



# Pennyryle Area Development District

a regional planning and development agency

500 Hammond Drive, Hopkinsville, KY 42240

voice (270) 886-9484 fax (270) 886-3211

www.peadd.org

email peadd@peadd.org

February 28, 2012

Jeff R. Derouen  
Executive Director  
Public Service Commission  
PO Box 615  
Frankfort, Kentucky 40602

Re: Crittenden Livingston Water District  
Water Meter Replacement Project  
Application for PSC Approval

RECEIVED  
MAR 2 2012  
PUBLIC SERVICE  
COMMISSION

Dear Mr. Derouen:

Enclose is the application for approval for the Crittenden Livingston Water District to enter into a loan agreement with the Kentucky Infrastructure Authority. Please review the documents and let me know if there are any deficiencies.

If you have any questions or require any further information, please do not hesitate to contact me.

Sincerely,

John Herring  
Pennyryle Area Development District  
[johnm.herring@ky.gov](mailto:johnm.herring@ky.gov)  
270-886-9484

Enclosures

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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APPLICATION OF CRITTENDEN-LIVINGSTON WATER )  
DISTRICT FOR AUTHORITY TO ENTER INTO A LOAN ) CASE NO. 2012-\_\_\_\_\_  
AGREEMENT WITH THE KENTUCKY )  
INFRASTRUCTURE AUTHORITY )

APPLICATION

Crittenden/Livingston Water District (CLWD), by counsel, petitions for an order approving the acquisition and installation of automated meter reading equipment pursuant to KRS 278.020.

In support of the application, the following information is provided:

1. CLWD's office address is 620 East Main, Salem, KY 42078. Its principal officers are listed in its current Annual Report on page 6, which is filed with the Commission as are its prior years Reports;

2. CLWD is a non-profit water district organized under Chapter 74 and has no separate articles of incorporation;

3. A description of CLWDs water system and its property stated at original cost by accounts is contained in its 2010 Annual Report, which is incorporated by reference. The 2011 Report will be filed by May 1, 2012.

4. CLWD serves retail customers in Crittenden and Livingston Counties and sells water at wholesale to non-affiliated water distribution systems in Livingston and Lyon Counties.

5. It proposes to acquire and install automated meter reading equipment as described in Exhibit A. The facilities include approximately 1640 transmitters and meters as well as related equipment and software. (Because no construction is involved Maps, Plans and Drawings for the facilities are not applicable Specifications and Bid Documents are provided in Exhibit A). The District is financing the estimated \$300,000 through a low interest loan from the Kentucky Infrastructure Authority. The District has applied for the loan, and has received notice of approval.

6. The construction is in the public interest and is required to allow CLWD to continue to provide adequate service to its customers. The project will provide enhanced meter reading and customer service options. The project, its cost, need and other details are contained in Exhibit A.

7. The total project cost is approximately \$300,000. See Exhibit A.
8. Easements and rights of way are not required, see Exhibit B.
9. This service will not compete with any other utility in the area.
10. The proposed project, identified in Exhibit A, is scheduled to begin construction on PSC approval, estimated to be June 1, 2012 and be completed within 6 months. Board approval of the project was given on April 25, 2011, attached as Exhibit B. Bid information is included with Exhibit A. Bids expire on April 1, 2012.
11. No new franchises are required. No DOW permit is required. See Exhibit B.
12. Construction descriptions are in Exhibit A and Bid Documents. Facts relied on to justify the public need are included in the project descriptions in Exhibit A. Based on the analysis included with Exhibit A, the installation of the automated facilities will result in significant monetary savings to the District.
13. Maps of the area showing location of the proposed facilities are in Exhibit A.
14. The construction costs will be funded by the KIA Fund B Loan for \$300,000.
15. Estimated operating costs for operation and maintenance, depreciation and debt service after construction are shown in Exhibits A and C.
16. A description of the facilities and operation of the system are in Exhibit A.
17. A full description of the route, location of the project, description of construction and related information is in Exhibit A.
18. The start date for construction; proposed in-service date; and total estimated cost of construction at completion are included in Exhibit A.
21. The use of the funds and need for the facilities is justified based on a the Project Description included as Exhibit A
22. No rate adjustment is being proposed.
23. Crittenden-Livingston Water District requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 11(2)(a), which requires that the financial exhibit filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the Application. There has been no change that is material in nature in its financial condition or operation of the District since December 31, 2010. The financial information contained in Exhibits D and E is for the twelve (12) month period ending December 31, 2010 and

