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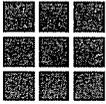
APR 3 2013

**PUBLIC SERVICE
COMMISSION**

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

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WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
JEFFREY G. SPROWLES, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Adair County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Adair County Water District, as of and for the years ended December 31, 2012 and 2011, 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 Adair County Water District, as of December 31, 2012 and 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 March 13, 2013 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

March 13, 2013



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, 2012 and 2011. It provides an introduction to the District's 2012 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. This report also includes a summary of federal expenditures and supplementary bond information.

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 statements 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, 2012. 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 Statements of Net Position is presented below.

Condensed Statement of Net Position

	2012	2011
Cash and Investments	\$ 998,198	\$ 925,627
Other Assets	489,673	493,074
Capital Assets	35,596,173	33,587,572
Total Assets	37,084,044	35,006,273
Current Liabilities	2,503,500	3,574,857
Other Liabilities	198,027	224,096
Long-Term Outstanding	12,046,107	8,526,676
Total Liabilities	14,747,634	12,325,629
Net Position:		
Invested in Capital Assets (Net of Related Debt)	21,326,086	22,011,429
Restricted	732,695	735,412
Unrestricted	277,629	(66,197)
Total Net Position	\$ 22,336,410	\$ 22,680,644

A summarized comparison of the District's statements of revenues, expenses and changes in net position for the years December 31, 2012, and 2011 follows:

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statement of Revenues, Expenses & Changes in Net Position Years Ended December 31, 2012 and 2011

	2012	2011	Dollar Change	Percent Change
Operating Revenues	\$ 4,249,028	\$ 2,809,514	\$ 1,439,514	51.24%
Operating Expenses	(2,900,349)	(2,301,655)	(598,694)	26.01%
Depreciation Expense	(1,156,467)	(928,365)	(228,102)	24.57%
Operating Income/(Loss)	192,212	(420,506)	612,719	-145.71%
Non-Operating Revenues/(Expenses)				
Non-Utility Income	981	30,824	(29,843)	-96.82%
Operating Lease Agreement	(334,463)	(540,990)	206,527	-38.18%
Interest Income	3,725	3,197	528	16.52%
Miscellaneous Nonutility Expenses	(1,654)	(2,563)	909	
Interest Expense & Fiscal Charges	(379,098)	(313,772)	(65,326)	20.82%
Total Non-Operating Revenues/(Expenses)	(710,509)	(823,304)	112,795	-13.70%

Statement of Revenues, Expenses and Changes in Net Position, Continued

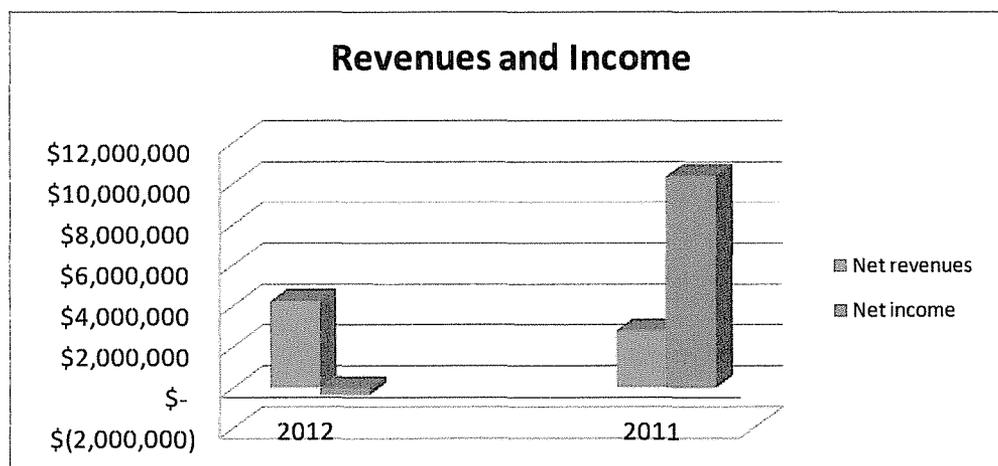
	2012	2011	Dollar Change	Percent Change
Income/(Loss) Before Capital Contributions	\$ (518,297)	\$ (1,243,810)	\$ 725,514	-58.33%
Capital Contributions	174,063	11,621,897	(11,447,834)	-98.50%
Increase/(Decrease) in Net Position	(344,234)	10,378,087	(10,722,321)	-103.32%
Beginning of Year, Restated	22,680,644	12,302,557	10,378,087	84.36%
End of Year	<u>\$ 22,336,410</u>	<u>\$ 22,680,644</u>	<u>\$ (344,235)</u>	<u>-1.52%</u>

Operating revenues

A comparison of the District's revenues and net income for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011	Dollar Change	Percentage Change
Net revenues	\$ 4,249,028	\$ 2,809,514	\$ 1,439,514	51.24%
Net income	\$ (344,234)	\$ 10,378,087	\$ (10,722,321)	-103.32%

The following graph shows the District's 2011 revenues and income in comparison to the District's 2012 revenues and income.



