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September 9, 2010

Mr. Jeff Derouen
Executive Director
Public Service Commission
PO Box 615
Frankfort, KY 40602

RECEIVED

SEP 09 2010

**PUBLIC SERVICE
COMMISSION**

RE: Adair County Water District
Financing

Dear Mr. Derouen:

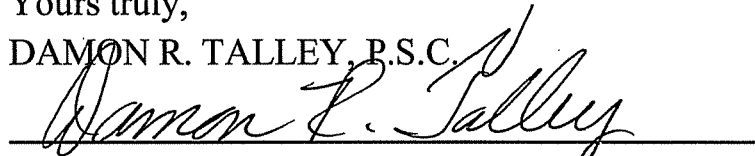
Enclosed for filing are the original and ten (10) copies of the Application of the Adair County Water District to assume certain debt obligations owed by the City of Columbia, Kentucky. This application is being made pursuant to KRS 278.300.

No rate increase will be required.

Should you need any additional information, please let me know.

Yours truly,

DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY, ATTORNEY FOR
ADAIR COUNTY WATER DISTRICT

DRT:ms

Enclosures

cc: Adair County Water District

10/ACWD/Derouen Letter - 9-9-10

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 09 2010

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

THE APPLICATION OF THE ADAIR COUNTY)
WATER DISTRICT TO ASSUME CERTAIN)
SECURITIES IN THE OUTSTANDING) CASE NO. 2010- _____
PRINCIPAL AMOUNT OF \$2,236,343)
PURSUANT TO THE PROVISIONS OF KRS)
278.300 AND 807 KAR 5 :001)

** *** ***** **

APPLICATION

** *** ***** **

The Applicant, Adair County Water District (the "District"), files this Petition and Application, pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Public Service Commission of Kentucky (the "Commission") enter an Order: either (1) declaring that the proposed assumption of securities, which is subject to the supervision and control of a federal agency within the meaning of KRS 278.300(10), does not require Commission authorization; or, **in the alternative**, (2) authorizing the District to assume certain securities in the outstanding principal amount of \$2,236,343 currently owed by the City of Columbia, Kentucky. In support of the Petition and Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

1. The District was established by the Order of the County Court of Adair County entered on October 21, 1971, pursuant to the provisions of KRS Chapter 74. The District is now, and has been since its inception, regulated by the Commission. All records and proceedings of the Commission with reference to the District are incorporated in this Application by reference.

2. The governing body of the District is its Board of Commissioners. The District is a public body corporate, with power to make contracts in furtherance of its lawful and proper purposes as provided in KRS 74.070 and all other applicable laws.

3. The mailing address of the District is as follows:

Adair County Water District
109 Grant Lane
P.O. Box 567
Columbia, KY 42728
Attn: Lennon D. Stone, Manager
Telephone: (270) 384-2181

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2009 which is on file with the Commission. The Annual Report is incorporated herein by reference.

BACKGROUND

5. As of December 31, 2009, the District provided retail water service to approximately 5,919 customers in Adair County, Kentucky. It had no wastewater customers.

6. As of December 31, 2009, the City of Columbia, Kentucky (the “Columbia”) provided retail water service to approximately 1,640 customers and wastewater collection and treatment services for approximately 1,460 customers. Columbia is a city of the fourth class and is located in Adair County, Kentucky.

7. Neither the District nor Columbia operates a water treatment plant. Both utilities purchase potable water for resale from the Columbia/Adair County Water Commission.

8. On May 3, 2010, Columbia and the District entered into an Asset Purchase Agreement (the “Agreement”) whereby Columbia will transfer its entire water distribution system and its wastewater collection and treatment system (the “Columbia Water and Wastewater Systems”) to the District. In return, the District will assume certain debt obligations incurred by Columbia for the purpose of constructing extensions and improvements to the Columbia Water and Wastewater Systems. A copy of the Agreement is attached hereto and incorporated herein by reference as **EXHIBIT 1**.

9. The District is not required to obtain Commission approval for the proposed transfer of ownership. KRS 278.020(5) and KRS 278.020(6) require prior Commission approval of the transfer of control or ownership of any “utility.” Columbia is a city and, consequently, is not a “utility” as defined by KRS 278.010(3). Therefore, Commission approval of the proposed transfer is

not required by KRS 278.020. In a long line of cases, the Commission has consistently held that similar transfer cases do not require Commission approval.¹

10. The debt obligations currently owed by Columbia, and to be assumed by the District, are evidenced by eight (8) different series of revenue bonds issued by Columbia, purchased by the USDA, Rural Development (“RD”), and still held by RD (the “Water and Wastewater Bonds”). As of September 1, 2010, the outstanding principal balance of the Water and Wastewater Bonds was **\$2,236,343.00**. **EXHIBIT 2**, which is attached hereto and incorporated herein by reference, contains a description of the Water and Wastewater Bonds, the date of issue, the original principal amount, the maturity date, the interest rate and the current unpaid balance of each bond issue.

11. The District has entered into an agreement with RD which sets forth the specific terms and conditions for assuming the Columbia Water and Wastewater Bonds in the outstanding principal amount of \$2,236,343. The RD Letter of Conditions dated May 10, 2010, which contains these terms and conditions, is attached hereto and incorporated herein by reference as **EXHIBIT 3**.

¹ See Hardin County Water District No. 1, Case No. 2008-00074 (Ky. PSC April 23, 2008); Ohio County Water District, Case No. 2004-00157 (Ky. PSC July 12, 2004); Northern Kentucky Water District, Case No. 2000-00357 (Ky. PSC July 20, 2000) at 2; Kenton County Water District No. 1, Case No. 1989-00211 (Ky. PSC November 1, 1989) at 3-4.

12. Paragraph 3 of the RD Letter of Conditions specifies that the Columbia Water and Wastewater Bonds will be transferred to and assumed by the District at the existing rates and terms.

13. Paragraph 15 of the RD Letter of Conditions sets forth the following information concerning each bond issue to be assumed by the District:

- A. Date of Issue;
- B. RD Loan Number;
- C. Purpose;
- D. Original Principal Amount;
- E. Maturity;
- F. Interest Rate; and
- G. Current Outstanding Principal Balance.

14. The information set forth in paragraph 15 of the RD Letter of Conditions is identical to the information shown in **EXHIBIT 2**.

15. All the debt obligations to be assumed by the District are held by RD. The District's assumption of the Columbia Water and Wastewater Bonds will be subject to the supervision and control of RD. RD will require the District to execute a Community Programs Assumption Agreement (the "Assumption Agreement"), which is an evidence of indebtedness, within the meaning of KRS 278.300(10). A copy of the form Assumption Agreement, RD Form 1951-15, is attached hereto and incorporated herein by reference as **EXHIBIT 4**. RD is an agency of the federal government.

NO COMMISSION AUTHORIZATION REQUIRED

16. The District seeks a declaration from the Commission confirming that the District's proposed assumption of Columbia's Water and Wastewater Bonds does **not** require authorization by the Commission. KRS 278.300(10) provides as follows:

278.300 Issuance or assumption of securities by utilities.

(10) This section does not apply in any instance where the issuance of securities or evidences of indebtedness is subject to the supervision or control of the federal government or any agency thereof, but the commission may appear as a party to any proceeding filed or pending before any federal agency if the issuance of the securities or evidences of indebtedness will materially affect any utility over which the commission has jurisdiction.

17. Normally, a jurisdictional utility cannot incur long-term debt without obtaining Commission authorization pursuant to KRS 278.300. Commission authorization is not required, however, if the issuance of the securities or evidences of indebtedness is subject to the supervision and control of a federal governmental agency. See KRS 278.300(10).

18. The District's proposed assumption of Columbia's Water and Wastewater Bonds does not require Commission authorization. KRS 278.300(10) exempts this transaction. RD is an agency of the federal government. The evidences of indebtedness to be issued by the District are subject to the supervision and control of RD. The RD Letter of Conditions attached hereto as **EXHIBIT 3** is five (5) pages long and contains 19 numbered

paragraphs of conditions which must be met before RD will approve the District's assumption of the Columbia Water and Wastewater Bonds.

19. **EXHIBIT 2** contains a comprehensive list of all the debt obligations to be assumed by the District. All these debt obligations are in the form of RD Bonds. No other debt will be assumed by the District. Therefore, Commission approval is not required.

20. Is KRS 278.023 applicable to this proceeding? If so, then the District must obtain Commission authorization, pursuant to KRS 278.023, before it can assume the Columbia Water and Wastewater Bonds. KRS 278.023 does not apply to this proceeding. KRS 278.023 only applies if the District is undertaking a "construction project." The District is not undertaking a "construction project." It is simply acquiring the Columbia Water and Wastewater Systems. Therefore, KRS 278.023 is not applicable.

WATER AND SEWER RATES

21. As provided in paragraph 16 of the Agreement, the District will charge uniform water rates to all its customers, including the existing Columbia customers, following the acquisition of the Columbia Water and Wastewater Systems. The rates to be charged will be the same rates as the District currently charges. **EXHIBIT 5**, which is attached hereto and incorporated herein by reference, contains a comparison of the current water rates charged by the District and Columbia.

22. The District does not currently provide wastewater service. Following the closing of the transaction, the District plans to adopt the sewer rates currently being charged by Columbia. These rates are also set forth in **EXHIBIT 5**.

23. The District has issued a formal Adoption Notice whereby it adopts the sewer rates and charges currently being charged by Columbia. The Adoption Notice is attached hereto and incorporated herein by reference as **EXHIBIT 6**.

BENEFITS OF CONSOLIDATION

24. The public policy of the Commonwealth, as declared in KRS 224A.300(1) and KRS 74.361(1) and (10) is to encourage regionalization, consolidation and merger of water and wastewater utilities wherever feasible. The District's proposed acquisition of the Columbia Water and Wastewater Systems is consistent with, and in furtherance of, this public policy.

25. Combining and consolidating the Columbia Water and Wastewater Systems with the District's Water System will result in economies of scale and will allow the combined systems to be managed, operated and maintained in a more cost effective manner.

26. The District, pursuant to KRS 74.100, KRS 74.407 and other applicable laws, is authorized to expand its existing Water System by acquiring the Columbia Water and Wastewater Systems.

27. Both the Columbia City Council and the District's Board of Commissioners have determined that it is economically feasible, desirable, beneficial and in the best interests of Columbia's customers, the District's customers and the general public for the proposed transfer of assets to take place.

28. The District has the financial, technical and managerial abilities to provide reasonable water service to, and wastewater collection and treatment services for, the existing customers of Columbia without causing a financial burden on the District's existing customers or adversely affecting the quality of service presently afforded the existing customers of the District or Columbia.

29. The District represents that the assumption of the Columbia Water and Wastewater Bonds will be in the public interest and is necessary to enable the District to acquire Columbia's Water and Wastewater Systems pursuant to the terms of the Agreement. This is a lawful object within the corporate purposes of the District's utility operations. The debt assumption is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

30. The District's proposed acquisition of the Columbia Water and Wastewater Systems and debt assumption will not adversely impact the District's ability to provide adequate, reasonable and reliable service to its existing customers.

FINANCIAL INFORMATION

31. The District's detailed Income Statement and Balance Sheet for the twelve (12) month period ending on December 31, 2009 are attached hereto and incorporated herein by reference as **EXHIBITS 7 and 8** respectively.

32. The remaining financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 6 and Section 11 (2)(a) are contained in the 2009 Annual Report which is on file with the Commission. The Annual Report is incorporated herein by reference.

33. Pursuant to KAR 5:001, the District hereby states as follows:

- A. Section 6(4) Mortgages: The District does not have any mortgages in effect as of the date hereof;
- B. Section 6(5) Bonds: The Columbia Water and Wastewater Bonds to be assumed by the District will be secured by a pledge of the revenues of the District's System;
- C. Section 11(2)(b): The District does not have any trust deeds in effect as of the date hereof; and
- D. Section 11(2)(c): The Map, which is attached hereto and incorporated herein by reference as **EXHIBIT 9**, depicts the location of the major properties (e.g. water storage tanks, wastewater treatment plant, etc.) which the District will be acquiring from Columbia.

34. A copy of the District's audited financial statements for the years ended December 31, 2009 and 2008 is attached hereto and incorporated herein by reference as **EXHIBIT 10**.

35. A copy of the City's audited financial statements for the fiscal year ended June 30, 2009 is attached hereto and incorporated herein by reference as

EXHIBIT 11. This is the most recently published financial data available for Columbia. The Balance Sheet for the City's utility operations is shown on pages 8 and 9 of **EXHIBIT 11.** The Income Statement for the City's utility operations is shown on page 10 of **EXHIBIT 11.** Page 33 of **EXHIBIT 11** contains separate, detailed schedules of operating revenues and expenses for the City's water department and sewer department for the years ended on June 30, 2009 and 2008.

DEVIATION REQUEST

36. The District hereby requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the Application. The District states that there has been no material change in the financial condition or operation of the District since December 31, 2009. The financial data filed with this Application is for the twelve (12) month period ending December 31, 2009. This is the most recent published financial data available.

37. The District believes that the financial information submitted with this Application is sufficient to enable the Commission to adequately, effectively and efficiently review this Application to assume debt.

38. The closing of the proposed acquisition of Columbia's Water and Wastewater Systems will take place as soon as practicable after the Commission enters its Order: either (1) declaring that the proposed assumption of securities does not require Commission authorization; or, **in the alternative**, (2) approving the debt assumption.

39. No rate adjustment will be necessary.

[Remainder of page intentionally left blank]

WHEREFORE, the District respectfully requests that the Commission take the following actions:

- A. **Either** enter an Order declaring that the proposed assumption of securities, which is subject to the supervision and control of a federal agency within the meaning of KRS 278.300(10), does not require Commission authorization; or,
- B. **In the alternative**, enter an Order authorizing the District to assume the Water and Wastewater Bonds in the outstanding principal amount of \$2,236,343 currently owed by the City of Columbia, Kentucky and set forth in **EXHIBIT 2**;
- C. Place this Application to issue securities at the head of the docket as provided by KRS 278.300(2);
- D. Grant the District a deviation, to the extent necessary, from 801 KAR 5:001, Section 6 to allow the submission of the District's Audit for the twelve (12) month period ending December 31, 2009 in lieu of more recent financial data; and
- E. Process this Application without a formal hearing in order to save time and expense. The District will promptly respond to any inquiries or information requests by the Commission's staff.

Subscribed and sworn to before me by Danny Downey, in his capacity
as Chairman of the Adair County Water District, on this September 9th,
2010.



NOTARY PUBLIC, STATE AT LARGE
MY COMMISSION EXPIRES: 6-9-2011

EXHIBIT LIST

1. ASSET PURCHASE AGREEMENT
2. REVENUE BONDS TO BE ASSUMED
3. RD LETTER OF CONDITIONS
4. ASSUMPTION AGREEMENT
5. WATER RATE COMPARISON & SEWER RATES
6. ADOPTION NOTICE
7. INCOME STATEMENT
8. BALANCE SHEET
9. MAP
10. AUDIT – ADAIR COUNTY WATER DISTRICT
11. AUDIT – CITY OF COLUMBIA

EXHIBIT 1

ASSET PURCHASE AGREEMENT

BETWEEN

CITY OF COLUMBIA

AND

**ADAIR COUNTY
WATER DISTRICT**

MAY 3, 2010

ASSET PURCHASE AGREEMENT

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7. CONTRACT TO BE ASSUMED
8. LITIGATION AND ADMINISTRATIVE PROCEEDINGS

ASSET PURCHASE AGREEMENT

This is an Asset Purchase Agreement (“Agreement”), to be effective as of May 3, 2010, made and entered into by and between the **CITY OF COLUMBIA, KENTUCKY**, a municipal corporation, 116 Campbellsville Street, Columbia, Kentucky 42728, hereinafter referred to as the “SELLER”; and the **ADAIR COUNTY WATER DISTRICT**, P. O. Box 567, 109 Grant Lane, Columbia, Kentucky 42728, hereinafter referred to as the “BUYER”;

WITNESSETH

WHEREAS, the SELLER is a duly organized and existing municipal corporation and city of the fourth class of the Commonwealth of Kentucky;

WHEREAS, the SELLER currently owns and operates both a water distribution system and a wastewater collection and treatment system (the “Water and Wastewater Systems”);

WHEREAS, the BUYER is a water district organized under the provisions of KRS Chapter 74;

WHEREAS, the BUYER currently owns and operates a water distribution system (“System”);

WHEREAS, the existing rates charged by the SELLER do not generate sufficient revenues to pay the operating expenses and cover the debt service owed on the SELLER's Water and Wastewater Systems;

WHEREAS, if the SELLER retains ownership of its Water and Wastewater Systems, the SELLER will be required to substantially increase both the water and sewer rates that it charges its customers;

WHEREAS, it appears that combining and consolidating the SELLER's Water and Wastewater Systems with the BUYER's System will result in economies of scale and will allow the combined systems to be managed, operated and maintained in a more cost effective manner;

WHEREAS, the Parties intend for the new combined utility to be know as the "Columbia/Adair Utilities District"; and

WHEREAS, the SELLER desires to transfer and convey and the BUYER desires to acquire, subject to the terms, conditions and provisions hereinafter set forth, the SELLER's Water and Wastewater Systems;

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual promises, covenants and conditions contained herein, it is agreed by and between the Parties as follows:

1. **TRANSFER OF CERTAIN ASSETS.** Subject to the terms and conditions of this Agreement, SELLER hereby agrees to transfer and convey to the BUYER and the BUYER hereby agrees to acquire from SELLER those assets described in paragraph two (2) of this Agreement (the "Assets") for the consideration set forth in paragraph three (3) of this Agreement.