the operational budget for 2011. This is the most recent published financial data available. Because favorable bids for the AMI equipment will expire on April 1, 2012 (Exhibit G), Crittenden-Livingston Water, Crittenden-Livingston Water District cannot run the risk of delaying the purchase of the equipment and losing the favorable bids while more current financial data is compiled.

24. The following information is provided in response to 807 KAR 3001 (8):

a. Articles of Incorporation - None. CLWD is a statutorily created water district under KRS Chapter 74;

25. The following information is supplied pursuant to 807 KAR 5:001(9):

a. Facts relied upon to show that the application is in the public interest: See Exhibit A.

26. The following information is provided as required by 807 KAR 3001 (1 1):

a. A general description of the property is contained in the Annual Report, Exhibit F.

b. No stock is to be issued; No bonds are to be issued in this case;

c. There is no refunding or refinancing;

d. The proceeds of the financing are to construct the property described in Exhibit A and C

e. The par value, expenses, use of proceeds, interest rates and other information is not applicable because no bonds are being issued at this time.

27. The following exhibits are provided pursuant to 807 KAR 5:001 (11)(2):

a. There are no trust deeds. All notes, indebtedness and mortgages are included in Exhibit D.

b. Property is to be constructed is described in Exhibit A and B.

28. The following information is provided pursuant to 807 KAR 5:001(6):

a. No stock is authorized.

b. No stock is issued.

c. There are no stock preferences.

d. Mortgages are listed in Exhibit D.

e. Bonds are listed in Exhibit D.

f. Notes are listed in Exhibit D.

g. Other indebtedness is listed in Exhibit D.

h. No dividends have been paid.

i. Current balance sheet; income statement and debt schedule are attached as Exhibit E.

807 KAR 5:001

Section 8(1)

Full name and post office address of applicant and a reference to the

Crittenden/Livingston Water District

particular provision of law requiring Application Commission approval.

PO Box 495  
Salem KY 42078

Section 8 (2)

The original and 10 copies of the application with an additional copy for any party named therein as an interested party.

Yes

Section 8 (3)

If applicant is a corporation, a certified copy of the Articles of Incorporation and all amendments thereto or if the articles were filed with the PSC in a prior proceeding, a reference to the style and case number of the prior proceeding.

Not a corporation

Section 9 (2)  
(a)

The facts relied upon to show that the proposed new construction is or will be required by public convenience or necessity.

Exhibit A

(b)

Copies of franchises or permits, if any, from the proper public authority for the proposed new construction or extension, if not previously filed with the commission.

No franchises or permits required.

(c)

A full description of the proposed location, route, or routes of the new construction or extension, including a description of the manner in which same will be constructed, and also the names of all public utilities, corporations, or persons with whom the proposed new construction or extension is likely to compete.

Exhibit B

- |             |   |                |
|-------------|---|----------------|
| (d)         | Three (3) maps to suitable scale (preferably not more than two (2) miles per inch) showing the location or route of the proposed new construction or extension, as well as the location to scale of any like facilities owned by others located anywhere within the map area with adequate identification as to the ownership of such other facilities. | Exhibit B      |
| (e)         | The manner, in detail, in which it is proposed to finance the new construction or extension.  | Exhibit A & C  |
| (f)         | An estimated cost of operation after the proposed facilities are completed.   | Exhibit C      |
| KRS 322.340 | Engineering plans, specifications, plats and report for documents prepared by a registered engineer, requires that they be signed, sealed, and dated by an engineer registered in Kentucky.   | Not Applicable |

For these reasons, the District requests authorization to construct the facilities and any other order or authorization that may be necessary to obtain Commission approval for construction.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert B. Frazer", is written over a horizontal line. The signature is stylized and cursive.

