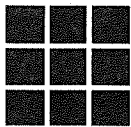


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COMMISSION**

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012



WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

CAMPBELLVILLE, KENTUCKY 42718

E-mail: wbscpa@wscpas.com

www.wscpas.com

(270) 465-6842

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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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities Adair County Water District, as of December 31, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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 schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office on 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2014 on our consideration of Adair County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Adair County Water District's internal control over financial reporting and compliance.

Wise, Buckner, Sprowles & Associates, PLLC

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

March 31, 2014



ADAIR COUNTY WATER DISTRICT Management's Discussion and Analysis

The management of the Adair County Water District's offers all persons interested in the financial position of the Utility this narrative overview and analysis of the Utility's financial performance during the years ending December 31, 2013 and 2012. It provides an introduction to the District's 2013 financial statements. Information in this overview and analysis has been prepared by the District's CPA and should be considered in conjunction with the financial statements and notes.

Financial Highlights

Overview of the Financial Statements

The financial section of this annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and the notes to the financial statements. The basic financial statements include: the statements of net position, the statements of revenues, expenses, and changes in net position, and the statement of cash flows. This report also includes a summary of federal expenditures and supplementary bond information.

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

Required Financial Statements

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The statements of Net Position includes information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Districts creditors (liabilities). The Statement of Revenues, Expense and Changes in Net Position identifies the District's revenues and expenses for the fiscal year ended December 31, 2013. This statement normally provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

Financial Analysis of the District

Net Position

A summary of the District's Statements of Net Position is presented below.

Condensed Statement of Net Position

	2013	2012
Cash and Investments	\$ 867,366	\$ 998,198
Other Assets	491,556	489,673
Capital Assets	<u>36,466,474</u>	<u>35,596,174</u>
Total Assets	37,825,396	37,084,045
Current Liabilities	1,803,583	2,503,500
Other Liabilities	196,682	198,027
Long-Term Outstanding	<u>13,147,089</u>	<u>12,046,107</u>
Total Liabilities	<u>15,147,354</u>	<u>14,747,634</u>
Net Position:		
Invested in Capital Assets (Net of Related Debt)	22,097,834	21,326,087
Restricted	788,449	732,695
Unrestricted	<u>(208,241)</u>	<u>277,628</u>
Total Net Position	<u>\$ 22,678,042</u>	<u>\$ 22,336,410</u>

A summarized comparison of the District's statements of revenues, expenses and changes in net position for the years December 31, 2013, and 2012 follows:

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statement of Revenues, Expenses & Changes in Net Position Years Ended December 31, 2013 and 2012

	2013	2012	Dollar Change	Percent Change
Operating Revenues	\$ 4,189,573	\$ 4,249,028	\$ (59,455)	-1.40%
Operating Expenses	(2,782,252)	(2,900,349)	118,097	-4.07%
Depreciation Expense	<u>(1,258,025)</u>	<u>(1,156,467)</u>	<u>(101,558)</u>	<u>8.78%</u>
Operating Income/(Loss)	149,296	192,212	(42,916)	-22.33%
Non-Operating Revenues/(Expenses)				
Non-Utility Income	610	981	(371)	-37.82%
Operating Lease Agreement	(635,940)	(334,463)	(301,477)	90.14%
Interest Income	1,999	3,725	(1,726)	-46.34%
Miscellaneous Nonutility Expenses	(105,701)	(1,654)	(104,047)	
Interest Expense & Fiscal Charges	(420,496)	(379,098)	(41,398)	10.92%
Amortization of Bond Debt	<u>5,418</u>	<u>-</u>	<u>5,418</u>	<u>0.00%</u>
Total Non-Operating Revenues/(Expenses)	<u>(1,154,110)</u>	<u>(710,509)</u>	<u>(443,601)</u>	<u>62.43%</u>