2. **ASSETS BEING TRANSFERRED.** At the Closing, SELLER shall transfer to the BUYER its entire Water and Wastewater Systems. The assets being transferred to the BUYER (the "Assets") include, but are not limited to, the following:

A. The 300,000 gallon elevated water storage tank designated as the Bomar Heights Tank, altitude valve, appurtenances, and the parcel of real estate on which the tank is located (See Deed Book 86, Page 155 of record in the Office of the Adair County Clerk);

B. The 200,000 gallon elevated water storage tank designated as the Old Oshkosh Tank, altitude valve, appurtenances, and the parcel of real estate on which the tank is located (See Deed Book 103, Page 486 of record in the Office of the Adair County Clerk);

C. The 500,000 gallon elevated water storage tank designated as the Lindsey Wilson College Tank, altitude valve, appurtenances, and the parcel of real estate on which the tank is located (See Deed Book 160, Page 621 of record in the Office of the Adair County Clerk);

D. The 300,000 gallon elevated water storage tank designated as the Page Street Tank, altitude valve, appurtenances, and the parcel of real estate on which the tank is located (See Deed Book 117, Page 332 of record in the Office of the Adair County Clerk);

E. The old water treatment plant facility located on Water Works Street, including the old water treatment plant building, old warehouse building, and all other improvements, and the parcels of real estate on which the facility is located;

F. The water booster pump station located on Appen Avenue, including the pump and all other appurtenances associated therewith;

G. The water booster pump station located on Industrial Park Drive, including the pump and all other appurtenances associated therewith;

H. The wastewater treatment plant facility, which has a rated capacity of 1,200,000 gallons per day, including: the on-site generator; above-ground influent pump station; potable water pump station (skid mounted) and back flow preventer with two (2) pumps; all other improvements; and the parcels of real estate on which the wastewater treatment plant facility is located;

I. All sewer lift stations (18) including the pumps and related appurtenances used to operate the SELLER's Wastewater System. **Exhibit 1**, which is attached hereto and incorporated herein by reference, contains a complete listing of these sewer lift stations;

J. All sewer grinder pump stations (7) including the pumps and related appurtenances used to operate the SELLER's Wastewater System. **Exhibit 2**, which is attached hereto and incorporated herein by reference, contains a complete listing of these sewer lift stations;

K. All the SELLER's right, title and interest in the parcels of real estate where the water booster pump stations, sewer lift stations, and sewer grinder pump stations are located;

L. All other real estate easements and the improvements thereon, licenses, encroachment permits, rights-of-way or other interests in real estate owned by the SELLER and used in the operation of the SELLER's Water and Wastewater Systems;

M. The SELLER's entire water distribution system including, but not limited to, the following: all transmission mains, distribution lines, valves, meter vaults, meters, fire hydrants, flush hydrants, tap installations, fittings, spare parts and pumps, the complete telemetry system, and all other tools, equipment and inventory presently owned by the SELLER and utilized in the operation of its water distribution system;

N. The SELLER's entire wastewater collection system including, but not limited to, the following: all sewer gravity lines, all sewer force mains, all manholes, all laterals, all other pumps and controls, vaults, valves, and any and all other facilities and appurtenances owned by the SELLER and utilized in the operation of the wastewater collection system;

O. All maps, drawings, operating manuals, engineering reports and "As Built" plans pertaining to the SELLER's Water and Wastewater Systems;

P. All business records pertaining to the SELLER's Water and Wastewater Systems, including, but not limited to, all customer records and customer agreements;

Q. Any and all other tangible and intangible rights, permits, licenses or authorizations owned by the SELLER and utilized in the operation of its Water and Wastewater Systems;

R. The five (5) trucks listed in **Exhibit 3**, which is attached hereto and incorporated herein by reference; and

S. The machinery, equipment, trailer and other miscellaneous items of personal property listed in **Exhibit 4**, which is attached hereto and incorporated herein by reference.

3. **CONSIDERATION.** As consideration for the transfer of SELLER's Water and Wastewater Systems, the BUYER, at the Closing, shall assume and shall become solely responsible for the payment of the outstanding debt obligations incurred by the SELLER for the purpose of constructing extensions and improvements to its Water and Wastewater Systems. These debt obligations are

evidenced by eight (8) different series of revenue bonds issued by the SELLER, purchased by the U.S.D.A., Rural Development ("RD"), and still held by RD ("Water and Wastewater Bonds"). As of April 1, 2010, the outstanding principal balance of the Water and Wastewater Bonds was **\$2,236,343.00**. **Exhibit 5**, which is attached hereto and incorporated herein by reference, contains a description of the Water and Wastewater Bonds and the current unpaid balance of each bond issue.

4. **CUSTOMER DEPOSITS.** SELLER represents that on March 26, 2010, it was holding customer deposits for its water and sewer customers in the sum of **\$19,189.25**. Prior to Closing, SELLER shall furnish the BUYER a current list which shows the name, address, account number, and amount still on deposit for each customer. At the Closing, SELLER shall transfer to the BUYER a sum of money equal to the principal amount of customer deposits held by SELLER at the time of Closing plus any accrued, but unpaid, interest owed on the customer deposits. Thereafter, the BUYER shall be responsible for refunding customer deposits.

5. **LIABILITIES EXCLUDED.** The BUYER is not assuming nor paying any of SELLER's liabilities or debts, except for the Water and Wastewater Bonds listed in **Exhibit 5** and the customer deposits as described in paragraph four (4) of this Agreement.

6. **CONSTRUCTION WORK IN PROGRESS.** The Parties acknowledge that the SELLER is currently constructing an extension of its wastewater collection system to provide wastewater service to the residents of the Parkview Subdivision. The construction contract should be substantially completed and the wastewater collection lines should be placed into service prior to the Closing. At the Closing, the SELLER shall assign the contractor's warranty to the BUYER. In addition, the SELLER shall require the contractor to provide the usual and customary Certificate of Payment certifying that the contractor has been paid to date and that all subcontractors and material providers have been paid to date in full. Also, the SELLER shall be responsible for making any and all remaining payments owed to the contractor and to Bell Engineering.

7. **GRANT COMPLIANCE.** The SELLER is the recipient of a House Bill 608 Grant in the amount of \$273,000 (the "Grant") awarded by the Kentucky General Assembly and administered by the Kentucky Infrastructure Authority (the "KIA"). The Grant proceeds are being used to pay the costs of constructing the

wastewater collection facilities in the Parkview Subdivision. To facilitate final closeout of the Grant and to ensure compliance with the Grant requirements, the SELLER shall be responsible for maintaining all files, books and records regarding the Grant and the use of the Grant proceeds and BUYER shall be responsible for ongoing compliance.

8. **DEPRECIATION RESERVE FUND.** Pursuant to the provisions of its various bond ordinances, the SELLER has established, maintained and is still making the required monthly transfers to its Depreciation Reserve Fund. (SELLER has designated this fund as the "Contingency" account). SELLER represents that, as of April 1, 2010, the Depreciation Reserve Fund balance was **\$94,080.00**. Until the Closing, the SELLER shall continue making the required monthly transfer of **\$520.00** to its Depreciation Reserve Fund. At the Closing, SELLER shall transfer to the BUYER a sum of money equal to the entire balance of the Depreciation Reserve Fund. The BUYER shall keep the funds received from the SELLER in a separate and distinct account from the BUYER's already established depreciation reserve funds. The BUYER shall designate the funds received from the SELLER as the "Columbia Depreciation Reserve Fund". Any expenditure by the BUYER of the monies in the Columbia Depreciation Reserve Fund shall be made in strict compliance with the provisions of the SELLER's

applicable bond ordinances. In addition, the monies may be expended only for making extraordinary repairs, renewals or replacements of facilities located within the City of Columbia corporate limits or for paying the cost of constructing improvements located within the City of Columbia corporate limits if the improvements will provide a higher degree of service to the residents of Columbia.

9. **SINKING FUND PAYMENTS.** Pursuant to the provisions of its various bond ordinances, the SELLER has established, maintained and is still making the required monthly transfers to its Bond Sinking Fund. The amount of the monthly sinking fund payments equal one-sixth ($1/6$) of the interest to become due on the next interest payment date plus one-twelfth ($1/12$) of the principal amount of all Water and Wastewater Bonds maturing on October 1, 2010. The current amount of the required monthly transfer to the Bond Sinking Fund is **\$16,381.00**. Until the month following the Closing, the SELLER shall continue making the required monthly transfers to its Bond Sinking Fund and shall use the accumulated funds to make the required principal and interest payments on its Water and Wastewater Bonds. At the Closing, SELLER shall transfer to the BUYER a sum of money equal to the entire balance of the Bond Sinking Fund. Within thirty (30) days following the Closing, the SELLER shall transfer to the

BUYER the sum of **\$16,381.00** which represents the final monthly Bond Sinking Fund payment owed by the SELLER.

10. **FUTURE DEBT SERVICE FUNDS.** Pursuant to the provisions of its various bond ordinances, the SELLER has established and maintained a Future Debt Service – First Lien Fund and a Future Debt Service – Second Lien Fund. SELLER represents that, as of April 1, 2010, the Future Debt Service – First Lien Fund balance was **\$6,700.00** and the Future Debt Service – Second Lien Fund balance was **\$182,552.00**. At the Closing, SELLER shall transfer to the BUYER a sum of money equal to the combined balance of the both Future Debt Service Funds. The BUYER shall keep the funds received from the SELLER in a separate and distinct account from the BUYER's other funds. The BUYER shall designate the funds received from the SELLER as the "Columbia Future Debt Service Fund". Any expenditure by the BUYER of the monies in the Columbia Future Debt Service Fund shall be made in strict compliance with the provisions of the applicable City of Columbia ordinances and only after prior, written approval by RD.

11. **WASTEWATER SERVICE EXPANSION.** The BUYER agrees to work cooperatively with the SELLER to jointly identify potential areas which might be feasible for wastewater service. The SELLER agrees to assist the

BUYER in seeking grants and other funds to facilitate the extension of wastewater service to these areas.

12. **EMPLOYEES.** Both the SELLER and the BUYER recognize the importance of maintaining employee morale and a stable workforce during the interim period from now until the actual transfer of assets takes place. Thereafter, the BUYER will need the services of the SELLER's current Water and Wastewater employees to ensure a smooth and orderly transition and to operate and maintain the newly acquired Water and Wastewater Systems. Therefore, the BUYER shall offer full-time employment to all full-time employees of the SELLER's Water and Wastewater Systems who are not offered continued employment by the SELLER. The employees will be offered employment at their current salary and benefits. The employment by the BUYER will not commence until the transfer of assets is completed.

13. **WATER COMMISSIONERS.** The BUYER pledges, and hereby contractually obligates itself, to use its best efforts to persuade the Adair County Judge/Executive to appoint two (2) persons who reside within the City of Columbia corporate limits to the BUYER's Board of Commissioners. This commitment and obligation shall be a continuing commitment and obligation of the BUYER.

14. **COLUMBIA/ADAIR UTILITIES DISTRICT.** Immediately following the Closing, the combined utility shall be known as the "Columbia/Adair Utilities District".

15. **EASEMENT.** At the Closing, SELLER shall execute and deliver to the BUYER an easement granting the BUYER the right to repair, maintain, replace and remove water pipelines, sewer lines and related appurtenances under, across, along and through city streets, roads, sidewalks and other city property, including the right to cut or bore under said streets, roads and sidewalks as directed by the SELLER; but subject to any and all of SELLER's ordinances, rules and regulations regarding obtaining permits before cutting or boring under streets and sidewalks;

16. **UNIFORM RATES.** Following the Closing, the rates to be charged by BUYER to all its water customers, including those currently served by the SELLER, shall be the same. The initial water rates shall be the water rates currently being charged by the BUYER. Likewise, following the Closing the rates to be charged by BUYER to all its sewer customers, shall be the same. The initial sewer rates shall be the sewer rates currently being charged by the SELLER. **Exhibit 6** sets forth the SELLER's current water and sewer rates and the BUYER's current water rates. In the event the SELLER collects any water or sewer connection fees prior to the Closing but has not installed all the meters or

made all the sewer connections for which payment has been received (the "Pre-paid Connection Fees"), then the SELLER shall transfer the amount of the Pre-paid Connection Fees to the BUYER at the Closing.

17. **ASSUMPTION OF WATER PURCHASE CONTRACT.** The SELLER currently purchases water as a wholesale customer from the Columbia/Adair County Water Commission pursuant to the Water Purchase Contract dated May 19, 2005 (the "Water Contract"), a copy of which is attached hereto as **Exhibit 7** and incorporated herein by reference. At the Closing, the SELLER shall assign the Water Contract to the BUYER and the BUYER shall assume all of SELLER's rights, title, and interest in and to, and obligations under, the Water Contract.

18. **CONTINUED OPERATION OF SYSTEM.** Until the time of the Closing, SELLER shall continue to operate and maintain the SELLER's Water and Wastewater Systems in substantially the same manner as it has previously been operated and maintained. Immediately following the Closing, the BUYER shall commence operating and maintaining the Water and Wastewater Systems.

19. REPRESENTATIONS AND WARRANTIES OF SELLER.

SELLER represents and warrants to the BUYER as follows:

A. SELLER is a duly organized and validly existing municipal corporation and city of the fourth class of the Commonwealth of Kentucky. It has the requisite right, power and authority: (1) to carry on its utility business as it is now being conducted; and (2) to own and operate its facilities which it currently owns and operates. SELLER has, and at all relevant times has had, full power and authority to own its facilities, including the Assets, and to conduct its utility business.

B. SELLER has full capacity, right, power and authority to enter into, deliver, and perform this Agreement. This Agreement has been approved by its City Council. All other consents, approvals, authorizations, or other requirements prescribed by law, rule or regulation which must be obtained or satisfied by SELLER and which are necessary in order for it to enter into and perform this Agreement have been satisfied. This Agreement has been duly executed and delivered by SELLER and constitutes a legal, valid and binding obligation, enforceable against it in accordance with its terms.

C. The execution, delivery, performance and the consummation of the transactions contemplated in this Agreement do not and will not: (1) conflict with or result in a violation or breach of any of the terms, conditions, or provisions of or constitute a default of any instrument, agreement, mortgage, judgment, order, writ, award, decree, or other restriction to which either SELLER is a Party, or to which any of SELLER's Assets are subject, or by which SELLER is bound or any statute or regulatory provision affecting SELLER; (2) require the approval, consent, or authorization of any federal, state, or local court, governmental authority, or regulatory body or of any creditor of SELLER or of any other person or entity, except for RD; nor (3) give any Party with rights under any instrument, agreement, mortgage, judgment, order, writ, award, decree or other restriction the right to terminate, modify, or otherwise change SELLER's rights or obligations thereunder.

D. SELLER has complied with all existing laws, rules, regulations, ordinances, orders, judgments and decrees now or hereafter applicable to SELLER's Assets. SELLER is not aware of any proposed laws, rules, regulations, ordinances, orders, judgments,

decrees, governmental takings, condemnations, or other proceedings which would be applicable to SELLER's Assets or which might adversely affect SELLER's Assets either before or after the date of this Agreement.

E. SELLER has not received any notice or notification from any court or governmental agency, authority, or body that it is in violation of, or not in compliance with, any federal, state, or local law, statute, ordinance, rule, regulation, decree, or order or permit relating to its utility business or that upon the passage of time it will be in violation of any of the foregoing. SELLER's operation of its utility business complies in all respects with all governmental requirements relating to the collection, treatment and disposal of wastewater.

F. SELLER is the true and lawful owner of the Assets and has good, marketable, and insurable title to all of the Assets. None of the Assets will, after Closing, be subject to any mortgage, pledge, lien, charge, security interest, encumbrance, restriction, lease, license, easement, liability or adverse claim of any nature whatsoever, direct or indirect, whether accrued, absolute, contingent or otherwise. All

the Assets are in good operating condition and repair and are suitable for the purposes used.

G. Upon execution and delivery of the necessary deeds, bills of sale, easements, assignments and other instruments of transfer by the SELLER pursuant to this Agreement, the BUYER shall acquire good and valid title to the Assets, free and clear of all claims, liens, security interests, agreements, restrictions, charges and encumbrances of any nature whatsoever.

H. No other person or entity, except for the BUYER, now has, nor at any time prior to the Closing will have, the right to purchase, own, use, or sell any of the Assets.

I. SELLER is not insolvent as of the date of this Agreement. SELLER is able to meet all business obligations as they become due and will not be insolvent or unable to meet its business obligations as a result of completing the transactions described herein.

J. With the exception of the matter listed in **Exhibit 8**, there is no claim, legal action, suit, arbitration, governmental investigation or other legal or administrative proceeding, nor any order, decree or judgment in progress, pending or in effect, or threatened, against or

relating to the SELLER, its officers, commissioners, employees or utility business, the Assets, or the transactions contemplated by this Agreement, and SELLER neither knows nor has reason to be aware of any basis for the same.

K. Between the date of this Agreement and the Closing, SELLER shall operate its Water and Wastewater Systems diligently and substantially in the same manner as heretofore conducted prior to the date of this Agreement. Prior to the Closing, the SELLER shall not, without the BUYER'S prior written approval, change its rates or charges, institute any new methods of accounting or operation or engage in any transaction or activity, enter into any agreement or make any commitment, except in the ordinary course of business and consistent with past practice.

L. Prior to the Closing, the SELLER shall not permit any of the Assets to be subjected to a mortgage, pledge, lien or encumbrance, without notice to, and approval of, the BUYER, and further shall not dispose of any of the Assets.

M. SELLER shall maintain until the Closing the insurance policies presently in effect on the Assets.

N. SELLER's current rates for water service and wastewater service are set forth in **Exhibit 6**.

O. SELLER shall not perform any act or omit to perform any act or permit any act or omission that will cause a breach or default in this Agreement.

P. No representation or warranty by the SELLER in this Agreement, nor any statement or certificate furnished or to be furnished by it to the BUYER or its representatives in connection herewith or pursuant hereto, contains or will contain any untrue statement of material fact or will omit a statement of any material fact required to make the statements herein or therein contained not misleading. SELLER has disclosed to the BUYER in writing all material adverse facts known to it relating to the SELLER, its utility business or the Assets. SELLER is not aware of any circumstances or facts which could be detrimental to its utility business other than those disclosed to the BUYER in writing.

Q. All minute books, books and records and other documents maintained by the SELLER with respect to the Assets are true, complete and accurate.

R. All representations and warranties of the SELLER contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall be true as of the Closing as well as of the date of this Agreement.

20. **BUYER'S REPRESENTATIONS AND WARRANTIES.** The BUYER represents and warrants to SELLER as follows:

A. That it is a duly organized and existing water district.

B. That the execution and delivery of this Agreement and the consummation of the transactions herein contemplated have been duly authorized by its Board of Commissioners.

C. That it has the financial, technical and managerial abilities to provide reasonable water service and wastewater collection and treatment services to SELLER's existing customers.

D. That its current rates for water service are set forth in **Exhibit 6.**

21. **CLOSING.** The closing of this transaction (the "Closing") shall take place at a mutually convenient date, time and place.

22. **ACCESS TO BOOKS.** Between the date of this Agreement and the Closing, the BUYER and its authorized representatives shall have the right to examine and to obtain copies of any and all pertinent books, plats, maps, plans and records of SELLER upon reasonable notice and at mutually convenient times.

23. **FINAL BILLING.** No later than two (2) weeks prior to the Closing, SELLER shall provide the BUYER with a current list of all names, addresses, meter identification numbers and account numbers of the SELLER's customers. At Closing, the SELLER shall also provide the BUYER with the last meter reading for each customer. SELLER shall bill all its customers for water and wastewater services rendered prior to the Closing. SELLER shall be entitled to all revenue derived from the final bill it sends its customers. The BUYER shall be entitled to all revenue derived from water and wastewater services rendered on and after the date of the Closing.

24. **CLOSING REQUIREMENTS.** The obligations of the Parties are expressly conditioned on the following, each of which is a condition precedent to the validity and enforcement of this Agreement:

A. The representations and warranties of each of the Parties shall be true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing.

B. Each of the Parties to this Agreement shall have performed and complied in all material respects with all of its respective obligations under this Agreement which are due to be performed or complied with by such Party prior to or at the Closing.