Robert B. Frazer  
Frazer, Rogers & Peek  
200 S. Main St.  
PO Box 361  
Marion, KY 42064

COUNSEL FOR CRITTENDEN-  
LIVINGSTON WATER DISTRICT



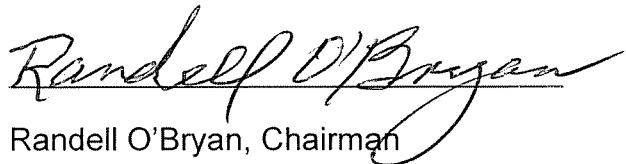
COMMONWEALTH OF KENTUCKY )

)

COUNTY OF CRITTENDEN )

The undersigned, Randell O'Bryan, being duly sworn, deposes and states that he is the Chairman of the Crittenden-Livingston Water District, Applicant, in the above proceedings; that he has read the foregoing Application and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, he believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this March 1, 2012, Crittenden-Livingston Water.

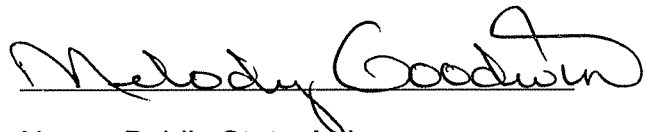


Randell O'Bryan, Chairman

Crittenden-Livingston Water District

Subscribed and sworn to before me by Randell O'Bryan, Chairman of the Crittenden-Livingston Water District, on this March 1, 2012, Crittenden-Livingston Water.

My commission expires: 6-16-2012.



Notary Public State-At-Large



## EXHIBIT A

## Project Description

The Crittenden/Livingston Water District is proposing a project to replace the meters in Crittenden County with radio read meters. This project will reduce the District's time reading meters by more than half and reduce O & M costs by limiting personnel costs. The meter replacement will affect approximately 45% of the systems residential customers. CLWD plans to finance the project through a low interest loan with the Kentucky Infrastructure Authority for \$300,000. This project is a zero sum project no rate increases are necessary to pay for the project. The utility plans to pay for the project through personnel cost reductions as well a reduction in vehicle costs associated with reading the meters. The water district currently employs two full time meter readers. This project will eliminate the need for one these employees.

The water district is currently short staffed at the water treatment plant. The current plan is to transfer personnel to the plant from the field and reduce the overtime costs that have been associated with being short staffed. This will eliminate approximately 2hrs of overtime per plant operator per week. This will also reduce the amount of overtime that is associated with vacations and training of the current staff. Without this project the Water District will need to add another operator at the plant to reduce the labor burden on the current operators. The Water District currently employs four operators at the water treatment plant. Two operators are on duty at all times 24hrs a day seven days a week.

Overall the Water District plans to save approximately 46,600 dollars a year with the implementation of the described project. The savings break down annually as follows:

- 1) Overtime of 2hrs per week for at the WTP (x4) \$10,900
- 2) Vehicle expense \$5,700
- 3) Staff \$30,000

---

Total savings \$46,600


This annual savings can easily cover the estimated annual debt service to the Kentucky Infrastructure Authority of \$18,873. Overall the project should net Crittenden/Livingston Water District nearly \$28,000 in annual savings. Additional income and savings have been calculated in Exhibit C.

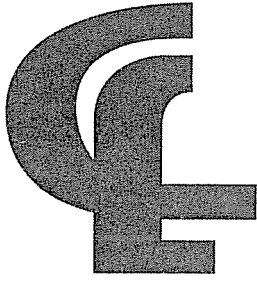
The Water District plans to begin installation of the radio read meters in June of 2012. The District estimates installation and start up to take approximately three to six months.

