Contractual services	64,929	26,594	91,523
Supplies and materials	785,226	79,275	864,501
Repairs and maintenance	160,457	170,606	331,063
Operational	748,439	317,011	1,065,450
Depreciation and amortization	<u>1,566,945</u>	<u>570,300</u>	<u>2,137,245</u>
Total operating expenses	<u>4,568,107</u>	<u>1,437,961</u>	<u>6,006,068</u>
Operating income (loss) before depreciation	674,887	(89,449)	585,438
Non-operating income (expenses)			
Other non-utility income	50,778	-	50,778
Interest income	14,622	13,054	27,676
Interest expenses	(402,704)	(21,097)	(423,801)
Amortization of bond premium	<u>10,836</u>	<u>-</u>	<u>10,836</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	348,419	(97,492)	250,927
Capital contributions	93,400	500	93,900
KIA loan forgiveness	671,265	-	671,265
Grants	<u>52,000</u>	<u>-</u>	<u>52,000</u>
Change in net position	1,165,084	(96,992)	1,068,092
Net position, beginning of year	<u>12,727,727</u>	<u>8,009,997</u>	<u>20,737,724</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 13,892,811</u>	<u>\$ 7,913,005</u>	<u>\$ 21,805,816</u>

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

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
STATEMENT OF CASH FLOWS  
for the year ended December 31, 2023**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 5,220,061	\$ 1,333,212	\$ 6,553,273
Payments to suppliers	(1,701,603)	(588,985)	(2,290,588)
Payments for employee services and benefits	(1,408,907)	(334,049)	(1,742,956)
Net cash provided (used) by operating activities	<u>2,109,551</u>	<u>410,178</u>	<u>2,519,729</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on bonds and notes	(1,185,623)	(73,940)	(1,259,563)
Interest paid on bonds and notes	(412,304)	(21,271)	(433,575)
Purchases of capital assets	(484,243)	(28,026)	(512,269)
Proceeds from issuance of debt	15,025	10,010	25,035
Capital contributed - grants	52,000	-	52,000
Other capital contributions	144,178	500	144,678
Net cash provided (used) by capital and related financing activities	<u>(1,870,967)</u>	<u>(112,727)</u>	<u>(1,983,694)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of certificates of deposit	(550,000)	(500,000)	(1,050,000)
Interest income	14,622	13,054	27,676
Net cash provided (used) by investing activities	<u>(535,378)</u>	<u>(486,946)</u>	<u>(1,022,324)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	(296,794)	(189,495)	(486,289)
Cash and cash equivalents, beginning of year	<u>1,496,078</u>	<u>433,471</u>	<u>1,929,549</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>			
	<u>\$ 1,199,284</u>	<u>\$ 243,976</u>	<u>\$ 1,443,260</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 674,887	\$ (89,449)	\$ 585,438
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,566,945	570,300	2,137,245
Net pension liability activity	(60,320)	(32,376)	(92,696)
Net OPEB liability activity	(100,515)	(30,186)	(130,701)
Changes in assets and liabilities:			
(Increase) decrease in receivables	(23,773)	(15,300)	(39,073)
(Increase) decrease in inventory	31,889	1,680	33,569
(Increase) decrease in prepaids	(2,758)	-	(2,758)
Increase (decrease) in accounts payable	291	(4,246)	(3,955)
Increase (decrease) in customer deposits	840	-	840
Increase (decrease) in accrued payroll	4,592	1,087	5,679
Increase (decrease) in accrued sick leave	(10,553)	1,601	(8,952)
Increase (decrease) in accrued expenses	28,026	7,067	35,093
Net cash provided by operating activities	<u>\$ 2,109,551</u>	<u>\$ 410,178</u>	<u>\$ 2,519,729</u>
<b>Supplemental disclosure of cash flow information:</b>			
Noncash capital and related financing activities:			
Accounts payable for capital items, net	<u>\$ (25,032)</u>	<u>\$ -</u>	<u>\$ (25,032)</u>

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

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023**

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**1. DESCRIPTION OF ENTITY**

The Adair County Water District dba Columbia/Adair Utilities District (the District) Commissioners have financial accountability and control over all activities related to the District. The District's primary source of income is derived from water and sewer 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Adair County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The only entity included in these financial statements are the general operations of the Adair County Water 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 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.