C. At and as of the Closing, no litigation, proceedings, investigations or inquiries shall be pending or threatened by any person, firm, corporation, governmental agency, or governmental official to enjoin or prevent the consummation of this transaction.

D. The Kentucky Public Service Commission shall have entered a final order authorizing the BUYER to assume payment of the Water and Wastewater Bonds of the SELLER as itemized in **Exhibit 5**.

E. RD shall have issued a Letter of Conditions authorizing the BUYER to assume payment of the Water and Wastewater Bonds of the SELLER as itemized in **Exhibit 5**.

F. The Adair County Judge/Executive shall have entered an Order expanding the territorial boundaries of the BUYER to include all territory within the SELLER's corporate limits.

25. **CONVEYANCE AND TRANSFERS.** SELLER shall not convey, lease, or in any other way dispose of the Assets until the Closing. At the Closing, SELLER shall execute and deliver to the BUYER such deeds, assignments, bills of sale, and other instruments of transfer as are necessary or requested by the BUYER to vest the BUYER with good and marketable, unencumbered title to the Assets, without the need for further approval or consent by any other person or entity.

26. **DUE AT CLOSING.**

A. **DUE FROM SELLER TO BUYER:** Unless the BUYER provides a written waiver of any item listed herein, SELLER shall deliver to the BUYER at Closing the following:

- (1) General warranty deeds and an Assignment of Easements conveying SELLER's ownership interests in the real property described in paragraph two (2), **Exhibit 1** and **Exhibit 2** of this Agreement.
- (2) Such bills of sale, assignments and other instruments of transfer, all dated the Closing Date, as shall be necessary or requested by the BUYER to vest the BUYER with good and marketable, unencumbered title to the Assets;
- (3) An assignment transferring to the BUYER all of SELLER's rights, title and interest in the Water Contract;

- (4) A schedule which contains a current listing of the name, address, account number, meter identification number, meter reading, and amount still on deposit for each customer;
- (5) An easement granting the BUYER the right to repair, maintain, replace and remove water pipelines, sewer lines and related appurtenances under, across, along and through city streets, roads, sidewalks and other city property, including the right to cut or bore under said streets, roads and sidewalks as directed by the SELLER; but subject to any and all of SELLER's ordinances, rules and regulations regarding obtaining permits before cutting or boring under streets and sidewalks;
- (6) Duly certified copy of the ordinance of the City Council authorizing the execution, delivery and performance of this Agreement by the SELLER, which ordinance shall be in full force and effect at, and as of, the Closing;
- (7) An opinion from SELLER's counsel, dated the Closing Date and in a form satisfactory to the BUYER, as to the representations, warranties and other matters set forth in paragraph 19 of this Agreement;
- (8) A certificate, signed by the Mayor of the SELLER and dated as of the Closing Date, representing and warranting to the BUYER (i) that the representations, warranties and other matters set forth in paragraph 19 of this Agreement are true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing, and (ii) that the Closing Requirements set forth in paragraph 24 of this Agreement have been fully satisfied;

- (9) All records for the utility customers;
- (10) Possession of the Assets;
- (11) A certified or cashier's check for the amount of customer deposits, plus any accrued, but unpaid, interest owed on the customer deposits, held by the SELLER;
- (12) A certified or cashier's check for the amount of any Pre-paid Connection Fees held by the SELLER;
- (13) A certified or cashier's check for the entire balance of the Depreciation Reserve Fund (Contingency Account);
- (14) A certified or cashier's check for the entire balance of both the First Lien and Second Lien Future Debt Service Funds;
- (15) A certified or cashier's check for the entire balance of the Bond Sinking Fund;
- (16) An assignment of the contractor's warranty on the construction contract referred to in paragraph six (6) of this Agreement; and
- (17) Such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

B. DUE FROM BUYER TO SELLER: Unless the SELLER provides a written waiver of any item listed herein, the BUYER shall deliver to the SELLER at Closing the following:

- (1) Proof that the BUYER has assumed the Water and Wastewater Bonds described in paragraph three (3) and set forth in **Exhibit 5** of this Agreement;
- (2) A certified copy of the BUYER's resolution approving this Agreement, authorizing the Chairman to execute and deliver this Agreement, and further authorizing the appropriate officials to take all actions necessary to consummate the transactions contemplated by this Agreement;
- (3) An opinion from Damon R. Talley, P.S.C., special counsel to the BUYER, dated the Closing Date and in a form satisfactory to SELLER, as to the representations, warranties and other matters set forth in paragraph 20 of this Agreement; and
- (4) Such receipts as may be reasonably requested by the SELLER and such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

27. SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

The representations, warranties, and agreements of the Parties contained in this Agreement, or in any certificate or other writing delivered pursuant hereto, shall survive the making of this Agreement and the Closing.

28. **RESPONSIBLE PARTIES.** SELLER shall be solely responsible for any loss, claim, action, suit, proceeding, deficiency or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by SELLER under this Agreement, including the exhibits, or any documents delivered to the BUYER in connection with this Agreement; (b) claims of negligence or strict liability arising from the operation of the Water and Wastewater Systems prior to the Closing; and (c) all contingent liabilities relating to SELLER, its Water and Wastewater Systems or the Assets with respect to any state of facts or occurrences existing at or prior to the Closing.

The BUYER shall be solely responsible for any loss, claim, action, suit, proceeding, deficiency or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by BUYER under this Agreement, including the exhibits, or any documents delivered to the SELLER in connection with this Agreement; and (b) claims of negligence or strict liability arising from the operation of the Water and Wastewater Systems after the Closing.

29. **ENTIRE AGREEMENT.** This Agreement, including all of its exhibits, which are hereby incorporated by reference, constitutes the entire agreement of the Parties with respect to the subject matter hereof and may not be modified or amended or terminated except by written agreement specifically referring to this Agreement, and signed by all of the Parties hereto.

[Remainder of page intentionally left blank]

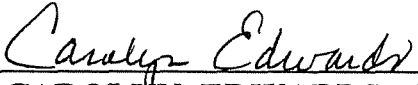
IN TESTIMONY WHEREOF, this Agreement has been executed in multiple counterparts, each of which is deemed to be an original, by the duly authorized officers of the Parties, as of the effective date of this Agreement.

SELLER:

CITY OF COLUMBIA, KENTUCKY

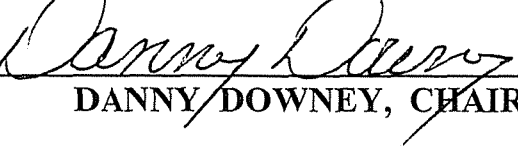
BY: 
PATRICK R. BELL, MAYOR

DATE: May 3, 2010

ATTEST: 
CAROLYN EDWARDS, CITY CLERK

BUYER:

ADAIR COUNTY WATER DISTRICT

BY: 
DANNY DOWNEY, CHAIRMAN

DATE: May 3, 2010

ATTEST: 
MITCH HARRIS, SECRETARY

EXHIBITS

1. SEWER LIFT STATIONS
2. SEWER GRINDER PUMP STATIONS
3. TRUCKS
4. MACHINERY, EQUIPMENT & PERSONAL PROPERTY
5. REVENUE BONDS
6. CURRENT WATER & SEWER RATES
7. CONTRACT TO BE ASSUMED
8. LITIGATION AND ADMINISTRATIVE PROCEEDINGS

EXHIBIT 1

SEWER LIFT STATIONS

	ID #	NAME	LOCATION
1	SLS 1	Clarence Keltner	1035 Burkesville Road
2	SLS 2	Majestic Yachts	101 Westwood Drive
3	SLS 3	Holiday Place	50 Corporate Drive
4	SLS 4	Walmart	2988 Burkesville Road
5	SLS 5	Curry Street	South End of Curry Street
6	SLS 6	Old Industrial Park	400 Progress Road
7	SLS 7	Gaston Avenue	109 Grider Drive
8	SLS 8	East 80	932 Russell Springs Road
9	SLS 9	Hospital	Water Works Road
10	SLS 10	Greenhills	50 Kassem Road
11	SLS 11	Grant Lane	Grant Lane
12	SLS 12	Russell Heights	End of West Page Street
13	SLS 13	Long Hunters #1	470 Dillon Street
14	SLS 14	Long Hunters #2	215 Knox Street
15	SLS 15	Hemlock Circle	Hemlock Circle
16	SLS 16	Center Street	205 Center Street
17	SLS 17	Page Street	814 Page Street
18	SLS 18	Don Franklin Ford	536 Hudson Street

EXHIBIT 2

SEWER GRINDER PUMP STATIONS

	ID #	NAME	LOCATION
1	GP1	Tommy Grider Apartments	940 Burkesville Street
2	GP2	Danny Pyles Shop	221 Corporate Drive
3	GP3	Five Star (South 61)	3100 Burkesville Road
4	GP4	United Citizens Bank (North 55)	1582 Campbellsville Road
5	GP5	Mexican Restaurant (North 55)	1764 Campbellsville Road
6	GP6	Division of Water (North 55)	2751 Campbellsville Road
7	GP7	Loy Medical (North 55)	945 Campbellsville Road

EXHIBIT 3

TRUCKS

	MAKE	MODEL	YEAR	VIN	MILEAGE
1	Chevrolet	Tahoe	2004	1GNEK13V24R221167	61,300
2	Chevrolet	CK 1500	2003	1GCEK14V43Z203484	71,600
3	Chevrolet	CK 2500	2003	1GBHK24193E197435	52,100
4	GMC	Sonoma	1999	1GTCS144XX8526299	79,000
5	Ford	F150	1991	1FTEF14Y9MLA82633	112,000

Note: Odometer of each truck to be read at Closing and Mileage column updated.

EXHIBIT 4

MACHINERY, EQUIPMENT, TOOLS AND MISCELLANEOUS PERSONAL PROPERTY BEING TRANSFERRED TO BUYER

.....

1. 1 – 2007 JCB Backhoe, Model 3CX;
2. 1 – 2007 Belshe Trailer, Model DT22-2EP;
3. 1 – New Holland Skid Steer Loader, Model LS 170;
4. 1 – Yard Rake Attachment for New Holland Skid Steer Loader;
5. 1 – Mow’N Machine, Model M 1952K, zero-turn mower;
6. 1 – Massey Ferguson Tractor, Model 235;
7. 1 – Rotary Mower (3-Point Hitch);
8. 1 – Abbott Sewer Jetter (trailer mounted) with accessories;
9. 1 – Vermeer VAC-Tron Valve Exercise Machine;
10. 1 – Haze Tapping Machine with accessories;
11. 1 – Mueller Tapping Machine with accessories;
12. 1 – Makita Cut-Off Saw;
13. 1 – Level and Transit;
14. 1 – Pollard Ultrasound Leak Detector with accessories;
15. 1 – Battery Operated Water Pump (1 ½”);
16. 1 – Gasoline Water Pump (3”) mounted on cart;

17. 1 – Allegro Ventilation Fan;
18. 1 – Rigid Sewer Camera and Monitor with accessories;
19. 1 – Pipe Breaker;
20. 1 – Telemetry System with Monitors;
21. 1 – Gorman Rupp Trash Pump, Model T4A3-B (4”);
22. 1 – 1987 Murray Riding Lawn Mower, 17 hp & 42” cut;
23. 1 – Honda Pressure Washer (gasoline engine);
24. 1 – Porter-Cable Air Compressor;
25. 1 – Ace Hardware Bench Grinder (6”);
26. 1 – Makita Hand Grinder;
27. 1 – NAPA Battery Charger;
28. 1 – Hach Lab Analysis Tester, Model DR2700;
29. 1 – Hach Digester, Model DRB200;
30. 1 – Raven Centrifuge, Model F10300;
31. 1 – WWR Vacuum Pump, Model 0766;
32. 1 – YSI Dissolved Oxygen & Temperature Meter, Model 550A;
33. 1 – Swift Microscope, Model M250;
34. 1 – Orion pH Meter, Model 720;
35. 1 – Hach Magnetic Stirrer, Model 45300-01;

36. 1 – NEY Lab Oven, Model M525;
37. 1 – Imperial IV Lab Oven, Model 3470;
38. 1 – Davis Weather Wizard III;
39. 2 – Hon 4-Drawer Filing Cabinets;
40. 1 – Hotpoint Refrigerator (full size) for potable water samples;
41. 1 – Haier Refrigerator (dorm size) for sewer samples;
42. 1 – Savin Copy Machine, Model 2522;
43. 1 – Brothers Telephone and Fax Machine, Model 1270E;
44. 1 – Radio Shack Wireless Surveillance System;
45. 3 – Office Desks;
46. 4 – Office Chairs;
47. Miscellaneous Hand Tools;
48. All personal property itemized in paragraph 2 of the Asset Purchase Agreement; and
49. Miscellaneous laboratory equipment, furniture, fixtures, supplies and other items of personal property located at the Wastewater Treatment Plant.

EXHIBIT 5

WATER AND WASTEWATER REVENUE BONDS

OWED BY THE CITY OF COLUMBIA TO RURAL DEVELOPMENT
AND TO BE ASSUMED BY THE ADAIR COUNTY WATER DISTRICT

	BOND ISSUE	RD LOAN NUMBER	PURPOSE	ORIGINAL PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	OUTSTANDING PRINCIPAL BALANCE
1	1975	91-02	Water	\$ 96,000	10-1-2015	5.000%	\$ 30,000
2	1977	92-03	Sewer	\$ 998,000	10-1-2016	5.000%	\$ 350,000
3	1988 Series A	92-04	Sewer	\$ 750,000	10-1-2028	5.000%	\$ 563,955
4	1988 Series B	92-06	Sewer	\$ 200,000	10-1-2028	5.000%	\$ 141,788
5	1995	92-09	Sewer	\$ 125,000	10-1-2034	4.500%	\$ 104,400
6	2000	92-14	Sewer	\$ 501,000	10-1-2040	4.500%	\$ 459,200
7	2004	91-15	Water	\$ 495,000	10-1-2043	4.250%	\$ 472,000
8	2008	92-17	Sewer	\$ 115,000	10-1-2047	4.125%	\$ 115,000
NOTE: Outstanding Principal Balances as of April 1, 2010							\$ 2,236,343

EXHIBIT 6

CURRENT WATER AND SEWER RATES

Water Rates

Usage (Gallons)	Columbia	Adair County Water District
0	\$ 8.00 Minimum Bill	\$ 15.35 Minimum Bill
1 to 2,000	\$ 4.00 per 1,000 gallons	\$ 15.35 Minimum Bill
2,001 to 5,000	\$ 4.00 per 1,000 gallons	\$ 5.75 per 1,000 gallons
5,001 to 10,000	\$ 4.00 per 1,000 gallons	\$ 5.00 per 1,000 gallons
10,001 to 20,000	\$ 4.00 per 1,000 gallons	\$ 3.90 per 1,000 gallons
20,001 to 25,000	\$ 3.70 per 1,000 gallons	\$ 3.90 per 1,000 gallons
25,001 to 40,000	\$ 3.70 per 1,000 gallons	\$ 3.15 per 1,000 gallons
40,001 to 60,000	\$ 3.45 per 1,000 gallons	\$ 3.15 per 1,000 gallons
60,001 to 100,000	\$ 2.45 per 1,000 gallons	\$ 3.15 per 1,000 gallons
Over 100,000	\$ 2.10 per 1,000 gallons	\$ 3.15 per 1,000 gallons

Sewer Rates for Columbia

\$ 4.00 – Minimum Monthly Bill

Plus

\$ 4.10 – Per 1,000 Gallons

WATER RATE COMPARISON

USAGE (Gallons)	COLUMBIA	ADAIR COUNTY WATER DISTRICT
1,000	\$ 12.00	\$ 15.35
2,000	\$ 16.00	\$ 15.35
3,000	\$ 20.00	\$ 21.10
4,000	\$ 24.00	\$ 26.85
5,000	\$ 28.00	\$ 32.60
6,000	\$ 32.00	\$ 37.60

EXHIBIT 7

CONTRACT TO BE ASSUMED

Water Purchase Contract Between
Columbia/Adair County Water Commission, Seller
And
City of Columbia, Buyer
Dated May 19, 2005

EXHIBIT 8

LITIGATION AND ADMINISTRATIVE PROCEEDINGS

1. The only matter is a civil action alleging wrongful termination brought by a former employee of the City of Columbia. The case is styled Donnie Melson v. City of Columbia, Case No. 07-CI-00275, and is still pending in the Adair Circuit Court.

EXHIBIT 2

EXHIBIT 2
WATER AND WASTEWATER REVENUE BONDS

OWED BY THE CITY OF COLUMBIA TO RURAL DEVELOPMENT
AND TO BE ASSUMED BY THE ADAIR COUNTY WATER DISTRICT

	BOND ISSUE	RD LOAN NUMBER	PURPOSE	ORIGINAL PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	OUTSTANDING PRINCIPAL BALANCE
1	1975	91-02	Water	\$ 96,000	10-1-2015	5.000%	\$ 30,000
2	1977	92-03	Sewer	\$ 998,000	10-1-2016	5.000%	\$ 350,000
3	1988 Series A	92-04	Sewer	\$ 750,000	10-1-2028	5.000%	\$ 563,955
4	1988 Series B	92-06	Sewer	\$ 200,000	10-1-2028	5.000%	\$ 141,788
5	1995	92-09	Sewer	\$ 125,000	10-1-2034	4.500%	\$ 104,400
6	2000	92-14	Sewer	\$ 501,000	10-1-2040	4.500%	\$ 459,200
7	2004	91-15	Water	\$ 495,000	10-1-2043	4.250%	\$ 472,000
8	2008	92-17	Sewer	\$ 115,000	10-1-2047	4.125%	\$ 115,000
NOTE: Outstanding Principal Balances as of September 1, 2010							\$ 2,236,343

EXHIBIT 2 WATER REVENUE BONDS

OWED BY THE CITY OF COLUMBIA TO RURAL DEVELOPMENT
AND TO BE ASSUMED BY THE ADAIR COUNTY WATER DISTRICT

	BOND ISSUE	RD LOAN NUMBER	PURPOSE	ORIGINAL PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	OUTSTANDING PRINCIPAL BALANCE
1	1975	91-02	Water	\$ 96,000	10-1-2015	5.000%	\$ 30,000
7	2004	91-15	Water	\$ 495,000	10-1-2043	4.250%	\$ 472,000
NOTE: Outstanding Principal Balances as of September 1, 2010							\$ 502,000

EXHIBIT 2

WASTEWATER REVENUE BONDS

OWNED BY THE CITY OF COLUMBIA TO RURAL DEVELOPMENT
AND TO BE ASSUMED BY THE ADAIR COUNTY WATER DISTRICT

	BOND ISSUE	RD LOAN NUMBER	PURPOSE	ORIGINAL PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	OUTSTANDING PRINCIPAL BALANCE
2	1977	92-03	Sewer	\$ 998,000	10-1-2016	5.000%	\$ 350,000
3	1988 Series A	92-04	Sewer	\$ 750,000	10-1-2028	5.000%	\$ 563,955
4	1988 Series B	92-06	Sewer	\$ 200,000	10-1-2028	5.000%	\$ 141,788
5	1995	92-09	Sewer	\$ 125,000	10-1-2034	4.500%	\$ 104,400
6	2000	92-14	Sewer	\$ 501,000	10-1-2040	4.500%	\$ 459,200
8	2008	92-17	Sewer	\$ 115,000	10-1-2047	4.125%	\$ 115,000
NOTE: Outstanding Principal Balances as of September 1, 2010							\$ 1,734,343

EXHIBIT 3



**United States Department of Agriculture
Rural Development
Kentucky State Office**

May 10, 2010

Danny Downey, Chairman
Adair County Water District
PO Box 567
Columbia, Kentucky 42728

Dear Mr. Downey:

This letter establishes conditions that must be understood and agreed to by you before further consideration may be given to the assumption by the Adair County Water District of the Rural Development loans advanced to the City of Columbia. Any changes in scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the assumption. It should also be understood that Rural Development is under no obligation to provide additional funds.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your request to assume these loans.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 120 days from the date hereof, Rural Development reserves the right to discontinue the processing of the assumption.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

1. Grant Agreement:

The Adair County Water District will be required to provide a written agreement to comply with the conditions of the prior Rural Development grant agreements.