KENTUCKY INFRASTRUCTURE AUTHORITY  
 PROJECT BUDGET  
 PROJECT # B11-10

Cost Classification	Infrastructure Revolving Loan (Fund B)	Other Funding Source A	Other Funding Source B	Other Funding Source C	Local Funds	Total Project Cost
1 Administrative Expenses (Including Interim Financing)	7,250					7,250
2 Legal Expenses						
3 Land, Appraisals, Easements, Right-of-Way						
4 Relocation Expense & Payments						
5 Planning						
6 Engineering Fees - Design						
7 Engineering Fees - Construction						
8 Engineering Fees - Inspection						
9 Construction						
10 Equipment	276,830					276,830
11 Contingency	15,920					15,920
12 Other						
Total	300,000					300,000
<b>Funding Sources</b>	<b>Amount</b>	<b>Date Committed</b>				
A KIA Fund B	300,000	8-4-11				
B						
C						

Please identify all sources and amounts of Local Funding		Amount
1		
2		
3		

  
 Signature  
 Title Project Manager  
 Date 8-28-11  
Conrad



# CRITTENDEN-LIVINGSTON County Water District

620 E. Main St. • Salem, Kentucky 42078

Phone (270) 988-2680 • Fax (270) 988-4892

October 11, 2011

C.I. Thornburg  
140B Ambassador Drive  
Bowling Green, Ky. 42101

To the Company of C.I. Thornburg:

This letter is to thank you for placing a bid with our water district for radio read meters. After review of the bids and much consideration the Crittenden Livingston Co. Water District chose the bid turned in by United Systems. Enclosed for your viewing is a list of bids turned in for this project.

Sincerely,

Ronnie Slayden,  
Superintendent

**Radio Read Meter Bids**

Neptune	\$273,276.76
United Systems	\$276,830.00
C.I. Thornburg	\$348,054.00
Construction Site Services	\$275,000.00



P.O. Box 547, 205 Ash Street, Benton, Kentucky 42025  
 Phone: (270) 527-3293 • Toll-Free: 1-800-455-3293  
 FAX: (270) 527-3132 • www.united-systems.com

United Systems & Software, Inc. is a software development firm that specializes in serving the information technology needs of utilities and local government. Founded in 1977, USS now serves over 400 customers within nine-state region. As a distributor of Itron Automatic Meter Reading (AMR) technology, we offer complete AMR systems, radio transmitters & receivers, encoded meters, handheld & mobile computers, software, installation, training and on-going support.



September 26, 2011

Pricing valid for 90 days

SEALED BID: Radio Read Meters  
 Crittenden-Livingston Co Water District  
 620 E Main St, Ph: (270) 988-2680