Operating revenues increased by \$1,439,514 from 2011 to 2012. The primary reason for the increase in revenues is a rate increase implemented in 2012.

Net income decreased by \$10,722,321 from 2011 to 2012. The most significant reason for this decrease is the decrease in capital contributions of \$11,447,834.

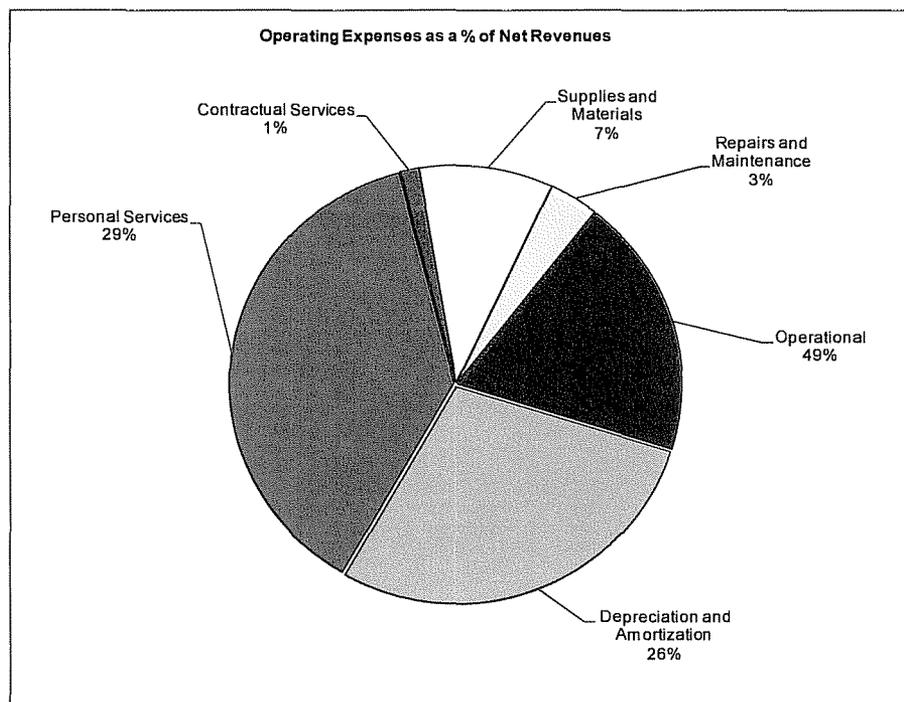
Expenses

Total operating expenses increased by \$2,389,842 from 2011 to 2012. The increase is primarily due to the merger with the City Sewer and Water. The 2011 operating expenses are only showing half of the years' expenses.

	2012	2011	Dollar Change	Percent Change
Operating Expenses				
Personal Services	\$ 1,529,045	\$ 557,414	\$ 971,631	63.54%
Contractual Service	54,584	25,006	29,578	54.19%
Supplies and Materials	392,465	86,287	306,178	78.01%
Repairs and Maintenance	146,223	33,720	112,503	76.94%
Operational	778,032	298,734	479,298	61.60%
Depreciation and Amortization	1,156,467	665,813	490,654	42.43%
	<u>\$ 4,056,816</u>	<u>\$ 1,666,974</u>	<u>\$ 2,389,842</u>	<u>58.91%</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, 2012, the District had \$14,072,059 in debt outstanding versus \$11,352,045 for December 31, 2011.

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. A rate increase was approved and went into effect in early 2012.

We are in the process of completing a second merger with the Columbia/Adair County Water Commission which has been our main source of water since it became operational. We are currently operating the plant under an agreement. We are still purchasing water from other sources but on a smaller scale. Those sources are Russell Springs, Jamestown and Campbellsville as an emergency source.