**Basis of Accounting**

The accounts of the Adair County Water District are accounted for within two 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 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 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.

It is the policy of the District to spend restricted funds first when both restricted and unrestricted funds are available.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 valued at cost. 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 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. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2023, the allowance for doubtful accounts totaled \$70,875 and \$2,361, in the Water and Sewer funds, 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 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 period. Actual results could differ from those estimates.

**Capital Assets and Related Depreciation**

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.

**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.

**Pension and OPEB**

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

**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.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 is divided into three components:

- a. Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- b. Restricted net position - consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
- c. Unrestricted - all other net position is reported in this category.

**Change in Accounting Policy**

Effective January 1, 2023, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-based Information Technology Arrangements. GASB Statement No. 96 requires recognition of a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability for subscription-based information technology arrangements (SBITA) that were previously classified as operating expenses. It establishes uniform guidance for SBITA accounting based on the foundational principle that SBITA are financings of the right to use vendor-provided information technology assets. Government entities are required to recognize a subscription liability and an intangible right-to-use subscription asset. These changes had no effect on the financial statements.

**Management's Review of Subsequent Events**

The District has evaluated and considered the need to recognize or disclose subsequent events through May 8, 2024, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2023, have not been evaluated by the District.

**3. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480. The District does not have a formal investment policy but follows Kentucky Revised Statutes for investing funds.

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**3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. 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, 2023, 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. The bank balances of the District's deposits were \$2,936,689 at December 31, 2023; \$1,117,027 was covered by FDIC, \$1,510,222 was covered by collateral held at the custodial bank in the District's name and \$309,440 was invested in federal obligations.

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, 2023 the District held restricted cash of \$809,023 and \$0 in the Water and Sewer fund, respectively.

**4. CAPITAL ASSETS**

A summary of capital asset activity during the year follows:

	<b>Balance January 1, 2023</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31, 2023</b>
<b>Water and Sewer Funds:</b>				
Capital assets not depreciated:				
Land and land rights	\$ 559,020	\$ -	\$ -	\$ 559,020
Construction in progress	<u>-</u>	<u>57,100</u>	<u>-</u>	<u>57,100</u>
Totals	<u>559,020</u>	<u>57,100</u>	<u>-</u>	<u>616,120</u>
Capital assets that are depreciated:				
Office equipment	663,993	6,398	-	670,391
Service equipment	895,021	-	-	895,021
Building	7,677,826	-	-	7,677,826
Plant and equipment	<u>72,492,993</u>	<u>420,870</u>	<u>-</u>	<u>72,913,863</u>
Totals	<u>81,729,833</u>	<u>427,268</u>	<u>-</u>	<u>82,157,101</u>
Total capital assets	<u>82,288,853</u>	<u>484,368</u>	<u>-</u>	<u>82,773,221</u>
Less: accumulated depreciation	<u>37,434,009</u>	<u>2,137,245</u>	<u>-</u>	<u>39,571,254</u>
Capital assets, net	<u>\$ 44,854,844</u>	<u>\$ (1,652,877)</u>	<u>\$ -</u>	<u>\$ 43,201,967</u>

Depreciation expense for the year ended December 31, 2023 for the Water and Sewer Fund was as follows:

Water	\$ 1,566,945
Sewer	<u>570,300</u>
Total Water and Sewer	<u>\$ 2,137,245</u>



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**5. LONG-TERM DEBT**

The following is a summary of long-term debt for the Water Fund as of December 31, 2023:

2009 Water Revenue Bonds with interest at 2.38% maturing January 1, 2050	\$ 888,000
2011 Water Revenue Bonds with interest at 3% maturing January 1, 2051	977,500
2012 Revenue Bonds with interest at 2.375% maturing May 1, 2052	1,221,000
2013-D Revenue Bonds with interest at 3.332% maturing August 1, 2040	1,690,000
2020-G Revenue Bonds with interest at 2.25% maturing July 1, 2045	4,715,000
2020 Revenue Bonds with interest at 1.00% maturing January 1, 2061	1,870,500
Kentucky Infrastructure Authority Loan F06-01 with interest at 1.00% maturing June 1, 2028	1,097,654
Kentucky Infrastructure Authority Loan F07-01 with interest at 1.00% maturing December 1, 2028	269,002
Kentucky Infrastructure Authority Loan F10-01 with Interest at 1.00% maturing December 1, 2032	1,899,000
Kentucky Infrastructure Authority Loan F10-02 with Interest at 1.00% maturing June 1, 2032	761,416
Kentucky Infrastructure Authority Loan F11-10 with Interest at 1.00% maturing December 1, 2034	636,585
Kentucky Infrastructure Authority Loan F12-04 with Interest at 1.00% maturing December 1, 2044	2,114,437
Kentucky Infrastructure Authority Loan F20-09 with Interest at .75% maturing December 1, 2052	793,057
Bond Premium	<u>247,260</u>

Total Water Fund long-term debt \$ 19,180,411

The following is a summary of long-term debt for the Sewer Fund as of December 31, 2023:

Kentucky Infrastructure Authority Loan F20-16 with interest at .50% maturing December 1, 2052	\$ 1,875,065
2014 Revenue Bonds with interest at 1.875% maturing January 1, 2054	<u>600,500</u>

Total Sewer Fund long-term debt 2,475,565

Total Water and Sewer Fund long-term debt \$ 21,655,976

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

	<b>Balance December 31, 2022</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2023</b>
Revenue bonds	\$ 12,459,500	\$ -	\$ 497,000	\$ 11,962,500
Bond premium	258,095	-	10,835	247,260
Direct borrowings - KIA	10,844,171	25,037	1,422,992	9,446,216
Net pension liability	<u>2,444,491</u>	<u>-</u>	<u>120,881</u>	<u>2,323,610</u>
Total	<u>\$ 26,006,257</u>	<u>\$ 25,037</u>	<u>\$ 2,051,708</u>	<u>\$ 23,979,586</u>

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**5. LONG-TERM DEBT (CONTINUED)**

Future principal and interest requirements for all long-term debt are as follows:

Year ended	Principal	Interest	Total
2024	\$ 1,280,797	\$ 384,266	\$ 1,665,063
2025	1,300,505	361,463	1,661,968
2026	1,240,884	338,095	1,578,979
2027	1,271,228	312,603	1,583,831
2028	1,150,712	287,628	1,438,340
2029-2033	4,471,808	1,154,166	5,625,974
2034-2038	3,242,552	782,776	4,025,328
2039-2043	3,326,197	492,279	3,818,476
2044-2048	2,377,927	217,043	2,594,970
2049-2053	1,243,106	72,887	1,315,993
2054-2058	318,500	23,098	341,598
2059-2062	<u>184,500</u>	<u>3,812</u>	<u>188,312</u>
	21,408,716	4,430,116	25,838,832
Bond premium	<u>247,260</u>	<u>-</u>	<u>247,260</u>
Totals	<u>\$ 21,655,976</u>	<u>\$ 4,430,116</u>	<u>\$ 26,086,092</u>

**6. 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.

**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 61.645, the Board of Trustees of Kentucky Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions 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 positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. 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. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

*Contributions* – For the year ended December 31, 2023, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 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 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July 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 determined in accordance with actuarial basis adopted by the Board.

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**7. RETIREMENT PLAN (CONTINUED)**

For the year ended December 31, 2023, participating employers contributed 26.79% through June 30<sup>th</sup> and 23.34% 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. Plan members contributed 23.40% through June 30<sup>th</sup> and 23.34% thereafter to the pension trust for non-hazardous job classifications for the year ended December 31, 2023. 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. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. 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 the employer contribution.

The District contributed \$237,934 for the year ended December 31, 2023, or 100% of the required contribution for non-hazardous job classifications. The District contributed \$236,848 for the year ended December 31, 2022, or 100% of the required contribution for non-hazardous job classifications.

*Benefits* – 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 Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old and 1 month of service At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date Unreduced retirement  Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement  Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ 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 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 nonservice-related disability benefits.