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

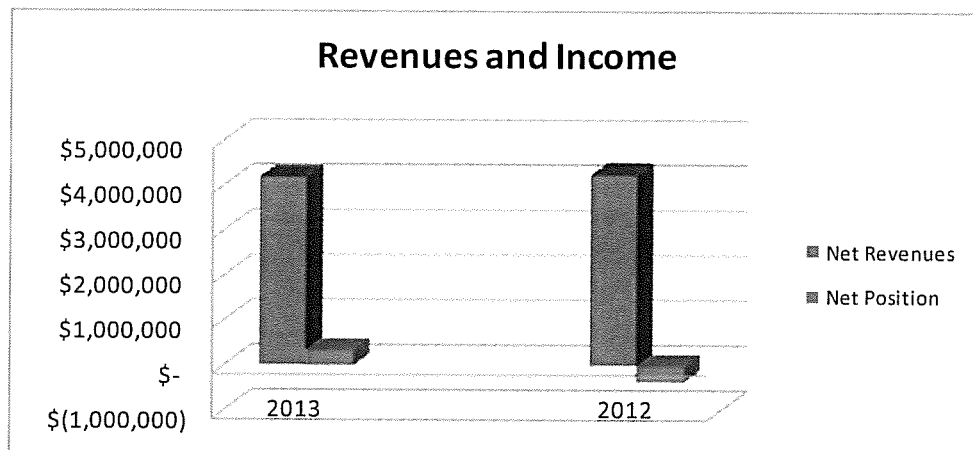
	2013	2012	Dollar Change	Percent Change
Income/(Loss) Before Capital Contributions	\$ (1,004,814)	\$ (518,297)	\$ (486,517)	93.87%
Capital Contributions	1,346,446	174,063	1,172,383	673.54%
Increase/(Decrease) in Net Position	341,632	(344,234)	685,866	-199.24%
Beginning of Year, Restated	22,336,410	22,680,644	(344,234)	-1.52%
End of Year	<u>\$ 22,678,042</u>	<u>\$ 22,336,410</u>	<u>\$ 341,632</u>	<u>1.53%</u>

Operating revenues

A comparison of the District's revenues and net income for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012	Dollar Change	Percentage Change
Net Revenues	\$ 4,189,573	\$ 4,249,028	\$ (59,455)	-1.40%
Net Position	\$ 341,632	\$ (344,234)	\$ 685,866	-199.24%

The following graph shows the District's 2012 revenues and income in comparison to the District's 2013 revenues and income.



Operating revenues decreased by \$16,855 from 2012 to 2013. The primary reason for the decrease in revenues is a decrease in water sales.

Net income increased by \$685,866 from 2012 to 2013. The most significant reason for this increase is the increase in capital contributions of \$1,129,783.