In 2012 we completed our Phase 12 which included a new high service distribution main and a composite tank in the Southern end of Adair County. This project made it possible to be able to distribute more water and help increase pressure to the southern part of our service area. Since the merger with the City of Columbia has been completed we are continuing to map meters, lines and other utilities in the City of Columbia where we are planning on replacing old lines and meters in the City system that have not been updated since their first installation. This will be a two part construction project with the first phase under construction at this time.

Our next major project has been bid and construction should begin in the next month. This project consist of replacing the water lines in the East 80 area, Lory Road, and installing a new pump station at the Shepherd Tank that will pump water to the new water tank that is part of this project. Alternate bids consist of installing an 8" water line across the Green River Reservoir that will serve the Knifley area, and also to install water lines in the White Oak Church community. Management has also planned to continue to replace our smaller distribution mains with more high service distribution mains to serve the growth in customer base and serve our existing customers better. All of this is planned along side of continuing to build our customer base with new lines and continued service to our existing customer base.

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, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 265,503	\$ 190,215
Customer Accounts Receivable	308,451	294,509
Accounts Receivable - Other	-	9,990
Inventory	166,817	179,916
Prepaid Expenses	14,405	8,659
Total Unrestricted Current Assets	755,176	683,289
Restricted Cash and Investments	732,695	735,412
Total Current Assets	1,487,871	1,418,701
NON-CURRENT ASSETS		
Capital Assets:		
Land and Construction in Progress	1,766,106	2,726,557
Other Capital Assets (net of accumulated depreciation)	33,830,067	30,861,015
Total Non-Current Assets	35,596,173	33,587,572
TOTAL ASSETS	37,084,044	35,006,273
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable - Trade	162,778	249,009
Accrued and Withheld Taxes	42,139	55,860
Customer Deposits	36,258	34,586
Accrued Payroll	15,005	11,440
Deferred Credit	221,368	398,593
Liabilities Payable from Restricted Assets:		
Interest Payable	198,027	224,096
Current Portion of Revenue Notes and Bonds Payable	480,770	268,884
Current Portion of Notes Payable	1,545,182	2,556,485
Total Current Liabilities	2,701,527	3,798,953
NON-CURRENT LIABILITIES		
Long-term Liabilities (Excluding Current Portion):		
Non-Current Portion of Revenue Notes and Bonds Payable	12,046,107	8,526,676
Total Non-Current Liabilities	12,046,107	8,526,676
TOTAL LIABILITIES	14,747,634	12,325,629
NET POSITION		
Invested in Capital Assets, Net of Related Debt	21,326,086	22,011,429
Restricted	732,695	735,412
Unrestricted	277,629	(66,197)
TOTAL NET POSITION	\$ 22,336,410	\$ 22,680,644

See Accompanying Notes to Financial Statements

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 Years Ended December 31, 2012 and 2011

	County Water	City Water	Sewer	Total 2012	Total 2011	2011
OPERATING REVENUES						
Water Sales	\$ 2,678,196	\$ 835,602	\$ 586,937	\$ 4,100,735	\$ 2,680,846	\$ 2,123,095
Service Charges and Other	136,833	11,460	-	148,293	128,668	192,057
Total Operating Revenues	2,815,029	847,062	586,937	4,249,028	2,809,514	2,315,152
OPERATING EXPENSES						
Personal Service	829,356	403,899	295,790	1,529,045	1,237,875	557,414
Contractual Services	21,204	11,944	21,436	54,584	44,794	25,006
Supplies and Materials	243,806	124,416	24,243	392,465	291,213	86,287
Repairs and Maintenance	66,768	25,778	53,677	146,223	100,286	33,720
Operational	473,771	149,718	154,543	778,032	627,487	298,734
Depreciation and Amortization	660,848	95,851	399,768	1,156,467	928,365	665,813
Total Operating Expenses	2,295,753	811,606	949,457	4,056,816	3,230,020	1,666,974
OPERATING INCOME/(LOSS)	519,276	35,456	(362,520)	192,212	(420,506)	648,178
NON-OPERATING REVENUES (EXPENSES)						
Other Non-Utility Income	981	-	-	981	30,824	30,824
Operating Lease - City	-	-	-	-	174,336	28,570
Operating Lease -Water Plant	(334,463)	-	-	(334,463)	(715,326)	-
Interest Income	3,725	-	-	3,725	3,197	3,198
Miscellaneous Nonutility Expenses	(732)	(521)	(401)	(1,654)	(2,563)	-
Interest Expenses and Fiscal Charges	(283,513)	(20,808)	(74,777)	(379,098)	(313,772)	(263,795)
Total Non-Operating Revenues (Expenses)	(614,002)	(21,329)	(75,178)	(710,509)	(823,304)	(201,204)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(94,726)	14,127	(437,698)	(518,297)	(1,243,810)	446,974
Capital Contributions	166,564	6,999	500	174,063	11,621,897	11,500,533
Grants	-	-	-	-	-	-
INCREASE (DECREASE) IN NET POSITION	71,838	21,126	(437,198)	(344,234)	10,378,087	11,947,507
NET POSITION						
Beginning of Year, Restated (2011)				22,680,644	12,302,557	9,917,058
End of Year				<u>\$ 22,336,410</u>	<u>\$ 22,680,644</u>	<u>\$ 21,864,565</u>