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**7. RETIREMENT PLAN (CONTINUED)**

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2023, the District reported a liability of \$2,323,610 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial procedures. 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 entities, actuarially determined. At June 30, 2023, the District’s proportion was .036213 percent, which was an increase of .002397 percent from its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the District recognized pension expense of \$137,854. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 120,289	\$ 6,314
Changes of assumptions	-	212,961
Net difference between projected and actual earnings on Plan investments	-	31,694
Changes in proportion and differences between District contributions and proportionate share of contributions	106,191	31,889
District contributions subsequent to the measurement date	<u>125,558</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 352,038</u></b>	<b><u>\$ 282,858</u></b>

The \$125,558 of deferred outflows of resources 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2023 will be recognized in pension expense as follows:

<b>Year ending December 31,</b>		
2024	\$	(47,474)
2025	\$	(38,281)
2026	\$	51,872
2027	\$	(22,495)

*Actuarial Assumptions* – The total pension liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.50%, net of Plan investment expense, including inflation

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**7. RETIREMENT PLAN (CONTINUED)**

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. 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-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2023 valuation was based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate 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 nominal real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Total</b>	<b>100.00%</b>	<b>5.75%</b>
<b>Long term inflation assumption</b>		<b>2.50%</b>
<b>Expected nominal return for portfolio</b>		<b>8.25%</b>

*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 assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining closed 28-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

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**7. RETIREMENT PLAN (CONTINUED)**

*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:

	<u>Discount rate</u>		<u>District's proportionate share of net pension liability</u>
1% decrease	5.50%	\$	2,933,698
Current discount rate	6.50%	\$	2,323,610
1% increase	7.50%	\$	1,816,604

*Payable to the Pension Plan* – At December 31, 2023, the District reported a payable of \$114,273 for the outstanding amount of contributions to the pension plan required for the year then ended. The payable includes both the pension and insurance contribution allocation.

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Description* – As more fully described in Note 7, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2023, the employer's contribution was 3.39% through June 30<sup>th</sup> and 0.00% thereafter to the insurance trust for non-hazardous job classifications. 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 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July 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 determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended December 31, 2023, the District contributed \$16,280, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2022, the District contributed \$37,973, or 100% of the required contribution for non-hazardous job classifications.

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

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**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2023, the District reported an asset for its proportionate share of the net OPEB asset of \$49,998. The net OPEB asset was measured as of June 30, 2023, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB asset 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 entities, actuarially determined. The District's proportionate share at June 30, 2023 was .036211 percent, which was an increase of .002401 percent from its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the District recognized OPEB expense of (\$106,920). At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 34,854	\$ 709,865
Changes of assumptions	98,385	68,564
Net difference between projected and actual earnings on Plan investments	-	11,602
Changes in proportion and differences between District contributions and proportionate share of contributions	41,312	36,552
District contributions subsequent to the measurement date	<u>16,328</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 190,879</u></b>	<b><u>\$ 826,583</u></b>

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023**

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**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

The \$16,328 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2024. This includes an adjustment of \$16,328 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

**Year ending December 31,**

2024	\$ (170,955)
2025	\$ (200,970)
2026	\$ (151,659)
2027	\$ (128,448)

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.50%
Salary increases	3.30 to 10.30%, varies by service
Investment rate or return	6.50%, net of Plan investment expense, including inflation
<b>Healthcare Trend Rates</b>	
Pre – 65	Initial trend starting at 6.80% 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, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. 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-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2023 valuation was based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate 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.



**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023**

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Total</b>	<b>100.00%</b>	<b>5.75%</b>
<b>Long term inflation assumption</b>		<b>2.50%</b>
<b>Expected nominal return for portfolio</b>		<b>8.25%</b>

*Discount Rate* – The discount rate used to measure the total OPEB asset as of June 30, 2023 was 5.93% for non-hazardous classifications. 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 22-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2023, the discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 3.86%, as reported in Fidelity Index’s “20–Year Municipal GO AA Index”. 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.