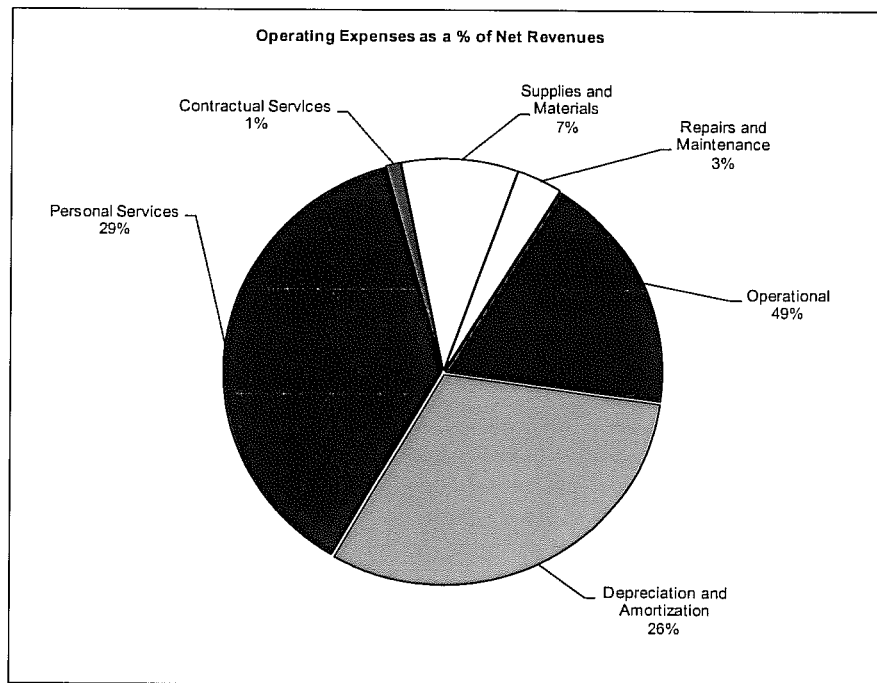
Expenses

Total operating expenses decreased by \$16,539 from 2012 to 2013. The decrease is primarily due to a slower year, where less expense was needed to maintain operation.

	2013	2012	Dollar Change	Percent Change
Operating Expenses				
Personal Services	\$ 1,511,834	\$ 1,529,045	\$ (17,211)	-1.14%
Contractual Service	43,070	54,584	(11,514)	-26.73%
Supplies and Materials	348,307	392,465	(44,158)	-12.68%
Repairs and Maintenance	136,259	146,223	(9,964)	-7.31%
Operational	742,782	778,032	(35,250)	-4.75%
Depreciation and Amortization	1,258,025	1,156,467	101,558	8.07%
	<u>\$ 4,040,277</u>	<u>\$ 4,056,816</u>	<u>\$ (16,539)</u>	<u>-0.41%</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, 2013, the District had \$13,842,453 in debt outstanding versus \$14,072,059 for December 31, 2012.

Economic Factors and Future Planning

The primary service area of the Utility is located in Adair County; we completed a merger with the City of Columbia in July of 2011 and are now the sole provider of water and sewer in all of Adair County including the City of Columbia. The population growth for the Utility's service area has averaged 140-180 persons annually over the past ten years, and this growth rate is expected to continue into the near future. In conjunction with its master plan the Utility has maintained project and financial planning to keep pace with this growth. Rate structures are also reviewed on a consistent basis to ensure that water services are provided to customers at the best value. A rate increase was approved and went into effect in early 2012.

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

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

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

Financial Contact

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

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

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
STATEMENT OF NET POSITION
December 31, 2013 and 2012

	Water	Sewer	Total 2013	2012
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 68,658	\$ 10,259	\$ 78,917	\$ 265,503
Customer Accounts Receivable, net	245,421	57,060	302,481	308,451
Inventory	170,124	8,954	179,078	166,817
Prepaid Expenses	9,997	-	9,997	14,405
Total Unrestricted Current Assets	494,200	76,273	570,473	755,176
Restricted Cash and Investments	709,604	78,845	788,449	732,695
Total Current Assets	1,203,804	155,118	1,358,922	1,487,872
NON-CURRENT ASSETS				
Capital Assets:				
Land and Construction in Progress	704,031	3,000	707,031	1,766,106
Other Capital Assets	25,884,790	9,874,653	35,759,443	33,830,067
Net of Accumulated Depreciation				
Total Non-Current Assets	26,588,821	9,877,653	36,466,474	35,596,173
TOTAL ASSETS	27,792,625	10,032,771	37,825,396	37,084,045
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable - Trade	171,190	22,076	193,266	162,778
Accounts Payable - Construction in Progress	329,505	-	329,505	-
Accrued and Withheld Taxes	37,133	3,070	40,203	42,139
Customer Deposits	37,341	-	37,341	36,258
Accrued Payroll	17,009	-	17,009	15,005
Liabilities Payable from Restricted Assets:				
Interest Payable	191,759	4,923	196,682	198,027
Current Portion of Revenue Notes and Bonds Payable	498,864	1,500	500,364	480,770
Current Portion of Notes Payable	195,000	-	195,000	1,545,182
Total Current Liabilities	1,477,801	31,569	1,509,370	2,480,159
NON-CURRENT LIABILITIES				
Long-term Liabilities (Excluding Current Portion):				
Non-Current Portion of Revenue Notes and Bonds Payable	11,791,789	1,355,300	13,147,089	12,046,107
Total Non-Current Liabilities	11,791,789	1,355,300	13,147,089	12,046,107
TOTAL LIABILITIES	13,269,590	1,386,869	14,656,459	14,526,266
DEFERRED INFLOWS				
Advances for Construction	203,748	-	203,748	221,368
Premium on Debt Refunding	287,147	-	287,147	-
TOTAL DEFERRED INFLOWS	490,895	-	490,895	221,368
NET POSITION				
Invested in Capital Assets, Net of Related Debt			22,097,834	21,326,087
Restricted			788,449	732,695
Unrestricted			(208,241)	277,629
TOTAL NET POSITION			\$ 22,678,042	\$ 22,336,410