See Accompanying Notes to Financial Statements

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
STATEMENT OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 4,235,086	\$ 2,908,321
Cash Payments to Employees for Services	(1,525,480)	(1,193,547)
Cash Payments to Suppliers for Goods and Services	(1,453,914)	(938,199)
Customer Deposits Received	28,800	35,575
Customer Deposits Returned	(27,130)	(23,515)
	1,257,362	788,635
Net Cash Provided/(Used) By Operating Activities		
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(3,177,413)	(2,706,047)
Principal Paid on Debt	(3,304,796)	(258,919)
Interest Paid on Debt	(384,497)	(318,066)
Loan Proceeds	6,021,061	1,869,455
Operating Transfer	(324,463)	-
Contributed Capital	(18,409)	870,940
	(1,188,517)	(542,637)
Net Cash Provided/(Used) By Investing Activities Related Financing Activities		
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	3,726	3,198
	3,726	3,198
Net Cash Provided/(Used) By Investing Activities		
Net Increase/(Decrease) In Cash and Cash Equivalents	72,571	249,196
Cash and Cash Equivalents - Beginning of Year	925,627	676,431
Cash and Cash Equivalents - End of Year	\$ 998,198	\$ 925,627
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and Cash Equivalents	\$ 265,503	\$ 190,215
Short-Term Investments	-	-
Restricted Cash	732,695	735,412
	\$ 998,198	\$ 925,627
TOTAL CASH AND CASH EQUIVALENTS		
 NONCASH ITEMS:		
Contributed Capital from City Water & Sewer Assets		10,751,457

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS (CONTINUED)
 Years Ended December 31, 2012 and 2011

	2012	2011
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Operating Margin	\$ 192,211	\$ (420,506)
ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Depreciation	1,156,467	928,365
Change in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(13,942)	84,267
(Increase)/Decrease in Accounts Receivable Other	9,990	-
(Increase)/Decrease in Inventory	13,099	(19,677)
(Increase)/Decrease in Prepaid Expenses	(5,747)	34,159
Increase/(Decrease) in Accounts Payable	(86,232)	125,581
Increase/(Decrease) in Salaries and Wages Payable	3,565	2,917
Increase/(Decrease) in Customer Deposits	1,672	12,119
Increase/(Decrease) in Accrued and Withheld Taxes	(13,721)	41,410
Total Reconciling Adjustments	1,065,151	1,209,141
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	\$ 1,257,362	\$ 788,635

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

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.

During the year ended December 31, 2012, the District adopted the provisions of GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The proprietary fund financial statements are presented on the accrual basis of accounting. Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Operating revenues are charges to customers for services. Operating expenses are costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Non-exchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchanges 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 uncollectable accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2012 and 2011, the allowance for doubtful accounts was \$255,045 and \$190,645.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Long-Term Obligations

Long-term debt and other obligations are reported as district liabilities. Bond Issue Costs are being amortized and charged to expense over the term of the outstanding revenue bonds by use of the straight-line method.

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 for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 revenues, 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:

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012	December 31, 2011
Unrestricted:		
Cash	\$ 265,503	\$ 190,215
Certificates of Deposit and Savings	-	-
Total Unrestricted	265,503	190,215
Restricted:		
Cash	511,969	517,636
Certificates of Deposit and Savings	220,726	217,776
Total Restricted	732,695	735,412
 Total Cash and Cash Equivalents	 \$ 998,198	 \$ 925,627

There are three categories of credit risk that apply to the government’s bank balance:

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

	2012	2011
Insured (FDIC) or Collateral Held by Pledging Bank Securities in District’s Name	\$ 998,198	\$ 925,627
Uninsured or Uncollateralized	-	-
 Total (Memorandum Only)	 \$ 998,198	 \$ 925,627

The District investment policy is conservative.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Deposits

The carrying amount of the District's deposits at December 31, 2012 was \$998,198 and the bank balance was \$1,020,175. 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 institutions.