*Sensitivity of the District’s Proportionate Share of the Net OPEB Liability/Asset 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 as well as what the District’s proportionate share of the net OPEB liability/asset 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:

	<b>Discount rate</b>	<b>Proportionate share of net OPEB liability (asset)</b>
1% decrease	4.93%	\$ 93,819
Current discount rate	5.93%	\$ (49,998)
1% increase	6.93%	\$ (170,420)

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023**

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**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability/Asset to Changes in the Healthcare Cost Trend Rate* – The following presents the District's proportionate share of the net OPEB liability/asset calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>Proportionate share of net OPEB liability</b>
1% decrease	\$ (160,239)
Current trend rate	\$ (49,998)
1% increase	\$ 85,432

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last Nine Years**

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<b>Reporting Year End (Measurement Date)</b>	<b>December 31, 2015 (June 30, 2015)</b>	<b>December 31, 2016 (June 30, 2016)</b>	<b>December 31, 2017 (June 30, 2017)</b>	<b>December 31, 2018 (June 30, 2018)</b>	<b>December 31, 2019 (June 30, 2019)</b>	<b>December 31, 2020 (June 30, 2020)</b>	<b>December 31, 2021 (June 30, 2021)</b>	<b>December 31, 2022 (June 30, 2022)</b>	<b>December 31, 2023 (June 30, 2023)</b>
District's proportion of the net pension liability	0.041100%	0.038350%	0.038380%	0.037900%	0.039092%	0.035974%	0.035327%	0.033816%	0.036213%
District's proportionate share of the net pension liability (asset)	\$ 1,766,980	\$ 1,888,187	\$ 2,246,207	\$ 2,308,469	\$ 2,749,358	\$ 2,759,176	\$ 2,252,373	\$ 2,444,491	\$ 2,323,610
District's covered employee payroll	\$ 927,360	\$ 938,186	\$ 948,537	\$ 976,350	\$ 981,872	\$ 981,872	\$ 984,165	\$ 954,574	\$ 1,023,322
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	190.54%	201.26%	236.81%	236.44%	280.01%	281.01%	228.86%	256.08%	227.07%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.30%	53.54%	50.45%	47.81%	57.33%	52.42%	57.48%

Notes:

The above schedule will present 10 years of historical data, once available.

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
CONTRIBUTIONS - PENSION  
Last Nine Calendar Years**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Contractually required employer contribution	\$ 120,848	\$ 108,953	\$ 131,476	\$ 137,763	\$ 159,939	\$ 177,846	\$ 174,151	\$ 236,848	\$ 237,934
Contributions relative to contractually required employer contribution	<u>120,848</u>	<u>108,953</u>	<u>131,476</u>	<u>137,763</u>	<u>159,939</u>	<u>177,846</u>	<u>174,151</u>	<u>236,848</u>	<u>237,934</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 927,360	\$ 938,186	\$ 948,537	\$ 976,350	\$ 981,872	\$ 984,165	\$ 954,574	\$ 1,023,322	\$ 1,018,191
Employer contributions as a percentage of covered-employee payroll	13.03%	11.61%	13.86%	14.11%	16.29%	18.07%	18.24%	23.15%	23.37%

Notes:

The above schedule will present 10 years of historical data, once available.

**ADAIR COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
Last Six Years**

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<b>Reporting Year End (Measurement Date)</b>	<b>December 31, 2018 (June 30, 2018)</b>	<b>December 31, 2019 (June 30, 2019)</b>	<b>December 31, 2020 (June 30, 2020)</b>	<b>December 31, 2021 (June 30, 2021)</b>	<b>December 31, 2022 (June 30, 2022)</b>	<b>December 31, 2023 (June 30, 2023)</b>
District's proportion of the net OPEB liability	0.0379000%	0.039082%	0.035964%	0.035319%	0.033810%	0.036211%
District's proportionate share of the net OPEB liability (asset)	\$ 672,942	\$ 657,342	\$ 868,421	\$ 676,165	\$ 667,243	\$ (49,998)
District's covered employee payroll	\$ 948,537	\$ 976,350	\$ 981,872	\$ 984,165	\$ 954,574	\$ 1,023,322
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	70.95%	67.33%	88.45%	68.70%	69.90%	-4.89%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	51.67%	62.91%	60.95%	104.23%

Notes:

The above schedule will present 10 years of historical data, once available.