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 Years Ended December 31, 2013 and 2012

	Water	Sewer	Total 2013	Total 2012
OPERATING REVENUES				
Water Sales	\$ 3,478,936	\$ 557,438	\$ 4,036,374	\$ 4,100,735
Service Charges and Other	153,199	-	153,199	148,293
Total Operating Revenues	3,632,135	557,438	4,189,573	4,249,028
OPERATING EXPENSES				
Personal Service	1,235,916	275,918	1,511,834	1,529,045
Contractual Services	23,607	19,463	43,070	54,584
Supplies and Materials	329,912	18,395	348,307	392,465
Repairs and Maintenance	79,604	56,655	136,259	146,223
Operational	571,733	171,049	742,782	778,032
Depreciation and Amortization	857,247	400,778	1,258,025	1,156,467
Total Operating Expenses	3,098,019	942,258	4,040,277	4,056,816
OPERATING INCOME/(LOSS)	534,116	(384,820)	149,296	192,212
NON-OPERATING REVENUES (EXPENSES)				
Other Non-Utility Income	610	-	610	981
Operating Lease -Water Plant	(635,940)	-	(635,940)	(334,463)
Interest Income	1,999	-	1,999	3,725
Bond Issuance Cost	(70,935)	(34,766)	(105,701)	(1,654)
Interest Expenses	(402,952)	(17,544)	(420,496)	(379,098)
Amortization of Bond Debt	3,630	1,788	5,418	-
Total Non-Operating Revenues (Expenses)	(1,103,588)	(50,522)	(1,154,110)	(710,509)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(569,472)	(435,342)	(1,004,814)	(518,297)
Capital Contributions	665,969	-	665,969	174,063
Grants	680,477	-	680,477	-
INCREASE (DECREASE) IN NET POSITION	776,974	(435,342)	341,632	(344,234)
NET POSITION				
Beginning of Year			22,336,410	22,680,644
End of Year			<u>\$ 22,678,042</u>	<u>\$ 22,336,410</u>

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS
 Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 4,229,646	\$ 4,235,086
Cash Payments to Employees for Services	(1,511,768)	(1,525,480)
Cash Payments to Suppliers for Goods and Services	(1,232,076)	(1,453,914)
Customer Deposits Received	37,341	28,800
Customer Deposits Returned	(36,258)	(27,130)
Net Cash Provided/(Used) By Operating Activities	1,486,885	1,257,362
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(1,798,820)	(3,177,413)
Debt Retired	(5,754,948)	(3,304,796)
Debt Issued	5,704,557	6,021,061
Interest Paid on Debt	(421,841)	(384,497)
Operating Transfer	(635,940)	(324,463)
Capital Grants and Contributions	1,287,276	(18,409)
Net Cash Provided/(Used) By Financing Activities	(1,619,716)	(1,188,517)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	1,999	3,728
Net Cash Provided/(Used) By Investing Activities	1,999	3,728
Net Increase/(Decrease) In Cash and Cash Equivalents	(130,832)	72,571
Cash and Cash Equivalents - Beginning of Year	998,198	925,627
Cash and Cash Equivalents - End of Year	\$ 867,366	\$ 998,198
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and Cash Equivalents	78,917	265,503
Short-Term Investments	-	-
Restricted Cash	788,449	732,695
TOTAL CASH AND CASH EQUIVALENTS	\$ 867,366	\$ 998,198