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, 2012 and 2011 restricted cash amounted to \$732,695 and \$735,412 respectively. This includes restrictions for customer deposits of \$34,656 and \$36,142 and restrictions for debt service of \$695,840 and \$503,672 respectively. This also included \$2,199 restricted at December 31, 2012 for capital projects.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2012 and 2011 was as follows:

	Balance 12/31/11	Additions	Deletions	Balance 12/31/12
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 425,924	\$ -	\$ -	\$ 425,924
Construction in Progress	2,300,633	3,042,594	4,003,045	1,340,182
Total Assets Not Being Depreciated	<u>2,726,557</u>	<u>3,042,594</u>	<u>4,003,045</u>	<u>1,766,106</u>
Capital Assets Being Depreciated				
Office Equipment	173,827	11,692	-	185,519
Service Equipment	594,286	2,825	-	597,111
Building	364,434	-	-	364,434
Plant and Equipment	43,493,764	4,111,759	-	47,604,767
Total Assets Being Depreciated	<u>44,626,311</u>	<u>4,126,276</u>	<u>-</u>	<u>48,751,831</u>
Total Capital Assets	<u>\$ 47,352,868</u>	<u>\$ 7,168,870</u>	<u>\$ 4,003,045</u>	<u>\$ 50,517,937</u>
Less: Accumulated Depreciation				
Office Equipment	\$ 170,217	\$ 23,538	\$ -	\$ 193,755
Service Equipment	404,439	38,958	-	443,397
Plant and Equipment	13,190,640	1,093,971	-	14,284,611
Total Accumulated Depreciation	<u>13,765,296</u>	<u>1,156,467</u>	<u>-</u>	<u>14,921,764</u>
Net Capital Assets	<u>\$ 33,587,572</u>	<u>\$ 6,012,403</u>	<u>\$ 4,003,045</u>	<u>\$ 35,596,173</u>

Depreciation expense for the year ended December 31, 2012 was \$1,156,467.

NOTE 5: SHORT-TERM DEBT

The District has interim financing through a local bank of \$1,340,000 for a project in progress (interest rate 2.6%) and short-term loans of \$205,000 (interest 5%). The interim financing of \$1,340,000 will be paid off by Water Revenue Bonds, Series of 2012 purchased by U.S. Department of Agriculture, Rural Development when the project is completed.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2012 and 2011

NOTE 6: LONG-TERM OBLIGATIONS

Revenue Bonds and Debt with principal payments due annually on January 1 are detailed as follows:

	<u>2012</u>	<u>2011</u>
1974 Waterworks Revenue Bond, original amount \$80,000 maturing January 1, 2014, with interest payments due semi-annually on January 1, and July 1, at a rate of 5%	\$ 8,000	\$ 12,000
1975 Utilities Revenue Bond, original amount \$96,000 maturing October 1, 2015 with interest payments due semi-annual on April 1, October 1 at a rate of 5%	17,000	22,000
1977 Utilities Revenue Bond, original amount \$998,000 maturing October 1, 2016 with interest payments due semi-annual on April 1, October 1 at a rate of 5%	200,000	250,000
1978 Waterworks Revenue Bond, original amount \$363,000 maturing January 1, 2018 with interest payments due semi-annually on January 1, July 1, at a rate of 5%	124,000	138,000
1985 Water District Water Revenue Bond, original amount \$1,155,000 maturing January 1, 2025, with interest payments due annually on January 1 at a rate of 5%	756,000	790,000
Series A of 1988 Utilities Revenue Bond, original amount \$750,000 maturing October 1, 2028, with interest payments due semi-annual April 1, October 1, at a rate of 5%	512,955	530,955
Series B of 1988 Utilities Revenue Bond, original amount \$200,000 maturing October 1, 2028, with interest payments due semi-annual April 1, October 1, at a rate of 5%	126,988	131,788
1989 Water District Water Revenue Bond, original amount \$200,000 maturing January 1, 2022, with interest payments due annually on January 1 at a rate of 6%	108,000	115,000
1992 Water District Water Revenue Bond, original amount \$745,000 maturing January 1, 2032, with interest payments due annually on January 1 at a rate of 5%	551,000	567,000
1995 Water District Water Revenue Bond, original amount \$428,000 maturing January 1, 2035, with interest payments due annually on January 1 at a rate of 4.5%	336,000	344,000
1995 Utilities Revenue Bond, original amount \$125,000 maturing October 1, 2034, with interest payments due semi-annual on April 1, October 1, at a rate of 4.50%	97,500	99,900
1998 Water District Water Revenue Bond, original amount \$427,000 maturing January 1, 2035, with interest payments due annually on January 1 at a rate of 4.5%	357,000	364,000
2000 Utilities Revenue Bond, original amount \$501,000 maturing October 1, 2040, with interest payments due semi-annual on April 1, October 1 at a rate of 4.50%	436,900	444,700