2. Drug-Free Work Place:

The Adair County Water District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

3. Repayment Period:

All loans owed by the City of Columbia will be transferred to the Adair County Water District at the existing rates and terms.

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7336 • Fax: (859) 224-7444 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

4. Reserve Accounts:

The requirements for funding of the Debt Reserve Accounts will be unchanged per the original loan agreements executed by the City of Columbia.

5. Security Requirements:

Security will consist of a pledge of gross water and sewer revenue from the Adair County Water District. USDA Rural Development will maintain a statutory lien on all revenue from the systems.

6. Organization:

The Adair County Water District will be legally organized under applicable KRS, which will permit them to perform this service, borrow and repay money.

7. Business Operations:

The Adair County Water District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the City after review by Rural Development. At no later than the date of the assumption, the City will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, delayed payment penalties, disconnect/reconnect fees, bookkeeping, making and delivering required reports and audits.

8. Accounts, Records and Audits:

The Adair County Water District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits) in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4. a copy of which is enclosed.

The enclosed audit booklet will be used as a guide for preparation of audits. Annual audits and budgets will be submitted to Rural Development.

9. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Adair County Water District. The District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Adair County Water District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Adair County Water District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing

protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$625,000.

- D. Real Property Insurance - The Adair County Water District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Adair County Water District will obtain and maintain adequate coverage on any facilities located in special flood and mudslide prone areas.

10. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

11. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this assumption. Conditions listed therein must be met by the Adair County Water District.

12. Compliance with Special Laws and Regulations:

The Adair County Water District will be required to conform to any and all state and local laws and regulations affecting this type project.

13. Treatment Plant/ System Operator:

The Adair County Water District is reminded that the treatment plant and/or system operator must have an Operator's Certificate issued by the State.

14. Refinancing and Graduation Requirements:

The Adair County Water District is reminded that if at any time it shall appear to the Government that the City is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the District will apply for and accept such loan in sufficient amount to repay the Government.

15. Assumption Agreement:

In this assumption, the Adair County Water District will execute form 1951-15, "Community Programs Assumption Agreement," for each of the following outstanding bond issues:

	Bond Issue	RD Loan Number	Purpose	Original Principal Amount	Maturity	Interest Rate	Outstanding Principal Balance
1	1975	91-02	Water	\$96,000	10/1/2015	5.000%	\$30,000
2	1977 1988 Series	92-03	Sewer	\$998,000	10/1/2016	5.000%	\$350,000
3	A 1988 Series	94-04	Sewer	\$750,000	10/1/2028	5.000%	\$563,955
4	B	92-06	Sewer	\$200,000	10/1/2028	5.000%	\$141,788
5	1995	92-09	Sewer	\$125,000	10/1/2034	4.500%	\$104,400
6	2000	92-14	Sewer	\$501,000	10/1/2040	4.500%	\$459,200
7	2004	91-15	Water	\$495,000	10/1/2043	4.250%	\$472,000
8	2008	92-17	Sewer	\$115,000	10/1/2047	4.125%	\$115,000
Note: Outstanding Principal Balances as of May 10,2010							\$2,236,343

16. Rates and Charges:

Rates and charges for facilities and services rendered by the Adair County Water District must be at least adequate to meet cost of maintaining, repairing and operating the water and sewer system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

17. Prior to the Assumption, the Adair County Water District Will Be Required to Adopt:

- A. Form RD 400-4, "Assurance Agreement."
- B. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- C. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."

18. Compliance with the Bioterrorism Act:

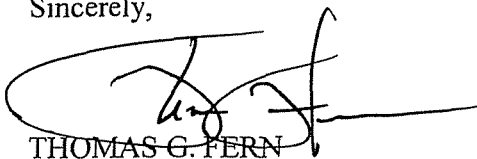
Prior to closing the assumption, the Adair County Water District will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA).

19. PSC Approval:

The Adair County Water District will obtain PSC approval for the transfer of assets and assumption of indebtedness as outlined in the Asset Purchase Agreement.

If you desire to proceed with the assumption, the Area Director will allot a reasonable portion of time to provide guidance in processing.

Sincerely,



THOMAS G. FERN
State Director

Enclosures

- cc: Area Director – Columbia, Kentucky
Lake Cumberland ADD – Russell Springs, Kentucky
Damon Talley - Hodgenville, Kentucky

EXHIBIT 4

COMMUNITY PROGRAMS ASSUMPTION AGREEMENT

PART A

1. TRANSFER CASE NUMBER		2. TRANSFEREE NAME			
3. ASSUMPTION TYPE	4. NOTE INTEREST RATE %	5. EFFECTIVE DATE	6. AMOUNT ASSUMED		
7. APPROVAL DATE		8. APPROVAL DATE	9. TRANSFEROR CASE NUMBER		
10. TRANSFEROR NAME				11. LOAN NUMBERS BEING TRANSFERRED	
12. PURCHASE CODE O-PROGRAM I- NONPROGRAM <input type="checkbox"/>	13. FUND CODE	14. RACE/TAX CODE	15. EMPLOYEE RELATIONSHIP CODE <input type="checkbox"/>	16. ASSUMPTION CODE: 1 - SAME 2 - NEW <input type="checkbox"/>	17. RELEASE FROM LIABILITY 1 - YES 2 - NO <input type="checkbox"/>

PART B

AGREEMENT

This agreement dated _____, _____, is between the United States of America, acting through the Rural Housing Service or the Rural Utilities Service or the Rural Business-Cooperative Service (herein called the Agency), and the assuming party, _____ (herein called Transferee), whose mailing address is _____.

The Government is the holder of debt instrument(s) executed by _____ and identified as follows:

TABLE I

Instrument Type	Date Executed	Principal Amount	UNPAID ON DATE HEREOF		Int. Rate	Ins. Charge Rate
			Principal	Accrued Interest		

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0066. The time required to complete this information collection is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

WHEREAS in connection with such loans the following security instruments were taken on property described therein

which is located in _____

County, State of _____

TABLE II

KIND OF INSTRUMENT	DATE EXECUTED	OFFICE WHERE RECORDED	BOOK/VOLUME/ DOCUMENT NO.	PAGE NUMBER

Now therefore, in consideration of the assumption of indebtedness as herein provided and the Agency's consent to the assumption and related conveyance of security property, if applicable, it is agreed as follows:

1. The transferee hereby jointly and severally assumes liability for and agrees to pay to the order of the Agency, or to the order of the insured holder through the Agency if and when an insured holder is the holder of said debt instrument(s), at the office of the Agency shown below, the entire unpaid indebtedness in accordance with the rates and terms specified in the following subparagraphs (a) or (b) designated by an X in the appropriate block:

(a) Same Rates/Terms. The entire unpaid indebtedness will be paid in accordance with the rates and terms stipulated in the debt and security instruments listed in Tables I and II of Part B of this agreement.

(b) New Rates/Terms. The entire unpaid indebtedness will be paid in the amounts and at the times specified in the following subparagraph (i) or (ii) designated by an X in the appropriate block.

(i). The sum of _____ dollars (\$ _____) plus interest at the rate of _____ percent (_____ %) per annum, paid in installments of \$ _____ on _____, _____, and \$ _____ thereafter on the _____ of _____ until the principal and interest are fully paid, except that the final installment of the entire indebtedness evidenced hereby, if not sooner paid, shall be due and payable _____ (_____) months/years from the date of this Assumption Agreement.

(ii). The sum of _____ dollars (\$ _____) with interest thereon at the rate of _____ percent (_____ %) per annum from the date hereof. The principal and interest shall be due and payable as follows:

\$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;
 \$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;
 \$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;
 \$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;
 \$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;

and a final installment in the amount of any remaining portion of the indebtedness hereby assumed which shall be paid on or before _____ Interest hereafter accruing shall be due and payable on the same dates as principal installments listed above.

2. The provisions of said debt and security instruments and of any outstanding agreements executed or assumed by the present debtors pertinent thereto shall, except as modified herein, remain in full force and effect, and the transferee hereby assumes the obligations of and agrees to be bound by and to comply with all covenants, agreements and conditions contained in said instruments and agreements, except as modified herein, the same as if they had executed them as of the dates thereof as principal obligors, including any obligation to pay the Agency an insurance charge in addition to interest if and as provided in any such instruments.
3. REFINANCING AGREEMENT: If at any time it shall appear to the Agency that the transferee may be able to obtain a loan from a responsible cooperative or private credit source at reasonable rates and terms for loans for similar purposes and periods of time, transferee will, at the Agency's request, apply for and accept a loan in a sufficient amount to pay the loan(s) hereby assumed in full and, if the lender is a cooperative, to pay for any necessary stock. (Refinancing requirements do not apply to loans classified as nonprogram loans.)
4. This agreement shall be subject to present regulations of the Agency and to its future regulations which are not inconsistent with the express provisions hereof.
5. When the loan(s) hereby assumed is held by an insured holder, prepayments made by the transferee may, except for final payment, be remitted by the Agency to the holder on an annual installment due date basis or other basis established by Agency regulation. Final payment will be remitted promptly. The effective date of every payment made by the transferee shall be the date the payment is received by the Agency.
6. The property described in Table II was obtained or improved through Federal financial assistance. This property is subject to the provisions of Title VI of the Civil Rights Act of 1964 and the regulations issued pursuant thereto for so long as the property continues to be used for the same or similar purpose for which financial assistance was extended or so long as the transferee owns it, whichever is longer.

TRANSFeree

(SEAL)

Attest:

Name of Transferee

BY _____

BY _____

TITLE _____

TITLE _____

Agency Name

UNITED STATES OF AMERICA

Agency Name

OFFICE ADDRESS:

BY _____

TITLE _____

EXHIBIT 5

EXHIBIT 5

CURRENT WATER AND SEWER RATES

Water Rates

Usage (Gallons)	Columbia	Adair County Water District
0	\$ 8.00 Minimum Bill	\$ 15.35 Minimum Bill
1 to 2,000	\$ 4.00 per 1,000 gallons	\$ 15.35 Minimum Bill
2,001 to 5,000	\$ 4.00 per 1,000 gallons	\$ 5.75 per 1,000 gallons
5,001 to 10,000	\$ 4.00 per 1,000 gallons	\$ 5.00 per 1,000 gallons
10,001 to 20,000	\$ 4.00 per 1,000 gallons	\$ 3.90 per 1,000 gallons
20,001 to 25,000	\$ 3.70 per 1,000 gallons	\$ 3.90 per 1,000 gallons
25,001 to 40,000	\$ 3.70 per 1,000 gallons	\$ 3.15 per 1,000 gallons
40,001 to 60,000	\$ 3.45 per 1,000 gallons	\$ 3.15 per 1,000 gallons
60,001 to 100,000	\$ 2.45 per 1,000 gallons	\$ 3.15 per 1,000 gallons
Over 100,000	\$ 2.10 per 1,000 gallons	\$ 3.15 per 1,000 gallons

Sewer Rates for Columbia

\$ 4.00 – Minimum Monthly Bill

Plus

\$ 4.10 – Per 1,000 Gallons

WATER RATE COMPARISON

USAGE (Gallons)	COLUMBIA	ADAIR COUNTY WATER DISTRICT
1,000	\$ 12.00	\$ 15.35
2,000	\$ 16.00	\$ 15.35
3,000	\$ 20.00	\$ 21.10
4,000	\$ 24.00	\$ 26.85
5,000	\$ 28.00	\$ 32.60
6,000	\$ 32.00	\$ 37.60

EXHIBIT 6

P.S.C. Ky. Adoption Notice No. 1

ADOPTION NOTICE

The undersigned Adair County Water District
(Name of Utility) System

of Columbia, Kentucky hereby adopts, ratifies, and makes its
own, in every respect as if the same had been originally filed and posted by it, all tariffs
and supplements containing rates, rules and regulations (the "Columbia Sewer Tariffs")
for furnishing sewer service at Columbia in the
(Nature of Service)

in the Commonwealth of Kentucky. The Columbia Sewer Tariffs have not previously
been filed with the Public Service Commission of Kentucky by the City of Columbia of
(Name of Predecessor)

Columbia, Kentucky but are attached hereto as **Exhibit A**. The Columbia
Sewer Tariffs are currently in effect and will still be in effect on the ___ day of
_____, 2010, the date on which the public service business of the
said

City of Columbia will be taken over by the Adair County Water District.
(Name of Predecessor)

This notice is issued on the 26th day of August, 2010, in conformity
with 807 KAR 5:011, Section 11, of the Regulations for the filing of Tariffs of Public
Utilities with the Public Service Commission of Kentucky.

Adair County Water District
By Danny Downey
Danny Downey, Chairman

Authorized by Ky.P.S.C. Order No. _____

EXHIBIT A

CITY OF COLUMBIA SEWER TARIFFS

SEWER RATES

Minimum Bill	\$ 4.00
All Usage	\$ 4.10 per 1,000 gallons (based on water meter reading)

TAP FEE¹

Residential	\$ 500.00
Multi-unit Residential	\$ 500.00 per unit
Mobile Home Park	\$ 500.00 per lot
Commercial and Industrial	Actual cost of installation

DEPOSIT None

¹ Assumes distance from sewer collector line to customer's property line is 100 feet or less. Customer shall pay actual cost of installation for all footage over 100 feet based on cost per foot.

EXHIBIT 7

EXHIBIT 7

ADAIR COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Water Sales	\$ 2,105,738	\$ 2,086,951
Service Charges and Other	<u>159,123</u>	<u>108,204</u>
Total Operating Revenues	2,264,861	2,195,154
OPERATING EXPENSES		
Personal Service	639,487	599,494
Contractual Services	38,981	58,172
Supplies and Materials	156,755	126,297
Repairs and Maintenance	51,813	45,561
Operational	1,063,424	1,020,275
Depreciation and Amortization	<u>559,313</u>	<u>498,759</u>
Total Operating Expenses	<u>2,509,773</u>	<u>2,348,556</u>
OPERATING INCOME/(LOSS)	(244,913)	(153,403)
NON-OPERATING REVENUES (EXPENSES)		
Other Non-Utility Income	5,102	5,847
Interest Income	16,411	24,009
Interest Expenses and Fiscal Charges	<u>(237,013)</u>	<u>(244,216)</u>
Total Non-Operating Revenues (Expenses)	<u>(215,500)</u>	<u>(214,360)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(460,413)	(367,763)
Capital Contributions	278,735	990,923
Grants	<u>198,980</u>	<u>351,020</u>
INCREASE (DECREASE) IN NET ASSETS	17,302	974,180
NET ASSETS		
Beginning of Year	9,756,067	8,781,887
End of Year	<u>\$ 9,773,369</u>	<u>\$ 9,756,067</u>

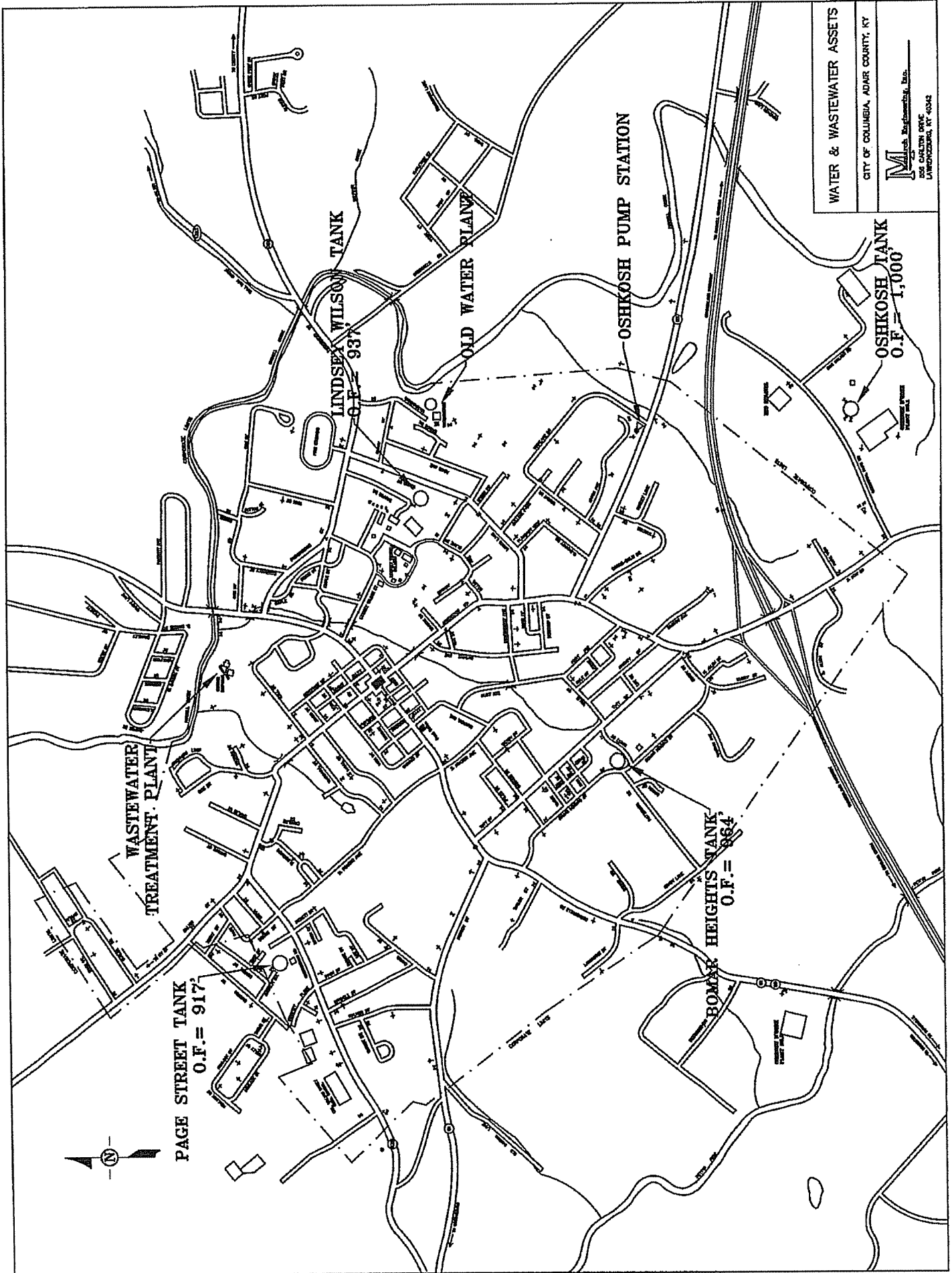
EXHIBIT 8

EXHIBIT 8

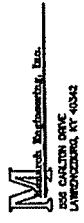
ADAIR COUNTY WATER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 213,253	\$ 257,553
Certificate of Deposits	-	128,050
Customer Accounts Receivable	209,680	215,995
Inventory	175,070	168,401
Prepaid Expenses	30,402	26,685
Total Unrestricted Current Assets	628,405	796,684
Restricted Cash and Investments	574,181	939,456
Total Current Assets	1,202,586	1,736,140
NON-CURRENT ASSETS		
Debt Issuance Cost (net of accumulated amortization)	-	-
Capital Assets:		
Land and Construction in Progress	1,062,702	105,729
Other Capital Assets (net of accumulated depreciation)	14,718,008	14,586,230
Total Non-Current Assets	15,780,710	14,691,959
TOTAL ASSETS	16,983,296	16,428,099
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable - Trade	96,156	142,675
Accounts Payable - Construction in Progress	-	215,404
Accrued and Withheld Taxes	-	7,278
Customer Deposits	16,797	13,294
Accrued Payroll	-	15,430
Liabilities Payable from Restricted Assets:		
Interest Payable	171,906	182,454
Current Portion of Revenue Bonds Payable	157,859	107,000
Current Portion of Notes Payable	956,973	47,876
Total Current Liabilities	1,399,691	731,411
NON-CURRENT LIABILITIES		
Long-term Liabilities (Excluding Current Portion):		
Non-Current Portion of Notes Payable	-	927,124
Non-Current Portion of Revenue Bonds Payable	5,810,236	5,013,500
Total Non-Current Liabilities	5,810,236	5,940,624
TOTAL LIABILITIES	7,209,927	6,672,035
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	8,855,642	8,381,055
Restricted	574,181	939,456
Unrestricted	343,546	435,555
TOTAL NET ASSETS	\$ 9,773,369	\$ 9,756,067