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS (CONTINUED)
 Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 191,896	\$ 192,211
ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Depreciation	1,258,025	1,156,467
Change in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	13,174	(13,942)
(Increase)/Decrease in Accounts Receivable Other	-	9,990
(Increase)/Decrease in Inventory	(12,261)	13,099
(Increase)/Decrease in Prepaid Expenses	4,409	(5,747)
Increase/(Decrease) in Accounts Payable	30,490	(86,232)
Increase/(Decrease) in Salaries and Wages Payable	2,004	3,565
Increase/(Decrease) in Customer Deposits	1,083	1,672
Increase/(Decrease) in Accrued and Withheld Taxes	(1,935)	(13,721)
Total Reconciling Adjustments	1,294,989	1,065,151
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	\$ 1,486,885	\$ 1,257,362

See accompanying notes to financial statements.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 1: DESCRIPTION OF ENTITY

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District adopted GASB No. 63 during the year, and addition to assets, the statement of financial position with sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no item that qualifies for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category. It is the deferred premium on refunding reported in the statement of net position. A deferred premium on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunding debt.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The District adopted the statement in 2013. The effects on the financial for 2013 was to expense debt issuance cost in the current year and to reclassify Subdivision advances for construction and premium of debt refunding to deferred inflows.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on

the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of the related cash flows.

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

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

Accounts Receivable – Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the twenty first day after the end of each billing period. Accounts receivable are presented net of uncollectable accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2013 and 2012, the allowance for doubtful accounts was \$274,189 and \$255,045.

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

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

Capital Assets and Related Depreciation – The utility plant and equipment was recorded at cost. Depreciation is computed using the straight-line method over the plant's estimated useful life of 40 years. The office building is depreciated on a straight-line basis over an estimated useful life of 20 years. Machinery, office equipment and service vehicles are depreciated on a straight-line basis over their estimated useful life ranging from 5 to 10 years.

Long-Term Obligations

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

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization of Interest

During the year, the District incurred interest costs totaling \$420,496. Interest incurred during the construction period relating to the construction of distribution mains and composite tank totaling \$32,920 was capitalized during the year.

Revenues and Expenses

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

Charges for Services

District billings are rendered and recorded monthly based on metered usage.

Capital Contributions

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

Net Position

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

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

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

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

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2013 and 2012

NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

	December 31, 2013	December 31, 2012
Unrestricted:		
Cash	\$ 78,917	\$ 265,503
Certificates of Deposit and Savings	-	-
Total Unrestricted	78,917	265,503
Restricted:		
Cash	566,509	511,969
Certificates of Deposit and Savings	221,940	220,726
Total Restricted	788,449	732,695
Total Cash and Cash Equivalents	\$ 867,366	\$ 998,198

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.

	2013	2012
Insured (FDIC) or Collateral Held by Pledging Bank Securities in District's Name	\$ 867,366	\$ 998,198
Uninsured or Uncollateralized	-	-
Total (Memorandum Only)	\$ 867,366	\$ 998,198

The District investment policy is conservative.

Deposits

The carrying amount of the District's deposits at December 31, 2013 was \$867,366 and the bank balance was \$900,908. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$500,000 was insured by federal depository insurance and the rest was collateralized by the pledging financial institutions.