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2012 and 2011

NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

	<u>2012</u>	<u>2011</u>
2003 Water District Water Revenue Bond, original amount \$627,000 maturing January 1, 2042, with interest payments due annually on January 1 at a rate of 4.5%	\$ 565,500	\$ 574,500
2004 Utilities Revenue Bond, original amount \$495,000 maturing October 1, 2043, with interest payments due semi-annual on April 1, October 1 at a rate of 4.25%	452,000	459,000
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%	1,135,000	1,152,000
2007 Water District Water Revenue Bond, original amount \$752,000 maturing January, 2046, with interest payments due annually on January 1 at a rate of 4.25%	716,500	726,000
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%	110,900	112,300
	<u>2012</u>	<u>2011</u>
2008 Kentucky Infrastructure Authority Loan, original amount \$1,000,000 maturing December 2028, at a rate of 1%	\$ 815,634	\$ 862,417
2009 Water District Water Revenue Bond, original amount \$1,100,000 maturing January 2050, with interest payments due semi-annually on January and July 1, at a rate of 2.38%	1,100,000	1,100,000
2012 Kentucky Infrastructure Authority Loan, original amount \$4,000,000 maturing December 2032, with interest payments due semi-annually on June and December 1, at a rate of 1.00%	<u>4,000,000</u>	<u>-</u>
Total Debt	12,526,877	8,795,560
Payments Due in Less Than One Year	<u>(480,770)</u>	<u>(268,884)</u>
Total Long-Term Obligations	<u>\$ 12,046,107</u>	<u>\$ 8,526,676</u>

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2012 and 2011

NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 251,900	\$ 340,466	\$ 592,366
2014	307,226	328,292	635,518
2015	317,105	315,486	632,591
2016	325,288	302,182	627,470
2017	288,276	280,432	568,708
2018-2022	1,305,527	1,233,043	2,538,570
2023-2027	1,333,600	920,518	2,254,118
2028-2032	1,086,529	641,063	1,727,592
2033-2037	975,371	404,300	1,379,671
2038-2042	921,821	196,906	1,118,727
2043-2047	465,300	45,450	510,750
2048-2052	133,300	5,333	138,633
	<u>\$ 7,711,243</u>	<u>\$ 5,013,471</u>	<u>\$ 12,724,714</u>

The annual requirements to amortize all Revenue Notes debt outstanding as of December 31, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 228,870	\$ 49,549	\$ 278,419
2013	231,164	47,182	278,346
2014	233,482	44,745	278,227
2015	235,822	44,141	279,964
2016	238,185	39,798	277,983
2017-2021	1,227,231	160,816	1,388,047
2022-2026	1,289,991	94,817	1,384,808
2027-2031	1,130,889	30,326	1,161,216
	<u>\$ 4,815,634</u>	<u>\$ 511,375</u>	<u>\$ 5,327,009</u>

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2012 and 2011

NOTE 7: BONDING COMPANY SETTLEMENT

A summary of the guaranteed payments from the United States Fidelity and Guaranty Company resulting from the settlement with the district regarding leakage of lines and repairs to those lines.