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
CONTRIBUTIONS - OPEB  
Last Six Calendar Years**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Contractually required employer contribution	\$ 45,921	\$ 51,867	\$ 61,936	\$ 62,943	\$ 37,973	\$ 16,280
Contributions relative to contractually required employer contribution	<u>45,921</u>	<u>51,867</u>	<u>61,936</u>	<u>62,943</u>	<u>37,973</u>	<u>16,280</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 976,350	\$ 981,872	\$ 984,165	\$ 954,574	\$ 1,023,322	\$ 1,018,191
Employer contributions as a percentage of covered-employee payroll	4.70%	5.28%	6.29%	6.59%	3.71%	1.60%

Notes:

The above schedule will present 10 years of historical data, once available.

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2023**

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**1. GENERAL INFORMATION**

**Contributions**

Contractually required employer contributions reported on the Schedule of Contributions - Pensions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of Contributions - OPEB.

**Payroll**

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability (Asset) and the Schedule of Proportionate Share of the Net OPEB Liability (Asset) is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported on the Schedule of Contributions for Pension and OPEB.

**2. CHANGES OF ASSUMPTIONS**

**December 31, 2023 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for Pension:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The Tier 3 cash balance interest crediting rate assumption was increased to 6.75% for the CERS pension funds.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for OPEB:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The initial healthcare trend rate for pre-65 was changed from 6.20% to 6.8%. The initial healthcare trend rate for post-65 was changed from 9.00% to 8.50%.

**December 31, 2022 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.30% to 6.2%. The initial healthcare trend rate for post-65 was changed from 6.30% to 9.00%.



**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2023**

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**2. CHANGES OF ASSUMPTIONS (CONTINUED)**

**December 31, 2021 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

**December 31, 2020 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

**December 31, 2019 – Pension and OPEB**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

**December 31, 2018 – Pension and OPEB**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

**December 31, 2017 – Pension**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

**December 31, 2016 – Pension and OPEB**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2023**

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**2. CHANGES OF ASSUMPTIONS (CONTINUED)**

**December 31, 2015 – Pension**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

**December 31, 2014 – Pension**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

**December 31, 2013 – Pension**

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.



**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**

Board of 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 8, 2024.

**Report on 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) as a basis for designing 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 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be material weaknesses (2023-001 and 2023-002).

**Report on 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 financial statements. 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 Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's responses were not subjected to the other 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.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
May 8, 2024

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2023**

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**FINDING:**

**2023-001 – Internal Control Over Financial Reporting (Recurring)**

**Criteria:**

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

**Condition:**

Management engaged the auditor to draft the financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

**Cause:**

The District lacks personnel with the expertise to draft the financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

**Effect:**

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

**Recommendation:**

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

**Management's Response:**

Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the financial statements.

**2023-002 – The District should have internal controls in place that enable it to accurately record all transactions including year-end accrual transactions. (Repeat)**

**Criteria:**

The District is required to have internal controls in place to enable it to apply generally accepted accounting principles to its transactions. Specifically, this includes year-end accrual transactions and proper accounting for all transactions related to capital assets, debt service and net position.

**Condition:**

Management did not record debt service payments and loan forgiveness correctly during the year. Management did not identify that beginning net position did not agree to the prior year report and a material adjustment was required to correct beginning net position and capital assets. Additionally, management did not prepare required year-end accrual entries.

**Cause:**

The District executes basic and routine transactions throughout the year, however, the District does not apply generally accepted accounting principles to certain non-routine transactions recorded during the year and in making its year-end accruals.

**ADAIR COUNTY WATER DISTRICT  
DBA COLUMBIA/ADAIR UTILITIES DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2023**

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**2023-002 – The District should have internal controls in place that enable it to accurately record all transactions including year-end accrual transactions. (Repeat) (CONTINUED)**

**Effect:**

Management relied on the auditor's year-end adjustments and adjustments for capital assets, debt and net position to bring the District's accounting records into compliance with generally accepted accounting principles. Management reviewed, approved and accepted responsibility for the adjusting journal entries prior to the issuance of the financial statements.

**Recommendation:**

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to advise the District during the year concerning non-routine transactions and to assist the District with its year-end close so that the District's accounting records are in compliance with generally accepted accounting principles.

**Management's Response:**

Management has determined that it is more cost effective to engage the auditor to assist with year-end accrual transactions. Management will implement controls to help identify miss key cost codes on the balance sheet to prevent future errors. Management has reviewed and accepts the responsibility for the year-end accrual and adjustments.