Restricted Assets

The District includes all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2013 and 2012 restricted cash amounted to \$788,449 and \$732,695 respectively. This includes restrictions for customer deposits of \$37,341 and \$36,258 and restrictions for debt service of \$719,937 and \$694,238 respectively. This also included \$31,171 restricted at December 31, 2013 for capital projects.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2013 and 2012

NOTE 4: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012 was as follows:

	Balance 12/31/12	Additions	Deletions	Balance 12/31/13
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 425,924	\$ 18,000	\$ -	\$ 443,924
Construction in Progress	1,340,182	2,049,732	3,126,807	263,107
Total Assets Not Being Depreciated	1,766,106	2,067,732	3,126,807	707,031
Capital Assets Being Depreciated				
Office Equipment	185,519	46,171	-	231,690
Service Equipment	597,111	-	-	597,111
Building	364,434	-	-	364,434
Plant and Equipment	47,604,767	3,141,229	-	50,745,996
Total Assets Being Depreciated	48,751,831	3,187,400	-	51,939,231
Total Capital Assets	\$ 50,517,937	\$ 5,255,132	\$ 3,126,807	\$ 52,646,262
Less: Accumulated Depreciation				
Office Equipment	\$ 193,755	\$ 18,415		212,170
Service Equipment	443,397	28,813		472,210
Plant and Equipment	14,284,611	1,210,797		15,495,408
Total Accumulated Depreciation	14,921,763	1,258,025	-	16,179,788
Net Capital Assets	\$ 35,596,174	\$ 3,997,107	\$ 3,126,807	\$ 36,466,474

Depreciation expense for the year ended December 31, 2013 was \$1,258,025.

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

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2013 and 2012

NOTE 5: SHORT-TERM DEBT

The District had interim financing through a local bank of \$1,459,000 for a project in progress (interest rate 2.6%) and short-term loans of \$195,000 (interest 5%). The interim financing of 1,459,000 was paid off by Water Revenue Bonds, Series of 2012 purchased by U.S. Department of Agriculture, Rural Development.

NOTE 6: LONG-TERM OBLIGATIONS

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

	<u>2013</u>	<u>2012</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%	\$ 4,000	\$ 8,000
1975 Utilities Revenue Bond, original amount \$96,000 maturing October 1, 2015 with interest payments due semi-annual on April 1, October 1 at a rate of 5%	12,000	17,000
1977 Utilities Revenue Bond, original amount \$998,000 maturing October 1, 2016 with interest payments due semi-annual on April 1, October 1 at a rate of 5%	-	200,000
1978 Waterworks Revenue Bond, original amount \$363,000 maturing January 1, 2018 with interest payments due semi-annually on January 1, July 1, at a rate of 5%	-	124,000
1985 Water District Water Revenue Bond, original amount \$1,155,000 maturing January 1, 2025, with interest payments due annually on January 1 at a rate of 5%	-	756,000
Series A of 1988 Utilities Revenue Bond, original amount \$750,000 maturing October 1, 2028, with interest payments due semi-annual April 1, October 1, at a rate of 5%	-	512,955
Series B of 1988 Utilities Revenue Bond, original amount \$200,000 maturing October 1, 2028, with interest payments due semi-annual April 1, October 1, at a rate of 5%	-	126,988
1989 Water District Water Revenue Bond, original amount \$200,000 maturing January 1, 2022, with interest payments due annually on January 1 at a rate of 6%	-	108,000
1992 Water District Water Revenue Bond, original amount \$745,000 maturing January 1, 2032, with interest payments due annually on January 1 at a rate of 5%	-	551,000
1995 Water District Water Revenue Bond, original amount \$428,000 maturing January 1, 2035, with interest payments due annually on January 1 at a rate of 4.5%	-	336,000
1995 Utilities Revenue Bond, original amount \$125,000 maturing October 1, 2034, with interest payments due semi-annual on April 1, October 1, at a rate of 4.50%	-	97,500
1998 Water District Water Revenue Bond, original amount \$427,000 maturing January 1, 2035, with interest payments due annually on January 1 at a rate of 4.5%	-	357,000