	Total
Repairs: \$8,000 per year, starting November 1, 1984, for a period of 15 years	\$ 120,000
Leakage: \$5,280 per year, starting November 1, 1984, for a period of 7 years	\$ 195,360

LUMP SUM PAYMENTS

November 1, 1994	\$ 50,000
November 1, 2000	50,000
November 1, 2004	50,000
November 1, 2009	50,000
November 1, 2014	100,000
November 1, 2019	100,000
Total Guaranteed Payments	\$ 715,360

NOTE 8: 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 9: PENSION PLAN

Substantially all employees are covered under the County Employees Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution for the years ended December 31, 2012, 2011 and 2010 of 19.55%, 18.96% and 16.93% for Non Hazardous Employee's. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended December 31, 2012, 2011 and 2010 was \$195,532, \$183,753 and \$99,399 from the District and \$52,042, \$50,816 and \$29,836 from employees. The total covered payroll for CERS during the years ended December 31, 2012, 2011 and 2010 was \$1,025,715, \$957,752 and \$596,710.

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 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.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

NOTE 11: OPERATING LEASE AGREEMENT

On December 14, 2010 the District and the Columbia/Adair County Water Commission ("Water Commission") executed a statement of intent whereby the Water Commission stated its intent to transfer to the District through an Asset Purchase Agreement all ownership of assets and assumption of debt obligations. The transfer cannot be completed until the Kentucky Public Service Commission ("the PSC") has entered a final order authorizing the transfer of assets and debt from the Water Commission to the District.

Effective January 1, 2011 the District entered into an operating agreement with the Water Commission where the District shall manage, operate, repair, and maintain the Water Commission's water treatment plant. They would also make the required monthly transfers to the Sinking Fund and Reserve Fund accounts commencing February 10, 2011 in the amount of \$56,720, the lease is in effect until the completion of the Asset Purchase Agreement. The required transfer and assumption of all operating would take the place of the District paying for water consumption. The District paid the Water Commission \$889,000 for water in 2010.

NOTE 12: SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through March 13, 2013.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2012

	<u>Federal CFDA Number</u>	<u>Program Awards</u>	<u>Disbursements</u>
Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,459,000	\$ 1,372,043
Department of Environmental Protection Agency Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>589,483</u>	<u>589,483</u>
 Total		<u><u>\$ 2,048,483</u></u>	<u><u>\$ 1,961,526</u></u>

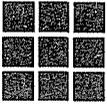
Water and Waste Disposal Systems of Rural Communities is a Major Program

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SUMMARY OF AUDIT RESULTS
For the Year Ended December 31, 2012

1. The auditors' report expresses an unqualified opinion on the financial statements of Adair County Water District.
2. One significant deficiency related to the audit of the financial statements was reported in the 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*. No material weaknesses were reported.
3. There were no instances of noncompliance material to the financial statements of Adair County Water District.
4. There were no significant deficiencies related to the audit of major programs discussed in the Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect of Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal awards program for Adair County Water District expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for Adair County Water District.
7. The program tested as a major was: CFDA#
10.760
Water and Waste Loan and Grant Program
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Adair County Water District did not qualify as a low-risk audit.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2012

The audit of Adair County Water District for the year ended December 31, 2012, revealed no audit findings requiring corrective action.



WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
JEFFREY G. SPROWLES, CPA

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

INDEPENDENT AUDITORS' REPORT

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 year ended December 31, 2012 and 2011, 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 March 13, 2013.

Internal Control Over Financial Reporting

And performing our audit of the financial statements, we considered Adair County Water District's internal control over financial reporting 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies. (2012-1).

Compliance and Other Matters

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

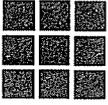
Purpose of this Report

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

Wise, Buckner, Sprowles & Associates, PLLC

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

March 13, 2013



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Adair County Water District

Report on Compliance for Each Major Federal Program

We have audited Adair County Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Adair County Water District's major federal programs for the year December 31, 2012. Adair County Water District's major federal programs are identified in the summary of auditor's results.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Adair County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Adair County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Adair County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Adair County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Adair County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Adair County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Adair County Water District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Adair County Water District as of and for the year ended December 31, 2012, and have issued our report thereon dated March 13, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Campbellsville, KY
March 13, 2013

ADAIR COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2012

Internal Control Over Financial Reporting

2012-1 - Preparation and Presentation of Financial Statements

- Criteria:** The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation and presentation of financial statements
- Condition:** The District does not have sufficient controls in selecting and applying accounting principles to prepare and present financial statements in accordance with general accepted accounting principles.
- Cause:** The District has financial personnel with limited financial reporting experience.
- Effect:** The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.
- Recommendation:** We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.
- Management's Response:** It is not economically feasible for the District to invest resources for a member of the financial staff to obtain the necessary training to prepare the financial statements.