EXHIBIT 9



WATER & WASTEWATER ASSETS
CITY OF COLUMBIA, ADAIR COUNTY, KY



OSHKOSH TANK
O.F. = 1,000'

EXHIBIT 10

ADAIR COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

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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

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, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Adair County Water District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009 and 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2010, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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MEMBERS: AICPA • KYCPA

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Adair County Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Adair County Water District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wise, Buckner, Sprowles & Associates, PLLC

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

March 10, 2010



Adair County Water District

109 Grant Lane * P.O. Box 567 * Columbia, KY 42725
Phone 270-384-2181 * Fax 270-384-3457
E-Mail office@adaircountywaterdist.net
Website adaircountywaterdistrict.com

This section of the Adair County Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2009 and 2008. This information is presented in conjunction with the audited basic financial statements, which follow.

Financial Highlights

- Total net assets increased by \$17,302 from 2008 to 2009. This increase in net assets is essentially due to the addition of contributed capital assets, which were capitalized as plant in service and construction in progress during 2006. The District incurred an additional \$825,133 of debt related to these capital projects.
- Total operating revenues increased by \$69,707 or about 3.18% from 2008 to 2009. The increase is primarily due to a combination of customer growth.
- Total operating expenses increased by \$161,215 or 6.86% from 2008 to 2009. The increase is primarily due to current economic conditions and the increased cost of most everything. Materials and supplies inventory was a major factor in the increase of expenses, with the cost of any metal piping or fitting increasing significantly.
- Total District investment income decreased due to the cashing in of a Certificate of Deposit valued at approximately \$120,000 to be used for construction purposes.

Overview of the Financial Statements

The District provides water to the residents of Adair County. The District is managed by a five member Board of Commissioners. The District operates under service rules and rates established by the Public Service Commission of Kentucky. Accounting records of the District are maintained in accordance with the Uniform System of Accounts prescribed by the PSC and in accordance with the Governmental Accounting Standards Board.

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary information. The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years. Significant changes from the prior year are explained in the following paragraphs. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

Required Financial Statements

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principals which are generally accepted in the United States of America.

Adair County Water District is an equal opportunity provider and employer. "Deaf, Hard of Hearing and Speech Impaired users, call the Kentucky Relay Service at (800) 648-6056. Give the communications assistant our phone number to contact us."

The Statement of Net Assets includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expense and Changes in Net Assets identify the District's revenues and expenses for the years ended December 31, 2009 and 2008. This statement normally provides information on the District's operations 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 information on the source and use of cash and the change in the cash and cash equivalents balance.

Financial Analysis of the District

Analysis of the District's financial position begins with a review of the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information. These two statements report the District's net assets and changes therein. The District's net assets (the difference between assets and liabilities) are key to measuring the financial health of the District. Over time, increases and decreases in the net asset value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position could also be affected by other non-financial factors including economic conditions, population growth or new regulations.

Net Assets

A condensed version of the Statement of Net Assets at December 31, 2009 and 2008 follows:

Condensed Statement of Net Assets

	2009	2008
Cash and Investments	\$ 787,434	\$ 1,325,060
Other Assets	415,152	411,083
Capital Assets	<u>15,780,710</u>	<u>14,691,959</u>
Total Assets	16,983,296	16,428,102
Current Liabilities	1,227,787	501,081
Other Liabilities	171,906	182,454
Long-Term Outstanding	<u>5,810,236</u>	<u>5,940,624</u>
Total Liabilities	<u>7,209,929</u>	<u>6,624,158</u>
Net Assets:		
Invested in Capital Assets (Net of Related Debt)	8,855,642	8,381,055
Restricted	574,181	939,456
Unrestricted	<u>343,546</u>	<u>435,556</u>
Total Net Assets	<u>\$ 9,773,369</u>	<u>\$ 9,756,067</u>

As shown in the above table, total net assets increased by \$17,302 from 2008 to 2009. The majority of this increase is from capital asset additions due to new construction.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2009 the District had \$22,242,920 invested in capital assets, consisting primarily of plant and equipment. The most significant change in capital assets during the year was an increase to construction in progress of \$956,973.

Capital Assets at Year End

	2009	2008
Land	\$ 105,729	\$ 105,729
Construction-in-Progress	956,973	-
Buildings	364,434	364,434
Plant & Equipment	20,815,784	20,124,693
Subtotal	22,242,920	20,594,856
Accumulated Depreciation	(6,462,210)	(5,902,897)
Capital Assets, Net	<u>\$ 15,780,710</u>	<u>\$ 14,691,959</u>

Revenues, Expenses and Changes in Net Assets

A condensed version of the Statement of Revenues, Expenses and Changes in Net Assets is as follows:

Condensed Statement of Revenues, Expenses & Changes in Net Assets
 Years Ended December 31, 2009 and 2008

	2009	2008	Dollar Change	Percent Change
Operating Revenues	\$ 2,264,861	\$ 2,195,154	\$ 69,707	3.18%
Operating Expenses	(1,950,460)	(1,849,798)	(100,662)	5.44%
Depreciation Expense	(559,313)	(498,759)	(60,554)	12.14%
Operating Income/(Loss)	(244,912)	(153,403)	(91,509)	59.65%
Non-Operating Revenues/(Expenses)				
Non-Utility Income	5,102	5,847	(745)	-12.74%
Interest Income	16,411	24,009	(7,598)	-31.65%
Interest Expense & Fiscal Charges	(237,013)	(244,217)	7,204	-2.95%
Total Non-Operating Revenues/(Expenses)	(215,500)	(214,361)	(1,139)	0.53%

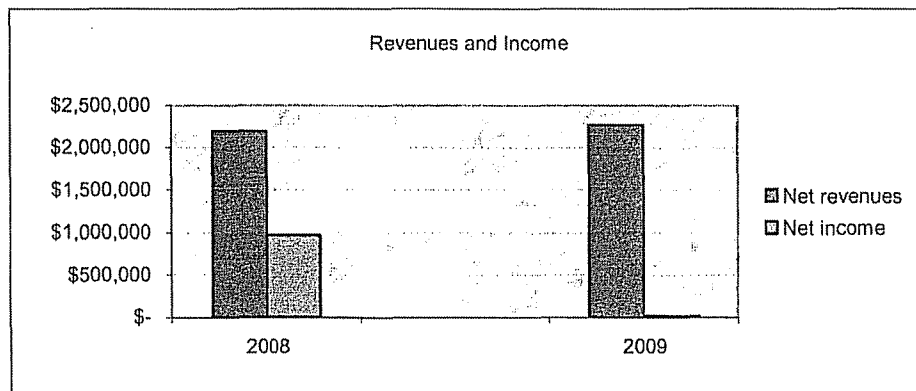
Income/(Loss) Before Capital Contributions				
Capital Contributions	\$ 278,735	\$ 990,923	\$ (712,188)	-71.87%
Grants	198,980	351,020	(152,040)	0.00%
	<u>477,715</u>	<u>1,341,943</u>	<u>(864,228)</u>	<u>-64.40%</u>
 Increase/(Decrease) in Net Assets	 17,302	 974,179	 (956,875)	 -98.22%
Beginning of Year	<u>9,756,067</u>	<u>8,781,888</u>	<u>974,179</u>	<u>11.09%</u>
End of Year	<u>\$ 9,773,369</u>	<u>\$ 9,756,067</u>	<u>\$ 17,302</u>	<u>0.18%</u>

Operating revenues

A comparison of the District's revenues and net income for the years ended December 31, 2009 and 2008 is as follows:

	2008	2009	Dollar Change	Percentage Change
Net revenues	\$ 2,195,154	\$ 2,264,861	\$ 69,707	3.18%
Net income	\$ 974,180	\$ 17,302	\$ (956,878)	-98.22%

The following graph shows the District's 2008 revenues and income in comparison to the District's 2009 revenues and income.



Operating revenues increased by \$69,707 from 2008 to 2009. The primary reasons for the increase in revenues are a combination of growth in customer base and greater water usage in 2009.

Net income decreased by \$956,878 from 2008 to 2009. Several factors are the cause for this decrease. However, the most significant reason for this decrease is the decreased capital contributions of \$864,228 and increase of operating expenses.

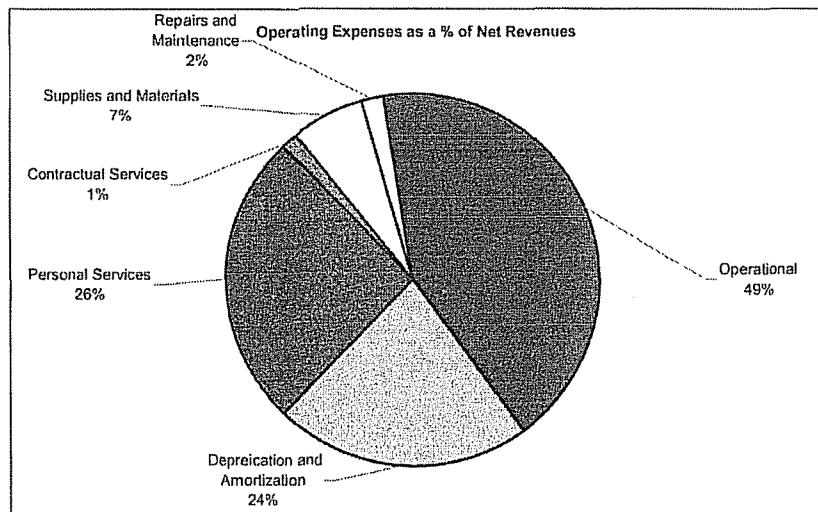
Expenses

Total operating expenses increased by \$59,895 or 12.05% from 2008 to 2009. The increase is primarily due to current economic conditions and the increased cost of doing business.

	2009	2008	Dollar Change	Percent Change
Operating Expenses				
Personal Services	\$ 639,487	\$ 599,494	\$ 39,993	6.67%
Contractual Service	38,981	58,172	(19,191)	-32.99%
Supplies and Materials	156,755	126,297	30,458	24.12%
Repairs and Maintenance	51,813	45,561	6,252	13.72%
Operational	1,063,424	1,020,275	43,149	4.23%
Depreciation and Amortization	559,313	498,759	60,554	12.14%
	<u>\$ 2,509,773</u>	<u>\$ 2,348,558</u>	<u>\$ 161,215</u>	<u>6.86%</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, 2009, the District had \$6,925,069 in debt outstanding versus \$6,095,500 for December 31, 2008.

Economic Factors and Future Planning

The primary service area of the Utility is located in Adair County; the city of Columbia is served primarily by Columbia Utilities, although we serve approximately 200 customers that are in the city limits. The population growth for the Utility's service area has averaged 150-200 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.

Our water has been purchased from Russell Springs, Jamestown and Columbia/Adair County Water Commission.

Several projects are planned to build up our infrastructure to serve the needs of our current customer base as well as plan for future growth. One of those projects is Phase 9 which will enable us to install a new high service distribution main and an elevated tank around the new Columbia bypass. When finished we will be able to distribute more water to the southern part of our service area, and purchase all water from the Columbia/Adair County Water Commission (CACWC) which is our ultimate goal. We are currently obtaining easements and signers for Phase II which is a County wide project of about 20 roads. We are still obtaining funding for the Phase II project. In Phase 12 we will install a 12" main line from Wal-Mart, adding a pump station at Wal-Mart and running the line to Sparksville along the newly constructed Hwy 61 South. Management is in discussions with the City of Columbia negotiating a possible merger of the two systems.

Financial Contact Information

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 109 Grant Lane, Columbia, KY 42728.

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

ADAIR COUNTY WATER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 213,253	\$ 257,553
Certificate of Deposits	-	128,050
Customer Accounts Receivable	209,680	215,995
Inventory	175,070	168,401
Prepaid Expenses	30,402	26,685
Total Unrestricted Current Assets	628,405	796,684
Restricted Cash and Investments	574,181	939,456
Total Current Assets	1,202,586	1,736,140
NON-CURRENT ASSETS		
Debt Issuance Cost (net of accumulated amortization)	-	-
Capital Assets:		
Land and Construction in Progress	1,062,702	105,729
Other Capital Assets (net of accumulated depreciation)	14,718,008	14,586,230
Total Non-Current Assets	15,780,710	14,691,959
TOTAL ASSETS	16,983,296	16,428,099
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable - Trade	96,156	142,675
Accounts Payable - Construction in Progress	-	215,404
Accrued and Withheld Taxes	-	7,278
Customer Deposits	16,797	13,294
Accrued Payroll	-	15,430
Liabilities Payable from Restricted Assets:		
Interest Payable	171,906	182,454
Current Portion of Revenue Bonds Payable	157,859	107,000
Current Portion of Notes Payable	956,973	47,876
Total Current Liabilities	1,399,691	731,411
NON-CURRENT LIABILITIES		
Long-term Liabilities (Excluding Current Portion):		
Non-Current Portion of Notes Payable	-	927,124
Non-Current Portion of Revenue Bonds Payable	5,810,236	5,013,500
Total Non-Current Liabilities	5,810,236	5,940,624
TOTAL LIABILITIES	7,209,927	6,672,035
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	8,855,642	8,381,055
Restricted	574,181	939,456
Unrestricted	343,546	435,555
TOTAL NET ASSETS	\$ 9,773,369	\$ 9,756,067

ADAIR COUNTY WATER DISTRICT
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Water Sales	\$ 2,105,738	\$ 2,086,951
Service Charges and Other	<u>159,123</u>	<u>108,204</u>
Total Operating Revenues	2,264,861	2,195,154
OPERATING EXPENSES		
Personal Service	639,487	599,494
Contractual Services	38,981	58,172
Supplies and Materials	156,755	126,297
Repairs and Maintenance	51,813	45,561
Operational	1,063,424	1,020,275
Depreciation and Amortization	<u>559,313</u>	<u>498,759</u>
Total Operating Expenses	<u>2,509,773</u>	<u>2,348,556</u>
OPERATING INCOME/(LOSS)	(244,913)	(153,403)
NON-OPERATING REVENUES (EXPENSES)		
Other Non-Utility Income	5,102	5,847
Interest Income	16,411	24,009
Interest Expenses and Fiscal Charges	<u>(237,013)</u>	<u>(244,216)</u>
Total Non-Operating Revenues (Expenses)	<u>(215,500)</u>	<u>(214,360)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(460,413)	(367,763)
Capital Contributions	278,735	990,923
Grants	<u>198,980</u>	<u>351,020</u>
INCREASE (DECREASE) IN NET ASSETS	17,302	974,180
NET ASSETS		
Beginning of Year	9,756,067	8,781,887
End of Year	<u>\$ 9,773,369</u>	<u>\$ 9,756,067</u>

ADAIR COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 2,241,382	\$ 2,127,542
Cash Payments to Employees for Services	(669,400)	(588,252)
Cash Payments to Suppliers for Goods and Services	(1,343,510)	(1,230,406)
Customer Deposits Received	16,163	10,530
Customer Deposits Returned	(12,660)	(10,554)
	231,975	308,860
Net Cash Provided/(Used) By Operating Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Debt	(152,404)	(92,500)
Interest Paid on Debt	(247,561)	(236,007)
Loan Proceeds	956,973	149,867
Acquisition of Capital Assets	(1,820,733)	(1,969,303)
Proceeds from Grants	198,980	351,020
Contributed Capital	278,735	990,923
	(786,010)	(806,000)
Net Cash Provided/(Used) By Investing Activities Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	16,412	24,009
	16,412	24,009
Net Cash Provided/(Used) By Investing Activities		
Net Increase/(Decrease) In Cash and Cash Equivalents	(537,623)	(473,131)
Cash and Cash Equivalents - Beginning of Year	1,325,057	1,798,189
Cash and Cash Equivalents - End of Year	\$ 787,434	\$ 1,325,057
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and Cash Equivalents	213,253	257,553
Short-Term Investments	0	128,050
Restricted Cash	574,181	939,456
	\$ 787,434	\$ 1,325,059
TOTAL CASH AND CASH EQUIVALENTS		

ADAIR COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2009 and 2008

	2009	2008
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Operating Margin	\$ (244,913)	\$ (153,403)
ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Depreciation	559,313	498,759
Change in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(6,315)	(17,786)
(Increase)/Decrease in Inventory	(6,671)	(63,031)
(Increase)/Decrease in Prepaid Expenses	(3,714)	(821)
Increase/(Decrease) in Accounts Payable	(46,519)	33,482
Increase/(Decrease) in Salaries and Wages Payable	(15,430)	7,884
Increase/(Decrease) in Customer Deposits	3,503	418
Increase/(Decrease) in Accrued and Withheld Taxes	(7,278)	3,358
Total Reconciling Adjustments	476,889	462,263
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	\$ 231,975	\$ 308,860

ADAIR COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

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 Adair County Water District are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, the district uses only one fund type known as a proprietary fund type.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Net assets (i.e., net of total liabilities) is segregated into invested in capital assets, net of related debt; restricted and unrestricted.