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2013 and 2012

NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

	2013	2012
2000 Utilities Revenue Bond, original amount \$501,000 maturing October 1, 2040, with interest payments due semi-annual on April 1, October 1 at a rate of 4.50%	-	436,900
2003 Water District Water Revenue Bond, original amount \$627,000 maturing January 1, 2042, with interest payments due annually on January 1 at a rate of 4.5%	-	565,500.00
2004 Utilities Revenue Bond, original amount \$495,000 maturing October 1, 2043, with interest payments due semi-annual on April 1, October 1 at a rate of 4.25%	444,500	452,000
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%	1,117,000	1,135,000
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%	706,500	716,500
2009 Water District Water Revenue Bond, original amount \$1,100,000 maturing January 2050, with interest payments due semi-annually on January and July 1, at a rate of 2.38%	1,083,200	1,100,000
2012 Water District Water Revenue Bond, original amount \$1,459,000 maturing May 2052, with interest payments due semi-annually on January and July 1, at a rate of 2.375%	1,459,000	-
2013-D Water District Water Revenue Bond Refunding, original amount \$3,780,000 maturing August 2040, with interest payments due semi-annually on February and August 1, at a rate of 3.332%	3,780,000	-
2008 Utilities Revenue Bond, original amount \$115,000 maturing October 1, 2047 with interest payments due semi-annual on April 1, October 1 at a rate of 4.125%	109,400	110,900
Kentucky Infrastructure Authority Loan, F07-01, original amount \$1,000,000 maturing December 2028, at a rate of 1.00%	768,381	815,634
Kentucky Infrastructure Authority Loan, F10-01, original amount \$4,000,000 maturing December 2032, with interest payments due semi-annually on June and December 1, at a rate of 1.00%	3,818,383	4,000,000
Kentucky Infrastructure Authority Loan, F11-10, original amount \$345,089, maturing December 2034, with interest payments due semi-annually June and December, at a rate of 1.00% plus service fee of .25%	345,089	-
Total Debt	13,647,453	12,526,877
Payments Due in Less Than One Year	(500,364)	(480,770)
Total Long-Term Obligations	\$ 13,147,089	\$ 12,046,107

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 269,200	\$ 324,065	\$ 593,265
2015	321,800	294,568	616,368
2016	323,900	286,228	610,128
2017	281,400	275,560	556,960
2018	295,000	264,344	559,344
2019-2023	1,506,900	1,147,259	2,654,159
2024-2028	1,483,900	841,153	2,325,053
2029-2033	1,206,000	602,854	1,808,854
2034-2038	1,066,400	397,298	1,463,698
2039-2043	1,061,800	211,724	1,273,524
2044-2048	587,900	72,558	660,458
2049-2053	311,400	14,593	325,993
	<u>\$ 8,715,600</u>	<u>\$ 4,732,204</u>	<u>\$ 13,447,804</u>

The annual requirements to amortize all KIA loan outstanding as of December 31, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 231,164	\$ 60,927	\$ 292,091
2015	248,771	57,982	306,753
2016	251,302	54,865	306,167
2017	253,860	51,717	305,577
2018	256,445	48,534	304,979
2019-2023	1,321,924	193,811	1,515,735
2024-2028	1,390,610	109,278	1,499,888
2029-2033	958,403	28,921	987,324
2034-2038	19,374	182	19,556
	<u>\$ 4,931,853</u>	<u>\$ 606,217</u>	<u>\$ 5,538,070</u>

Long – term liability for the year ending December 31, 2013 was as follows:

	<u>12/31/2012 Balance</u>	<u>Addition</u>	<u>Reductions</u>	<u>12/31/2013 Balance</u>
Revenue Bonds	\$ 7,711,243	\$ 5,239,000	\$ 4,234,643	\$ 8,715,600
Kentucky Infrastructure Authority (KIA)				-
State Revolving Loans	4,815,634	345,089	228,870	4,931,853
Loan Payable	1,545,182	118,818	1,469,000	195,000
	<u>\$ 14,072,059</u>	<u>\$ 5,702,907</u>	<u>\$ 5,932,513</u>	<u>\$ 13,842,453</u>

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 6: LONG-TERM OBLIGATIONS (CONTINUED)

On June 5, 2013 the District issued \$3,780,000 in water revenue refunding bonds with an average interest rate of 2.3%-4.3% to advance refund \$4,067,143 in water revenue and utilities revenue bonds with an average interest rate of 4.50%-6.0%. The refunding was undertaken to take advantage of favorable interest rates. The District retired \$2,693,000 in Water Revenue Bonds and \$1,374,143 in Sewer.

The cash flow requirement of the refunded bonds, prior to the refunding, was \$6,222,069 from December 31, 2013 to December 31, 2042. The cash flow requirements of the refunding bond is \$5,320,728 for the same period. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$901,342.

The 2013 Bond issue liability is divided on the balance sheet between water and sewer based on the percentage of debt refunded.

NOTE 7: RISK MANAGEMENT

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

NOTE 8: PENSION PLAN

Substantially all employees are covered under the County Employees Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution for the years ended December 31, 2013, 2012 and 2011 of 18.89%, 19.55% and 18.96% for Non Hazardous Employee's. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended December 31, 2013, 2012 and 2011 was \$195,189, \$195,532 and \$183,753 from the District and \$52,284, \$52,042 and \$50,816 from employees. The total covered payroll for CERS during the years ended December 31, 2013, 2012 and 2011 was \$1,019,145, \$1,025,715 and \$957,752.

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

NOTE 9: BASIS FOR EXISTING RATES

Current water rates were approved by the PSC in January 2012 and became effective with the February 2012 billing period.

NOTE 10: OPERATING LEASE AGREEMENT

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

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 10: OPERATING LEASE AGREEMENT (CONTINUED)

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

NOTE 11: SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through March 31, 2014, the date the financial statements were available to be issued.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Program Awards	Federal Expenditures
Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,459,000	\$ 85,899
Water and Waste Disposal Systems for Rural Communities		<u>595,000</u>	<u>450,419</u>
Total for Department of Agriculture		2,054,000	536,318
Department of Environmental Protection Agency			
Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>N/A</u>	<u>452,832</u>
Total		<u>\$ 2,054,000</u>	<u>\$ 989,150</u>

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of audit issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies 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

Significant deficiencies 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: Unmodified

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>
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? X Yes No

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2013

Section II - Financial Statement of Findings
2013-1 - Preparation and Presentation of Financial Statements

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

Section III - Federal Award Findings and Questioned Costs

None.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2013

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



WISE, BUCKNER, SPROWLES
& ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

To the Board of Commissioners of
Adair County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Adair County Water District, as of and for the year ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Adair County Water District's basic financial statements, and have issued our report thereon dated March 31, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs (Finding 2013-1) that we consider to be a significant deficiency.

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*.

301 E. MAIN STREET • P.O. Box 1083 • CAMPBELLSVILLE, KY 42719-1083 • (270) 465-6842 • FAX (270) 465-7703
E-Mail: wbscpa@wbpcpas.com • www.wbpcpas.com

MEMBERS: AICPA • KYCPA

Adair County Water District's Response to Findings

Adair County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Adair County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

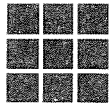
Purpose of this Report

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

Wise, Buckner, Sprowles & Associates, PLLC

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

March 31, 2014



WISE, BUCKNER, SPROWLES
& ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Commissioners of
Adair County Water District

Report on Compliance for Each Major Federal Program

We have audited Adair County Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Adair County Water District's major federal programs for the year December 31, 2013. 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.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Adair County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Wise, Buckner, Sprowles & Associates, PLLC

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

March 31, 2014