FASB Pronouncements - Since the District uses a proprietary fund, it applies all applicable Financial Accounting Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedures. The only exception in use of the aforementioned pronouncements is those that conflict with or contradict Governmental Accounting Standard's Board (GASB) pronouncements.

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.

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.

Restricted Assets

Certain proceeds from revenue bonds and funds set aside for their repayment are classified as restricted on the statement of net assets because their use is limited to applicable bond covenants. Current liabilities payable from these restricted assets are classified as such. When both restricted and unrestricted assets will be used for a project, it is the District's policy to use restricted assets first, then finish with unrestricted.

ADAIR COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 assets.

Net Assets

Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt—This component of net assets 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 assets 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 assets—This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

ADAIR COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2009 and 2008

NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Unrestricted:		
Cash	\$ 213,253	\$ 257,553
Certificates of Deposit and Savings	<u>-</u>	<u>128,050</u>
Total Unrestricted	<u>213,253</u>	<u>385,603</u>
Restricted:		
Cash	312,100	677,375
Certificates of Deposit and Savings	<u>262,081</u>	<u>262,081</u>
Total Restricted	<u>574,181</u>	<u>939,456</u>
 Total Cash and Cash Equivalents	 <u>\$ 787,434</u>	 <u>\$ 1,325,059</u>

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.

	<u>2009</u>	<u>2008</u>
Insured (FDIC) or Collateral Held by Pledging Bank Securities in District's Name	\$ 787,434	\$ 1,956,109
Uninsured or Uncollateralized	<u>-</u>	<u>192,349</u>
 Total (Memorandum Only)	 <u>\$ 787,434</u>	 <u>\$ 2,148,458</u>

The District investment policy is conservative.

Deposits

The carrying amount of the District's deposits at December 31, 2009 was \$787,434 and the bank balance was \$813,101. 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

These assets consist of cash restricted in a sinking fund and depreciation reserve fund as required by the revenue bonds plus cash received from the United States Fidelity and Guaranty Company for repairs to the system constructed by Roy Brothers.

ADAIR COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

NOTE 4: CUSTOMER AND OTHER ACCOUNTS RECEIVABLES

Customer and other accounts receivables were as follows:

	2009	2008
Accounts Receivable - Trade	\$ 318,706	\$ 315,238
Accounts Receivable - Returned Checks	796	631
Accounts Receivable - Other	1,520	1,000
Allowance for Doubtful Accounts	(111,342)	(100,873)
Net	\$ 209,680	\$ 215,996

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2009 and 2008 was as follows:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 105,729	\$ -	\$ -	\$ 105,729
Construction in Progress	-	956,973	-	956,973
Total Assets Not Being Depreciated	105,729	956,973	-	1,062,702
Capital Assets Being Depreciated				
Office Equipment	119,116	33,163	-	152,279
Service Equipment	434,679	24,192	-	458,871
Building	364,434	-	-	364,434
Plant and Equipment	19,571,042	633,592	-	20,204,634
Total Assets Being Depreciated	20,489,271	690,947	-	21,180,218
Total Capital Assets	20,595,000	1,647,920	-	22,242,920
Less: Accumulated Depreciation				
Office Equipment	105,849	22,187	-	128,036
Service Equipment	292,976	33,692	-	326,668
Plant and Equipment	5,504,072	503,434	-	6,007,506
Total Accumulated Depreciation	5,902,897	559,313	-	6,462,210
Net Capital Assets	\$ 14,692,103	\$ 1,088,607	\$ -	\$ 15,780,710

Depreciation expense for the year ended December 31, 2009 was \$559,313.

NOTE 6: SHORT-TERM DEBT

The District has interim financing through a local bank until the project is complete and a bond is issued with Rural Development.

Beginning Balance	\$ -
Additions	956,973
Ending Balance	\$ 956,973

ADAIR COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

NOTE 7: LONG-TERM OBLIGATIONS

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

	<u>2009</u>	<u>2008</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%	\$ 19,000	\$ 22,500
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%	164,000	176,000
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%	850,000	877,000
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%	129,000	135,000
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%	596,000	610,000
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%	360,000	366,000
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%	378,000	385,000
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%	591,000	599,000
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%	1,183,000	1,198,000
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%	743,500	752,000
2008 Kentucky Infrastructure Authority Loan, original amount \$1,000,000 maturing December 2028, at a rate of 1%	<u>954,596</u>	<u>975,000</u>
Total Debt	5,968,096	6,095,500
Payments Due in Less Than One Year	<u>(157,859)</u>	<u>(154,876)</u>
Total Long-Term Obligations	<u>\$ 5,810,237</u>	<u>\$ 5,940,624</u>

ADAIR COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2009 and 2008

NOTE 7: LONG-TERM OBLIGATIONS (CONTINUED)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2009 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 157,859	\$ 242,094	\$ 399,953
2011	165,319	236,078	401,397
2012	172,284	229,761	402,045
2013	182,753	223,088	405,841
2014	187,226	215,978	403,204
2015-2019	1,049,405	961,860	2,011,265
2020-2024	1,164,481	745,045	1,909,526
2025-2029	945,269	524,318	1,469,587
2030-2034	723,500	349,884	1,073,384
2035-2039	636,500	192,433	828,933
2040-2044	507,500	69,990	577,490
2045-2049	76,000	3,273	79,273
	<u>\$ 5,968,096</u>	<u>\$ 3,993,802</u>	<u>\$ 9,961,898</u>

NOTE 8: 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.

	<u>Total</u>
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 37 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	<u>\$ 715,360</u>

ADAIR COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

NOTE 9: 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 10: PENSION PLAN

Substantially all employees are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution for the years ended June 30, 2009, 2008 and 2007 of 13.55%, 16.17% and 13.19% for Non Hazardous Employee's. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended June 30, 2009, 2008 and 2007 was \$68,019, \$60,591 and \$55,428 from the District and \$22,723, \$20,465 and \$18,525 from employees. The total covered payroll for CERS during the years ended June 30, 2009, 2008 and 2007 was \$455,068, \$409,291 and \$370,493.

The County Employee's 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 11: BASIS FOR EXISTING RATES

Current water rates were approved by the PSC on June 14, 2007 and became effective with the November 2007 billing period.

NOTE 12: SUBSEQUENT EVENTS

The City of Columbia and Adair County Water District are in negotiations to merge the two utilities. A bond issue of \$1,100,000 with Rural Development was sold February 25, 2010.

NOTE 13: JOINT VENTURE

On February 11, 2003 by order of the fiscal court, the Adair County Water District and Columbia Utilities established the Columbia/Adair County Water Commission. CACWC is a separate legal entity, whose function is for the treatment of water that will be sold to both Adair County Water District and Columbia Utilities. CACWC's governing board consists of two members from each entity, plus one fiscal court member. The district has no equity interest in the CACWC. The CACWC received funding from a grant by federal government in order to construct the new water treatment plant.

Audited financial statements for the Commission are prepared annually and can be obtained from the Commission's Manager.

The only transaction between the District and CACWC was the purchase of water totaling \$484,100.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ADAIR COUNTY WATER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2009

	<u>Federal CFDA Number</u>	<u>Disbursements</u>
Department of Agriculture Rural Development		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 956,973
U.S. Office of Water		-
Rural Development		
Community Facilities Loans and Grants		
R D Grant	10.766	<u>198,980</u>
Total Expenditures of Federal Awards		<u>\$ 1,155,953</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ADAIR COUNTY WATER DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of audit issued:

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Reportable condition(s) identified that are not considered to be material weakness(es)? x yes _____ none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes x none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish Between type A and B programs: \$ 300,000

Auditee qualified as low-risk auditee? x yes _____ no

Section II - Financial Statement of Findings

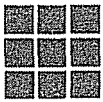
None.

Section III - Federal Award Findings and Questioned Costs

None.

ADAIR COUNTY WATER DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2009

The audit of Adair County Water District for the year ended December 31, 2008, 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

To the Board of Commissioners of
Adair County Water District

We have audited the financial statements of the business-type activities of Adair County Water District, as of and for the year ended December 31, 2009, which collectively comprise the Adair County Water District's basic financial statements and have issued our report thereon dated March 10, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Adair County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Adair County Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Adair County Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Adair County Water District's financial statements that is more than inconsequential will not be prevented or detected by the Adair County Water District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Adair County Water District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Adair County Water District, in a separate letter dated March 10, 2010.

This report is intended solely for the information and use of management, the Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wise, Buckner, Sprowles & Associates, PLLC

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

March 10, 2010



WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners of
Adair County Water District

Compliance

We have audited the compliance of Adair County Water District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. Adair County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Adair County Water District's management. Our responsibility is to express an opinion on Adair County Water District's compliance based on our audit.

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 Governments, 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. Our audit does not provide a legal determination on Adair County Water District's compliance with those requirements.

In our opinion, Adair County Water District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of Adair County Water District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Adair County Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

301 E. MAIN STREET • P.O. BOX 1083 • CAMPBELLSVILLE, KY 42719-1083 • (270) 465-6842 • FAX (270) 465-7703
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MEMBERS: AICPA • KYCPA

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose describe in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify and deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wise, Buckner, Sprowles & Associates, PLLC

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

March 10, 2010

EXHIBIT 11

CITY OF COLUMBIA, KENTUCKY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

CITY OF COLUMBIA, KENTUCKY

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CITY OF COLUMBIA, KENTUCKY

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HENDERMAN, JESSEE & COMPANY, PLLC
Certified Public Accountants

CPA MEMBERS
DAVID W. HENDERMAN
WILLIAM J. JESSEE
JAMES N. YATES
JOHN R. TAYLOR

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Columbia, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Columbia, Kentucky, (the "City"), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated, March 1, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 29 through 32 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented *Management's Discussion and Analysis* that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The additional information consisting of financial schedules for the years ended June 30, 2009 and 2008, as well as the Utility's schedule of insurance coverage, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The financial schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Utility's schedule of insurance coverage has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Henderman Jesse & Company PLLC

March 1, 2010

CITY OF COLUMBIA, KENTUCKY

STATEMENT OF NET ASSETS

June 30, 2009

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 2,048,806	\$ 1,215,687	\$ 3,264,493
Receivables:			
Accounts		227,485	227,485
Other	23,810	12,664	36,474
Prepaid expenses	68,068	80,229	148,297
Restricted assets:			
Revenue bond covenant accounts		497,777	497,777
Capital projects		53,912	53,912
Customer deposits		5,546	5,546
Capital assets:			
Non-depreciable	476,019	132,460	608,479
Depreciable, net	1,578,350	14,016,497	15,594,847
Unamortized costs		39,135	39,135
Total assets	<u>4,195,053</u>	<u>16,281,392</u>	<u>20,476,445</u>
LIABILITIES			
Accounts payable and capital lease, current	45,217	166,455	211,672
Accrued liabilities	36,000	45,020	81,020
Deferred revenue	17,122	53,912	71,034
Accrued interest payable		27,190	27,190
Long-term liabilities:			
Revenue bonds, current		87,900	87,900
Revenue bonds and capital lease, noncurrent		2,266,944	2,266,944
Customer deposits payable		5,546	5,546
Total liabilities	<u>98,339</u>	<u>2,652,967</u>	<u>2,751,306</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,054,369	11,813,897	13,868,266
Restricted for debt service		272,588	272,588
Unrestricted	<u>2,042,345</u>	<u>1,541,940</u>	<u>3,584,285</u>
Total net assets	<u>\$ 4,096,714</u>	<u>\$ 13,628,425</u>	<u>\$ 17,725,139</u>

See notes to the financial statements.

CITY OF COLUMBIA, KENTUCKY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
FUNCTION/PROGRAM ACTIVITIES							
Primary Government:							
Governmental activities:							
General government	\$ 519,019	\$ 314,260	\$	\$	\$ (204,759)	\$	\$ (204,759)
Police	832,358	506,901	52,949	44,506	(228,002)		(228,002)
Streets	300,265	182,761	198,678		81,174		81,174
Fire	137,659	83,580	8,250		(45,829)		(45,829)
Parks and recreation	70,713	41,040			(29,673)		(29,673)
Total governmental activities	1,860,014	1,128,542	259,877	44,506	(427,089)		(427,089)
Business-type activities:							
Gas	1,513,118	1,549,061				35,943	35,943
Water	1,312,988	1,007,788		17,000		(288,200)	(288,200)
Sewer	878,885	584,443	11,250	1,066,450		783,258	783,258
Garbage disposal	454,681	483,940				29,259	29,259
Total business-type activities	4,159,672	3,625,232	11,250	1,083,450		560,260	560,260
Total primary government	\$ 6,019,686	\$ 4,753,774	\$ 271,127	\$ 1,127,956	(427,089)	560,260	133,171
General revenues:							
Taxes:							
Property taxes					450,937		450,937
Interest					54,774	46,092	100,866
Miscellaneous					1,758		1,758
Special items – loss on plant closure						(799,073)	(799,073)
Total general revenues and special items					507,469	(752,981)	(245,512)
Change in net assets					80,380	(192,721)	(112,341)
Net assets, beginning					4,016,334	13,821,146	17,837,480
Net assets, ending					\$ 4,096,714	\$ 13,628,425	\$ 17,725,139

CITY OF COLUMBIA, KENTUCKY

BALANCE SHEET
GENERAL FUND

June 30, 2009

ASSETS

Cash	\$ 2,048,806
Receivables	23,810
Prepaid expenses	<u>68,068</u>
Total Assets	<u>\$ 2,140,684</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable	\$ 45,217
Accrued liabilities	36,000
Deferred revenue	<u>17,122</u>
Total liabilities	98,339
Fund balance	
Unreserved	2,042,345

Amounts reported for governmental activities in
the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the General Fund	<u>2,054,369</u>
Net assets of governmental activities	<u>\$ 4,096,714</u>

CITY OF COLUMBIA, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND

For the year ended June 30, 2009

REVENUES

Taxes	\$ 450,937
Licenses and permits	1,086,260
Fines and forfeitures	6,133
Intergovernmental revenues	304,383
Other	<u>92,681</u>
Total revenues	1,940,394

EXPENDITURES

Current	
General government	505,134
Police	775,630
Streets	258,462
Fire	81,156
Parks and recreation	37,446
Capital outlay	<u>224,479</u>
Total expenditures	<u>1,882,307</u>

EXCESS OF REVENUES OVER EXPENDITURES 58,087

FUND BALANCE, beginning 1,984,258

FUND BALANCE, ending \$ 2,042,345

CITY OF COLUMBIA, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND (Continued)

For the year ended June 30, 2009

Reconciliation of this statement to the Statement of Activities

Amounts reported for governmental activities in the statement of activities (page 4) are different because:

Excess of revenues over expenditures (above) \$ 58,087

The net effect of the City's donating capital assets to others is to decrease net assets. In the statement of activities, only the loss on disposition of capital assets is reported. However, in governmental funds, only the proceeds, if any, from the disposition increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets donated. (22,060)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 44,353

Change in net assets of governmental activities \$ 80,380

CITY OF COLUMBIA, KENTUCKY

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS

June 30, 2009

	<u>Business-type Activities</u> <u>Enterprise Funds</u>		
	<u>Utilities</u>	<u>Garbage</u> <u>Disposal</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash	\$ 1,128,282	\$ 87,405	\$ 1,215,687
Accounts receivable	184,569	42,916	227,485
Other receivables	12,664		12,664
Prepaid expenses	<u>60,471</u>	<u>19,758</u>	<u>80,229</u>
Total current assets	1,385,986	150,079	1,536,065
Noncurrent assets:			
Restricted:			
Revenue bond covenant accounts	497,777		497,777
Capital projects	53,912		53,912
Customer deposits	5,546		5,546
Capital assets:			
Land	120,907	5,000	125,907
Buildings	65,000	15,000	80,000
Plant and distribution system	20,891,692		20,891,692
Vehicles and equipment	566,633	245,599	812,232
Office furniture and fixtures	71,939		71,939
Leasehold improvements	8,692		8,692
Construction in progress	6,553		6,553
Accumulated depreciation	<u>(7,655,716)</u>	<u>(192,342)</u>	<u>(7,848,058)</u>
Property and equipment, net	14,075,700	73,257	14,148,957
Unamortized costs	<u>39,135</u>		<u>39,135</u>
Total noncurrent assets	<u>14,672,070</u>	<u>73,257</u>	<u>14,745,327</u>
Total assets	\$ 16,058,056	\$ 223,336	\$ 16,281,392

CITY OF COLUMBIA, KENTUCKY

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS (Continued)

June 30, 2009

	<u>Business-type Activities</u> <u>Enterprise Funds</u>		
	<u>Utilities</u>	<u>Garbage Disposal</u>	<u>Total</u>
LIABILITIES			
Current liabilities:			
Accounts payable and capital lease, current	\$ 130,152	\$ 36,303	\$ 166,455
Accrued liabilities	<u>39,046</u>	<u>5,974</u>	<u>45,020</u>
Total current liabilities	169,198	42,277	211,475
Current liabilities payable from restricted assets:			
Customer deposits payable	5,546		5,546
Accounts payable - capital projects	53,912		53,912
Revenue bonds	87,900		87,900
Accrued interest payable	<u>27,190</u>		<u>27,190</u>
Total current liabilities payable from restricted assets	174,548		174,548
Noncurrent liabilities:			
Revenue bonds and capital lease, noncurrent	<u>2,236,343</u>	<u>30,601</u>	<u>2,266,944</u>
Total liabilities	<u>2,580,089</u>	<u>72,878</u>	<u>2,652,967</u>
NET ASSETS			
Invested in capital assets, net of related debt	11,790,592	23,305	11,813,897
Restricted for debt service	272,588		272,588
Unrestricted	<u>1,414,787</u>	<u>127,153</u>	<u>1,541,940</u>
Total net assets	<u>\$ 13,477,967</u>	<u>\$ 150,458</u>	<u>\$ 13,628,425</u>

CITY OF COLUMBIA, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

For the year ended June 30, 2009

	Business-type Activities Enterprise Funds		
	<u>Utilities</u>	<u>Garbage Disposal</u>	<u>Total</u>
OPERATING REVENUES			
Gas	\$ 1,536,337	\$	\$ 1,536,337
Water	990,394		990,394
Sewer	579,294		579,294
Garbage		483,940	483,940
Other	<u>33,982</u>		<u>33,982</u>
Total operating revenues	3,140,007	483,940	3,623,947
OPERATING EXPENSES			
Gas and water purchases	1,915,454		1,915,454
Salaries, wages, payroll taxes, and retirement	575,069	163,187	738,256
Repairs and maintenance	147,008	24,699	171,707
Chemicals	44,251		44,251
Insurance	134,984	48,820	183,804
Power and fuels	85,261	11,687	96,948
Depreciation and amortization	548,877	14,057	562,934
Other operating expenses	<u>133,026</u>	<u>189,689</u>	<u>322,715</u>
Total operating expenses	<u>3,583,930</u>	<u>452,139</u>	<u>4,036,069</u>
OPERATING INCOME (LOSS)	(443,923)	31,801	(412,122)
NONOPERATING REVENUES (EXPENSES)			
Interest income	43,305	2,786	46,091
Sales of material	1,285		1,285
Interest expense	(121,061)	(2,541)	(123,602)
Operating grants	<u>11,250</u>		<u>11,250</u>
Total nonoperating expenses, net	<u>(65,221)</u>	<u>245</u>	<u>(64,976)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(509,144)	32,046	(477,098)
CAPITAL CONTRIBUTIONS	1,083,450		1,083,450
SPECIAL ITEMS	<u>(799,073)</u>		<u>(799,073)</u>
CHANGE IN NET ASSETS	(224,767)	32,046	(192,721)
NET ASSETS, beginning	<u>13,702,734</u>	<u>118,412</u>	<u>13,821,146</u>
NET ASSETS, ending	<u>\$ 13,477,967</u>	<u>\$ 150,458</u>	<u>\$ 13,628,425</u>

See notes to the financial statements.

CITY OF COLUMBIA, KENTUCKY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the year ended June 30, 2009

	Business-type Activities		
	Enterprise Funds		
	<u>Utilities</u>	<u>Garbage Disposal</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,154,730	\$ 486,717	\$ 3,641,447
Payments to suppliers	(2,558,195)	(279,186)	(2,837,381)
Payments to employees	<u>(547,688)</u>	<u>(166,187)</u>	<u>(713,875)</u>
Net cash provided by operating activities	48,847	41,344	90,191
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital lease payments		(21,091)	(21,091)
Acquisition of capital assets	(1,256,076)		(1,256,076)
Capital contributions	1,083,450		1,083,450
Principal paid on bonds	(1,540,100)		(1,540,100)
Joint water commission proceeds	1,481,688		1,481,688
Loss on bond redemption	16,538		16,538
Bond proceeds	33,572		33,572
Interest paid on bonds	<u>(138,126)</u>		<u>(138,126)</u>
Net cash used by capital and related financing activities	(319,054)	(21,091)	(340,145)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities	(25,019)	(2,786)	(27,805)
Maturities of investment securities	196,484		196,484
Interest received	<u>43,304</u>	<u>2,786</u>	<u>46,090</u>
Net cash provided by investing activities	<u>214,769</u>	<u>0</u>	<u>214,769</u>
NET INCREASE (DECREASE) IN CASH	(55,438)	20,253	(35,185)
CASH, beginning of year	<u>700,486</u>	<u>0</u>	<u>700,486</u>
CASH, end of year	<u>\$ 645,048</u>	<u>\$ 20,253</u>	<u>\$ 665,301</u>

See notes to financial statements.

CITY OF COLUMBIA, KENTUCKY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (Continued)

For the year ended June 30, 2009

	Business-type Activities		
	Enterprise Funds		
	<u>Utilities</u>	<u>Garbage Disposal</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (443,923)	\$ 31,801	\$ (412,122)
Depreciation and amortization	548,877	14,057	562,934
Miscellaneous nonoperating revenues (expenses)	9,836		9,836
(Increase) decrease in assets:			
Accounts receivable	14,486	2,777	17,263
Prepaid expenses	19,498	1,055	20,553
Other receivables	(6,000)		(6,000)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(92,879)	(8,346)	(101,225)
Customer deposits	(1,048)		(1,048)
Net cash provided by operating activities	<u>\$ 48,847</u>	<u>\$ 41,344</u>	<u>\$ 90,191</u>
Reconciliation of cash in the statement of net assets to the statement of cash flows:			
Cash	\$ 1,128,282	\$ 87,405	
Less: certificates of deposit	582,430	63,361	
Less: passbook savings		3,791	
	<u>545,852</u>	<u>\$ 20,253</u>	
Revenue bond covenant accounts:	497,777		
Less: certificates of deposit	313,407		
Less: passbook savings	90,720		
	<u>93,650</u>		
Customer deposits	<u>5,546</u>		
	<u>\$ 645,048</u>		

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

For the year ended June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Columbia, Kentucky, (the "City") was incorporated on May 6, 1893, under provisions of the Commonwealth of Kentucky. The City operates under the mayor-council form of government. The financial statements of the City include all of its funds, which comprise the primary government. There are no legally separate organizations for which the City is financially accountable.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or activity. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *utilities fund* accounts for the activities of the City's gas, water, and sewer operations.

The *garbage disposal fund* accounts for the activities of the City's solid waste disposal operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (the "GASB"). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance, unless the GASB has taken specific action to make such applicable.

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utilities function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Any internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utilities fund and the garbage disposal fund 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 nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

Cash flows

The City has chosen cash to serve as the focus of the statement of cash flows.

Deposits with financial institutions

The City has implemented arrangements whereby its deposits are fully covered by federal depository insurance or by collateral held by the agents of the City's custodial banks in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities, any federally insured savings and loan association, and any federally insured national or state bank chartered in Kentucky. Deposits consist solely of demand deposits and certificates of deposit. The City has no other types of investments.

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

Receivables and payables

The enterprise funds utilize the direct write-off method of accounting for bad debts. The results of this method have not differed materially from those of the allowance method required by generally accepted accounting principles. The basis for accounting for accounts receivable is net realizable value, and it is deemed to be past due based on contractual terms.

Property taxes are levied on or about September 1 and are due and payable at that time. Taxes become delinquent on or about January 1 of the following year. Property taxes attach as an enforceable lien on property as of April 1.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Accordingly, these payments are accounted for on the consumption method.

Restricted assets

Certain proceeds of the utilities fund's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Current debt service accounts are employed to segregate resources accumulated for debt service payments over the next twelve months. Future debt service accounts are used to report resources set aside to make up potential fund deficiencies in the current debt service accounts. A contingency account is employed to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Capital assets

Capital assets, which include property, plant, and equipment, and general infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed, acquired or completed on or after July 1, 2003) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

Capital assets (continued)

Property, plant, and equipment have the following capitalization thresholds and are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Capitalization Thresholds</u>	<u>Years</u>
Equipment	\$ 3,000	5-15
Buildings	25,000	20-60
Intangibles	3,000	5
Building improvements	5,000	20-40
Vehicles	5,000	3-15
Land improvements	9,500	20-25
Infrastructure	17,000	12-50

Bond issuance costs are recorded at historical cost and amortized over 40 years using the straight-line method. The cost of leasehold improvements is amortized over the lesser of the length of the related leases or the estimated useful lives of the assets.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates by management. Actual results may differ from the estimated amounts.

Compensated absences

Annually, full-time employees may receive up to 96 hours of vacation pay during the first ten years, up to 136 hours for years 11-20, and up to 176 hours for more than 20 years, none of which can be accumulated. Upon retirement or termination, there is compensation for any currently accrued vacation pay. Annually, full-time employees may receive up to 96 hours of sick leave credit; they may accumulate up to 1,008 hours of sick leave credit. Upon termination, there is no compensation for unused sick leave. However, if an employee retires from the City, his or her unused sick leave is reported to the Kentucky Retirement System for service credit to be applied to the employee's retirement account. The System will invoice the City for the amount of this sick leave service credit. Part-time employees receive these benefits on a prorated basis.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable business-type activities or proprietary fund type statement of net assets. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

Equity classifications

Government-wide statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted 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.
- b. Restricted net assets - Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information and encumbrances

Budgets are adopted for all funds on a basis consistent with generally accepted accounting principles. Budgeted amounts for the general fund are as adopted by ordinance of the City. Appropriations are at the functional level of expenditures in the ordinance. Thus, amendments are not required unless an appropriated functional total, including related capital outlays, will be exceeded.

Employed in governmental funds, encumbrances are commitments related to unperformed (executory) contracts for goods or services. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process (at year-end) are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. All appropriations lapse at year-end. For those the City intends to honor, encumbrances outstanding at year-end are disclosed in the notes to the financial statements, and the subsequent year's appropriations provide authority to complete these transactions.

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

III. DETAILED NOTES ON ALL FUNDS

A. Changes in capital assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Non-depreciable assets:				
Land	\$ 394,933	\$	\$ (22,060)	\$ 372,873
Construction in progress	22,450	80,696		103,146
Depreciable Assets:				
Land improvements	195,351			195,351
Buildings	260,000			260,000
Building improvements	202,462			202,462
Equipment	159,608			159,608
Vehicles	1,301,672			1,301,672
Intangibles	27,465			27,465
Infrastructure	<u>543,981</u>	<u>143,783</u>		<u>687,764</u>
Totals at historical cost	3,107,922	224,479	(22,060)	3,310,341
Less accumulated depreciation for:				
Land improvements	(123,765)	(10,411)		(134,176)
Buildings	(141,022)	(4,533)		(145,555)
Building improvements	(103,188)	(7,673)		(110,861)
Equipment	(91,502)	(20,199)		(111,701)
Vehicles	(519,878)	(102,852)		(622,730)
Intangibles	(19,030)	(1,687)		(20,717)
Infrastructure	<u>(77,461)</u>	<u>(32,771)</u>		<u>(110,232)</u>
Total accumulated depreciation	<u>(1,075,846)</u>	<u>(180,126)</u>		<u>(1,255,972)</u>
Governmental activities capital assets, net	<u>\$ 2,032,076</u>	<u>\$ 44,353</u>	<u>\$ (22,060)</u>	<u>\$ 2,054,369</u>

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

A. Changes in capital assets (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Business-type Activities</u>				
Non-depreciable assets:				
Land	\$ 125,907	\$	\$	\$ 125,907
Construction in progress	493,587	1,122,910	(1,609,944)	6,553
Depreciable Assets:				
Buildings	80,000			80,000
Plant and distribution system	22,597,300	1,743,111	(3,448,719)	20,891,692
Vehicles and equipment	812,232			812,232
Office furniture and fixtures	75,169		(3,230)	71,939
Leasehold improvements	<u>8,692</u>			<u>8,692</u>
Totals at historical cost	<u>24,192,887</u>	<u>2,866,021</u>	<u>(5,061,893)</u>	<u>21,997,015</u>
Less accumulated depreciation for:				
Buildings	(23,500)	(3,750)		(27,250)
Plant and distribution system	(7,838,395)	(507,671)	1,224,241	(7,121,825)
Vehicles and equipment	(579,880)	(48,969)		(628,849)
Office furniture and fixtures	(62,830)	(1,280)	2,668	(61,442)
Leasehold improvements	<u>(8,667)</u>	<u>(25)</u>		<u>(8,692)</u>
Total accumulated depreciation	<u>(8,513,272)</u>	<u>(561,695)</u>	<u>1,226,909</u>	<u>(7,848,058)</u>
Business-type activities capital assets, net	<u>\$ 15,679,615</u>	<u>\$ 2,304,326</u>	<u>\$ (3,834,984)</u>	<u>\$ 14,148,957</u>

Depreciation expense was charged to activities of the primary government as follows:

Governmental activities:	
General government	\$ 13,885
Police	56,728
Streets	41,803
Fire	56,503
Parks and recreation	<u>11,207</u>
	<u>\$ 180,126</u>
Business-type activities:	
Gas	\$ 80,593
Water	133,985
Sewer	333,060
Garbage disposal	<u>14,057</u>
	<u>\$ 561,695</u>

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

B. Capital leases

The garbage disposal fund entered into a lease agreement as lessee for financing the equipment acquisition of a new garbage truck during the fiscal year ended June 30, 2007. This lease agreement qualified as a capital lease for accounting purposes and, therefore, was recorded at the present value of its future minimum lease payments (\$94,900) as of the inception date. The lease terminates November 2011. Accumulated depreciation at June 30, 2009, was \$33,893, and depreciation expense for the year then ended was \$13,557, which was included with the garbage disposal fund's total depreciation expense for the year of \$14,057.

Minimum lease payments as of June 30, 2009, were as follows:

<u>Years ended June 30</u>	
2010	\$ 21,091
2011	21,091
2012	<u>10,546</u>
Total minimum lease payments	52,728
Less: amount representing interest	<u>2,776</u>
Present value of minimum lease payments	<u>\$ 49,952</u>

C. Long-term debt

Revenue bonds

Revenue bonds are comprised of the following:

At June 30, 2009, the utilities fund had outstanding Revenue Bonds of 1975. These bonds are secured by a first pledge of the revenues derived from the operation of the combined and consolidated water, sewer, and gas system. In addition, the utilities fund had outstanding Revenue Bonds of 1977, 1988, 1995, 2000, 2004, and 2008. These bonds are secured by a second pledge of the revenues derived from system operations.

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

C. Long-term debt (continued)

The bonds have various call options whereby they may be redeemed during certain periods prior to maturity.

For all bond issues, principal payments are due October 1; interest payments are due semi-annually on April 1 and October 1.

Details of these issues are as follows:

Series 1975 first lien serial bonds are due in annual installments through 2015, with interest at 5%.	\$ 34,000
Series 1977 second lien serial bonds are due in annual installments through 2016, with interest at 5%.	400,000
Series A, 1988 second lien serial bonds are due in annual installments through 2028, with interest at 5%.	578,955
Series B, 1988 second lien serial bonds are due in annual installments through 2028, with interest at 5%.	145,788
Series 1995 second lien serial bonds are due in annual installments through 2034, with interest at 4.5%.	106,500
Series 2000 second lien serial bonds are due in annual installments through 2040, with interest at 4.5%.	466,000
Series 2004 second lien serial bonds are due in annual installments through 2043, with interest at 4.25%.	478,000
Series 2008 second lien serial bonds are due in annual installments through 2047, with interest at 4.125%.	<u>115,000</u>
Total revenue bonds	<u>\$ 2,324,243</u>

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

C. Long-term debt (continued)

Revenue bond debt service requirements to maturity are as follows:

	Due October 1	Principal	Interest
Series 1975			
	2009	\$ 4,000	\$ 425
	2010	4,000	1,500
	2011	4,000	1,300
	2012	5,000	1,100
	2013	5,000	850
	2014-2015	<u>12,000</u>	<u>900</u>
		34,000	6,075
Series 1977			
	2009	50,000	5,000
	2010	50,000	17,500
	2011	50,000	15,000
	2012	50,000	12,500
	2013	50,000	10,000
	2014-2016	<u>150,000</u>	<u>15,000</u>
		400,000	75,000
Series A, 1988			
	2009	15,000	7,237
	2010	16,000	28,198
	2011	17,000	27,398
	2012	18,000	26,548
	2013	20,000	25,648
	2014-2018	119,000	112,089
	2019-2023	162,000	78,288
	2024-2028	<u>211,955</u>	<u>32,039</u>
		578,955	337,445

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

C. Long-term debt (continued)

	Due October 1	Principal	Interest
Series B, 1988			
	2009	\$ 4,000	\$ 1,823
	2010	5,000	7,089
	2011	5,000	6,839
	2012	5,000	6,589
	2013	5,000	6,339
	2014-2018	32,000	27,397
	2019-2023	40,000	18,647
	2024-2028	<u>49,788</u>	<u>7,497</u>
		145,788	82,220
Series 1995			
	2009	2,100	1,198
	2010	2,200	4,698
	2011	2,300	4,599
	2012	2,400	4,496
	2013	2,500	4,387
	2014-2018	14,700	20,111
	2019-2023	18,800	16,456
	2024-2028	24,000	11,781
	2029-2034	<u>37,500</u>	<u>6,143</u>
		106,500	73,869
Series 2000			
	2009	6,800	5,243
	2010	7,100	20,664
	2011	7,400	20,344
	2012	7,800	20,012
	2013	8,100	19,661
	2014-2018	46,300	92,493
	2019-2023	57,600	81,112
	2024-2028	71,900	66,924
	2029-2033	89,600	49,212
	2034-2038	111,600	27,162
	2039-2040	<u>51,800</u>	<u>3,519</u>
		466,000	406,346

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

C. Long-term debt (continued)

	Due October 1	Principal	Interest
Series 2004			
2009		\$ 6,000	\$ 5,079
2010		6,500	20,060
2011		6,500	19,784
2012		7,000	19,508
2013		7,500	19,210
2014-2018		41,500	91,080
2019-2023		51,000	81,453
2024-2028		62,500	69,702
2029-2033		77,500	55,231
2034-2038		95,000	37,317
2039-2043		<u>117,000</u>	<u>15,302</u>
		478,000	433,726
Series 2008			
2009			1,186
2010		1,300	4,744
2011		1,400	4,691
2012		1,400	4,633
2013		1,500	4,575
2014-2018		8,300	21,909
2019-2023		10,200	20,041
2024-2028		12,500	17,760
2029-2033		15,200	14,972
2034-2038		18,600	11,564
2039-2043		22,800	7,390
2044-2047		<u>21,800</u>	<u>2,292</u>
		<u>115,000</u>	<u>115,757</u>
		<u>\$2,324,243</u>	<u>\$ 1,530,438</u>

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

C. Long-term debt (continued)

The ordinances authorizing the issuance of revenue bonds created the following funding requirements:

Series 1975:

Equal monthly payments from the revenue cash account to the current debt service - first lien account were required in such amounts as to provide for interest obligations due April 1 and October 1 and principal obligations due October 1. The future debt service - first lien account should have a balance of \$6,700. These requirements have been met.

Series 1977, 1988, 1995, 2000, 2004, and 2008:

Equal monthly payments from the revenue cash account to the current debt service - second lien account were required in such amounts as to provide for interest obligations due April 1 and October 1 and principal obligations due October 1. The future debt service - second lien account should have a balance of \$176,488. These requirements have been met.

Other requirements:

Monthly payments of \$2,561 have been transferred from the revenue cash account to the contingency account, as required. The maintenance & operations accounts carried a balance equivalent to three months of operating disbursements therefrom, as required.

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
BUSINESS-TYPE ACTIVITIES:					
Bonds payable					
Revenue bonds	\$ 3,864,343	\$ _____	\$1,540,100	\$ 2,324,243	\$ 87,900
Business-type activities long-term liabilities	<u>\$ 3,864,343</u>	<u>\$ _____</u>	<u>\$1,540,100</u>	<u>\$ 2,324,243</u>	<u>\$ 87,900</u>

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters. The City carries commercial insurance for all of these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Joint ventures and related organizations

The City is a participant in the joint venture of the Columbia-Adair County Airport. The City has an ongoing financial responsibility to provide one-half of the money required by the airport to meet its operating expenses and annual debt payments. These cash requirements have remained fairly stable over recent years; thus, the City's contribution is not expected to significantly increase or diminish. Separate financial statements of this joint venture are available from the airport board for the year ended June 30, 2009.

The City is also a participant in the joint venture of the Columbia-Adair County Industrial Development Authority. The City has an ongoing financial responsibility to share with the County provision of a significant portion of the monies required by the authority to pay its obligations as they become due. Contributions by the City for this purpose have remained fairly stable over recent years, although whether or not contribution levels in the future may deviate from this is unclear. Separate financial statements of this joint venture are available from the authority for the year ended June 30, 2009.

The Municipal Housing Authority is a "related organization" to the City, which is accountable for it due to the fact that its four board members are all appointed by the City.

C. Pension plan

Plan description

The City of Columbia, Kentucky, contributes to the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS). CERS 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 are provided at the discretion of the Kentucky legislature. Kentucky Revised Statute Sections 16.555, 61.570,

CITY OF COLUMBIA, KENTUCKY

Notes to the basic financial statements

Plan description (continued)

and 78.630 assign the authority to establish and amend benefit provisions to the Board of Trustees of KRS, which issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-800-928-4646.

Funding policy

Hazardous and non-hazardous plan members are required to contribute 8% and 5%, respectively, of their annual creditable compensation. The City of Columbia, Kentucky, is required to contribute at actuarially determined rates. The rates for the year ended June 30, 2009, were 29.50% and 13.50% for hazardous and non-hazardous employees' annual creditable compensation, respectively. The contribution requirements of plan members and the City of Columbia, Kentucky, are established and may be amended by the Board of Trustees of KRS. The City's contributions to CERS for the years ending June 30, 2009, 2008, and 2007, were \$250,826, \$306,072, and \$245,786, respectively, equal to the required contributions for each year.

D. Local government economic assistance

Mineral severance payments totaling \$49,160 during the year ended June 30, 2009, were received and then expended for the maintenance of streets and roads, in compliance with KRS 42.455(2).

E. Special items

The City entered into an agreement with the Columbia/Adair County Water Commission to close its water plant and purchase all of its water from the joint commission. The City's revenue bonds related to the water plant were paid off by monies provided by the joint commission in the amount of \$1,481,688. The loss on closure of the water plant was \$2,280,761, resulting in a net loss of \$799,073. The agreement calls for the City to purchase water at an initial rate of \$2.10 per 1,000 gallons, and the contract extends for a term of 60 years.

CITY OF COLUMBIA, KENTUCKY

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE (GAAP BASIS)
GENERAL FUND**

For the year ended June 30, 2009

	<u>Budeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over(under)</u>
FUND BALANCE, July 1, 2008	\$ 2,060,200	\$ 2,068,700	\$1,984,258	\$ (84,442)
RESOURCES (inflows):				
TAXES				
Property taxes	391,000	391,000	413,393	22,393
Payments in lieu of taxes	2,000	2,000	2,708	708
Vehicle property taxes	<u>34,000</u>	<u>34,000</u>	<u>34,836</u>	<u>836</u>
	427,000	427,000	450,937	23,937
LICENSES AND PERMITS				
Occupational	35,000	35,000	35,014	14
Insurance	900,000	900,000	873,776	(26,224)
Franchise	134,000	134,000	170,321	36,321
Building permits	<u>4,000</u>	<u>4,000</u>	<u>7,149</u>	<u>3,149</u>
	1,073,000	1,073,000	1,086,260	13,260
FINES AND FORFEITURES				
Parking fines	3,000	3,000	3,540	540
Penalties and interest on taxes	<u>2,000</u>	<u>2,000</u>	<u>2,593</u>	<u>593</u>
	5,000	5,000	6,133	1,133
INTERGOVERNMENTAL				
REVENUES				
Base court	16,000	16,000	17,974	1,974
Municipal aid program	60,000	159,700	137,884	(21,816)
Police incentive pay	31,000	31,000	30,861	(139)
Fire equipment	8,250	8,250	8,250	
LGEA - mineral severance	25,000	25,000	49,160	24,160
Grants - federal		9,973	10,723	750
Grants - state	<u>452,550</u>	<u>455,090</u>	<u>49,531</u>	<u>(405,559)</u>
	592,800	705,013	304,383	(400,630)
OTHER				
Arrest fees	2,500	2,500	3,197	697
Interest earned	50,000	50,000	54,774	4,774
Rent-municipal building	19,500	19,500	19,764	264
Rent-municipal building parking lot	1,000	1,000	1,092	92

CITY OF COLUMBIA, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE (GAAP BASIS)
 GENERAL FUND (Continued)

For the year ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Over(under)</u>
	<u>Original</u>	<u>Final</u>		
OTHER (Continued)				
Zoning fees	\$ 1,000	\$ 1,000	\$ 470	\$ (530)
Trabue Russell House	100	100	675	575
Swimming pool	10,000	10,000	10,951	951
Passport revenue	200	200		(200)
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>1,758</u>	<u>758</u>
	<u>85,300</u>	<u>85,300</u>	<u>92,681</u>	<u>7,381</u>
Amounts available for appropriation	4,243,300	4,364,013	3,924,652	(439,361)

CHARGES TO APPROPRIATIONS
 (outflows):

GENERAL GOVERNMENT

Salaries and wages	186,000	186,000	182,007	3,993
Payroll taxes	14,200	14,200	13,546	654
Group insurance	54,825	54,825	54,011	814
Retirement	27,500	27,500	23,582	3,918
Municipal building maintenance	35,000	35,000	32,125	2,875
Legal	6,000	6,000	3,549	2,451
Postage	4,800	4,800	4,436	364
Dog warden	5,400	5,400	5,400	
Telephone	5,500	5,500	4,421	1,079
Insurance	9,500	9,500	9,722	(222)
Miscellaneous	46,500	81,500	84,499	(2,999)
Commissions	1,200	1,200	1,265	(65)
Workers compensation	1,500	1,500	830	670
Supplies	8,000	8,000	8,664	(664)
Ordinance codification	1,500	1,500	879	621
Discounts on property taxes	6,500	6,500	6,116	384
Cemetery maintenance	4,200	8,275	8,274	1
Tax assessor	7,000	7,000	7,262	(262)
Little league	5,000	5,000	4,000	1,000
Personnel consultant	2,500	2,500	4,732	(2,232)
Zoning	3,000	10,995	339	10,656
Airport	7,700	18,517	18,516	1

CITY OF COLUMBIA, KENTUCKY

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE (GAAP BASIS)
GENERAL FUND (Continued)**

For the year ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Over(under)</u>
	<u>Original</u>	<u>Final</u>		
GENERAL GOVERNMENT				
(Continued)				
Audit	\$ 22,000	\$ 22,000	\$ 17,860	\$ 4,140
Downtown revitalization	2,500	2,500	1,935	565
Trabue Russell House	4,000	4,000	7,164	(3,164)
Capital outlay	<u>452,550</u>	<u>452,550</u>	<u>80,696</u>	<u>371,854</u>
	924,375	982,262	585,830	396,432
POLICE				
Salaries and wages	443,800	443,800	457,561	(13,761)
Payroll taxes	33,000	33,000	31,687	1,313
Group insurance	61,075	61,075	61,909	(834)
Retirement	128,000	128,000	121,989	6,011
Insurance	21,000	21,000	19,891	1,109
Vehicle maintenance and fuel	60,000	60,000	43,893	16,107
Supplies	8,500	8,500	1,674	6,826
Miscellaneous	13,800	13,800	10,044	3,756
Uniform allowance	6,000	6,000	6,000	
Workers compensation	23,000	23,000	19,028	3,972
DARE program	<u>2,500</u>	<u>2,500</u>	<u>1,954</u>	<u>546</u>
	800,675	800,675	775,630	25,045
STREETS				
Salaries and wages	80,000	80,000	81,912	(1,912)
Payroll taxes	6,300	6,300	5,431	869
Group insurance	18,175	18,175	18,166	9
Retirement	13,000	13,000	11,093	1,907
Insurance	6,000	6,000	6,206	(206)
Vehicle maintenance and fuel	19,000	19,000	13,991	5,009
Street lighting	65,000	65,000	68,649	(3,649)
Street maintenance	72,000	180,200	27,759	152,441
Sidewalk repairs	25,000	25,000	6,928	18,072
Supplies	6,000	6,000	6,195	(195)
Miscellaneous	6,500	6,500	5,632	868
Workers compensation	12,000	12,000	6,500	5,500
Capital outlay	<u></u>	<u></u>	<u>143,783</u>	<u>(143,783)</u>
	328,975	437,175	402,245	34,930

CITY OF COLUMBIA, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE (GAAP BASIS)
 GENERAL FUND (Continued)

For the year ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Over(under)</u>
	<u>Original</u>	<u>Final</u>		
FIRE				
Payroll taxes	\$ 1,000	\$ 1,000	\$ 910	\$ 90
Insurance	15,000	15,000	13,104	1,896
Vehicle maintenance and fuel	5,700	5,700	3,820	1,880
Supplies	8,250	8,250	7,794	456
Miscellaneous	15,200	15,200	14,393	807
Dues	75	75		75
Fire calls	26,000	26,000	29,135	(3,135)
Rent	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	
	83,225	83,225	81,156	2,069
PARKS AND RECREATION				
Salaries and wages	10,000	10,000	9,729	271
Payroll taxes	1,050	1,050	724	326
Utilities	5,000	5,000	2,677	2,323
Supplies	10,000	10,000	7,952	2,048
Miscellaneous	5,300	5,300	2,504	2,796
Insurance	2,000	2,000	1,717	283
Repairs	3,000	3,000	3,147	(147)
Concessions	3,000	3,000	2,460	540
Playground	4,000	4,000	6,079	(2,079)
Workers compensation	<u>1,000</u>	<u>1,000</u>	<u>457</u>	<u>543</u>
	44,350	44,350	37,446	6,904
Total charges to appropriations	<u>2,181,600</u>	<u>2,347,687</u>	<u>1,882,307</u>	<u>465,380</u>
FUND BALANCE, JUNE 30, 2009	<u>\$ 2,061,700</u>	<u>\$ 2,016,326</u>	<u>\$2,042,345</u>	<u>\$ 26,019</u>

CITY OF COLUMBIA, KENTUCKY

**SCHEDULES OF DEPARTMENTAL REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
UTILITIES FUND**

For the years ended June 30, 2009 and 2008

	Gas		Water	
	2009	2008	2009	2008
OPERATING REVENUES				
User charges	\$ 1,536,337	\$ 1,546,191	\$ 990,394	\$ 1,132,988
Other	<u>11,439</u>	<u>16,187</u>	<u>17,394</u>	<u>16,608</u>
	1,547,776	1,562,378	1,007,788	1,149,596
OPERATING EXPENSES				
Gas and water purchases	1,117,046	1,119,525	798,408	338,947
Salaries, wages, payroll taxes, and retirement	184,421	225,083	179,803	297,907
Repairs and maintenance	42,850	59,298	55,661	68,734
Chemicals			179	61,859
Insurance	46,262	47,261	46,261	61,238
Power and fuels	11,036	8,890	14,031	111,438
Other operating expenses				
Professional fees	5,441	5,821	5,741	28,474
Telephone	2,864	2,108	2,176	4,133
Office supplies	5,422	4,805	5,583	8,764
Truck operations	2,665	11,672	3,174	12,304
Training	1,375	1,698	682	4,010
Testing			2,698	22,570
Miscellaneous	<u>13,142</u>	<u>12,331</u>	<u>31,222</u>	<u>10,081</u>
	1,432,524	1,498,492	1,145,619	1,030,464
Depreciation and amortization	<u>80,594</u>	<u>83,233</u>	<u>134,344</u>	<u>233,999</u>
	<u>1,513,118</u>	<u>1,581,725</u>	<u>1,279,963</u>	<u>1,264,453</u>
OPERATING INCOME (LOSS)	34,658	(19,347)	(272,175)	(114,867)
NONOPERATING REVENUES (EXPENSES)				
Interest income	17,434	23,605	13,540	24,778
Sales of material	1,285	672		71
Operating grants				
Gain on sale of assets		3,009		2,234
Interest expense			(33,025)	(93,784)
Columbia/Adair Co. Joint Water Commission				(6,000)
	<u>18,719</u>	<u>27,286</u>	<u>(19,485)</u>	<u>(72,049)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEMS	53,377	7,939	(291,660)	(186,916)
CAPITAL CONTRIBUTIONS SPECIAL ITEMS			17,000	
			<u>(799,073)</u>	
CHANGE IN NET ASSETS	<u>\$ 53,377</u>	<u>\$ 7,939</u>	<u>\$(1,073,733)</u>	<u>\$ (186,916)</u>

CITY OF COLUMBIA, KENTUCKY

**SCHEDULES OF CASH FLOWS
UTILITIES FUND**

For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,154,730	\$ 3,284,094
Payments to suppliers	(2,558,195)	(2,116,248)
Payments to employees	(547,688)	(745,785)
Payment to Columbia/Adair Co. water commission	<u> </u>	<u>(6,000)</u>
Net cash provided by operating activities	48,847	416,061
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,256,076)	(858,479)
Capital contributions	1,083,450	498,109
Principal paid on bonds	(1,540,100)	(109,900)
Interest paid on bonds	(138,126)	(179,689)
Proceeds of asset dispositions	<u> </u>	5,246
Bond issuance costs paid	<u> </u>	(7,247)
Bond proceeds	33,572	81,428
Capital lease payments	<u> </u>	(18,943)
Joint water commission proceeds	1,481,688	<u> </u>
Loss on bond redemption	<u>16,538</u>	<u> </u>
Net cash used by capital and related financing activities	(319,054)	(589,475)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(25,019)	(40,247)
Maturities of investment securities	196,484	<u> </u>
Interest received	<u>43,304</u>	65,387
Net cash provided by investing activities	<u>214,769</u>	<u>25,140</u>
NET DECREASE IN CASH	(55,438)	(148,274)
CASH, beginning of year	<u>700,486</u>	<u>848,760</u>
CASH, end of year	<u>\$ 645,048</u>	<u>\$ 700,486</u>

CITY OF COLUMBIA, KENTUCKY

SCHEDULES OF OTHER OPERATING EXPENSES
 PROPRIETARY FUNDS

For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>Utilities</u> <u>2008</u>	<u>Garbage Disposal</u> <u>2009</u>	<u>2008</u>
Professional fees	\$ 28,074	\$ 42,640	\$	\$
Telephone	8,083	8,986		
Office supplies	16,713	17,724		
Truck operations	8,614	33,985		
Training	3,603	6,237		
Testing	14,740	37,440		
Miscellaneous	53,199	30,830	5,073	5,866
Landfill			<u>184,616</u>	<u>175,224</u>
	<u>\$ 133,026</u>	<u>\$ 177,842</u>	<u>\$ 189,689</u>	<u>\$ 181,090</u>

CITY OF COLUMBIA, KENTUCKY
SCHEDULE OF INSURANCE COVERAGE
UTILITIES FUND

June 30, 2009

GENERAL LIABILITY: gas, water, and sewer systems - per occurrence	\$ 4,000,000
AUTO	
Liability - per occurrence	4,000,000
Uninsured motorists - per occurrence	300,000
INSTITUTIONAL	
Fire, extended coverage, vandalism, and malicious mischief - \$2,500 deductible; earthquake - deductible of 10 percent of insured value:	
Water system building #1	1,109,401
Contents	309,305
Water system building #2	39,054
Contents	123,701
Sewer system building #1	174,683
Contents	93,391
Basins	300,000
Sewer system building #2	217,541
Contents	86,700
Generator	250,000
Maintenance building on Waterworks Drive	24,798
Contents	21,420
Maintenance building on Tutt Street	123,983
Contents	64,260
Contents of municipal building	18,795
Telemetry system	95,248
Water tank, Lindsey Wilson	671,568
Water tank, Bomar Heights	358,836
Water tank, Rolling Hills	490,518
Water tank, industrial park	414,528
Co-insurance in all cases is 80%	
WORKMEN'S COMPENSATION	Statutory

CITY OF COLUMBLA, KENTUCKY
SCHEDULE OF INSURANCE COVERAGE
UTILITIES FUND (Continued)

June 30, 2009

CONSTRUCTION BOND #3-997-352:

Mayor	\$ 200,000
City Clerk	200,000

NAMED SCHEDULE BOND #2-710-253:

Carolyn Edwards, City Clerk	269,000
Sonya Roy, Asst. City Clerk	100,000
Rhonda Loy, Office Asst.	100,000
Ann M. Nixon, CSR	100,000
Jada Coomer, CSR	100,000

CITY OF COLUMBIA, KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through Kentucky Governor's Office for Local Development: CDBG - State Program	14.228	05-031	\$ 3,500
U.S. Department of Agriculture			
Direct Program: Water and Waste Disposal Systems for Rural Communities	10.760		133,572
Passed through USDA: Rural Development Appalachian Area Development	23.002	KY-15525-214	424,253
U.S. Department of Commerce			
Passed through Eastern Kentucky PRIDE: Congressionally Identified Awards and Projects	11.469	WW06-01	297,162
U.S. Department of Transportation			
Passed through Kentucky Department of Transportation: Governor's Highway Safety Grant Program	20.600	J2-08-19	<u>884</u>
			<u>\$ 859,371</u>

CITY OF COLUMBIA, KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the year ended June 30, 2009

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Columbia, Kentucky, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - LOANS

The loans outstanding at June 30, 2009, totaled \$2,324,243.

**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***

Honorable Mayor and
Members of the City Council
City of Columbia, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Columbia, Kentucky, (the "City"), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 1, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there

is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies (2009-1 and 2009-2) described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-2 to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties.

Henderman Jesse & Company PLLC

March 1, 2010

HENDERMAN, JESSEE & COMPANY, PLLC
Certified Public Accountants

CPA MEMBERS
DAVID W. HENDERMAN
WILLIAM J. JESSEE
JAMES N. YATES
JOHN R. TAYLOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and
Members of the City Council
City of Columbia, Kentucky

Compliance

We have audited the compliance of the City of Columbia, Kentucky, (the "City"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are each identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 Governments, 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City'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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material aspects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties.

Henderman Jesse & Company PLLC

March 1, 2010

CITY OF COLUMBIA, KENTUCKY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2009

SUMMARY OF AUDIT RESULTS

The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Columbia, Kentucky.

Two control deficiencies were disclosed during the audit of the basic financial statements. One of the conditions is a significant deficiency while the other is a material weakness.

No instances of noncompliance material to the basic financial statements of the City of Columbia, Kentucky, were disclosed during the audit.

The auditor's report on compliance for the major federal award programs for the City of Columbia, Kentucky, expresses an unqualified opinion on all major federal programs.

The audit did not disclose any findings relating to its major federal award programs for the City of Columbia, Kentucky.

The programs tested as major programs included Appalachian Area Development – 23.002 and Water and Waste Disposal Systems for Rural Communities – 10.760.

The threshold for distinguishing types A and B programs was \$300,000.

The City of Columbia, Kentucky, did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT:

Significant Deficiency

2009-1. Lack of segregation of duties due to limited personnel.

Material Weakness

2009 -2. The City does not have controls over preparation of the financial statements that would prevent or detect a material misstatement in the financial statements and related notes.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT: NONE