Qty	Product/Service Description	Unit Price	Ext. Price
<b>Itron Drive-By Mobile Handheld AMR System- Itron ChoiceConnect™ Meters, Equipment, Software &amp; Services</b>			
<b>Meters:</b>			
1600	Itron Flostar 5/8x3/4 Single Jet (Inferential) Meters, encoder register 1/10 <sup>th</sup> gallon resolution Low flow accuracy 1/16 <sup>th</sup> gallon per minute. NSF-61 approved. Itron 100W drive-by datalogging endpoints (radio modules). ---5WS---11/28/11---Addendum-Alternate meter selected.	\$ 160.00	\$ 256,000.00
1600	Mastermeter 5/8x3/4 Bottom Load Multijet Meters, encoder register 1/10 <sup>th</sup> gallon resolution Itron 100W drive-by datalogging endpoints (radio modules).	\$ 160.00	\$ 256,000.00
40	Itron Flostar 1" Single Jet (Inferential) Meters, encoder register 1 gallon resolution Low flow accuracy 1/4 <sup>th</sup> gallon per minute. NSF-61 approved. Itron 100W drive-by datalogging endpoints (radio modules). ---5WS---11/28/11---Addendum-Alternate meter selected.	\$ 200.00	\$ 8,000.00
40	Mastermeter 1" Bottom Load Multijet Meters, encoder register 1 gallon resolution Itron 100W drive-by datalogging endpoints (radio modules).	\$ 200.00	\$ 8,000.00
<b>Equipment:</b>			
1	Mobile Collector Lite Kit for FC300SR Handheld Includes: MCLite-PORT RF UNIT, mag. antenna, all cables for power & communications, in-vehicle cradle- Ram-mount specific to vehicle Not Included. Estimated \$200-\$400. 1-year Itron Warranty Included, 2nd Year Maintenance: \$576 Normal Price \$9,300- Bid Package discounted -\$5,000.	\$ 4,300.00	\$ 4,300.00
1	Itron Environmentally Sealed, Windows CE-Based FC300SR Radio Ready Handheld Unit Includes Serial Dock & Charging Station, software and all related cables. Can be used with or without the MC-Lite for additional walk-by non-radio situations. 1-Year Itron Warranty Included, 2nd year maintenance: \$473./unit Normal Price \$5,055- Bid Package discounted -\$4,055.	\$ 1,000.00	\$ 1,000.00
<b>Software:</b>			
1	ALLIANCE™ Meter Reading System Interface: (Itron, Sensus, Neptune, Mastermeter, etc...) license, on-line help, 1 <sup>st</sup> Year Maintenance Included, 2 <sup>nd</sup> Year Maintenance: \$395 (existing)	\$ 1,995.00	\$ 1,995.00
1	Itron MV-RS BB Host Software - Up to 7,500 Meters License 1 <sup>st</sup> year maintenance included, 2 <sup>nd</sup> year maintenance: \$1,104.00	\$ 3,335.00	\$ 3,335.00
<b>Training:</b>			
1	Itron System Start-up Services Plan - USS to provide up to 2 Days On-site Services for Installation/Training & System Start-up, Onsite training based on an 8 hour day, all travel expenses are included. Daily Rate \$1,100.	\$ 2,200.00	\$ 2,200.00
<b>Total AMR Bid Price:</b>			<b>\$ 276,830.00</b>

Continued on next page...



P.O. Box 547, 205 Ash Street, Benton, Kentucky 42025  
 Phone: (270) 527-3293 • Toll-Free: 1-800-455-3293  
 FAX: (270) 527-3332 • www.umbri-systems.com

#### Metering & Radio Technology Considerations-

##### Flow Rate Information:

Most new mechanical/traditional meters are AWWA accurate at 1/8 to 1/4 gpm at low flows (7.5gph to 15gph flow rate). Flow rate accuracy is important to capture revenue and typically reduces over time as a meter wears. The Itron Flostar is a Single Jet meter accurate at 1/16 gpm at low flow (3.75gph flow rate). A meter accurate at 1/8 gpm flow rate equals 7.5gph flow rate while a 1/4 gpm flow rate equals 15 gph.

##### Data Logging:

Data Logging allows a utility to view more than just a monthly reading. It comes in various forms from daily to hourly and for varying lengths of time from a month or even 6 months. Retrieval of the data logging varies by manufacturer. In most cases, a return trip to the meter is required to collect the information (after the meter was read and the customer had a complaint). The collection may require physical access to the meter pit and may require various tools to initiate the transmission. The Itron 100W differs from the traditional data logging collection routine. Data logging for the past 40 daily reads can be collected from all meters while reading your route at normal speed. Or, select accounts can collect 40 days of hourly readings (960) while reading the route; these will require a reduced driving speed. In either case, this data is automatically downloaded to the meter reading host machine with regular monthly billing readings. With data logging collection at the time of reading, the data is already in the office when the customer calls (reducing return trips). In office data can also be used for turn on/off situations without a trip to the meter.

##### Time Synchronization:

Itron 100W radio modules have time synchronization system wide by capturing readings and interval data on the top of every hour. If certain meters or all meters are set to collect hourly datalogging this allows for time synchronized data analysis. For example, a master meter or distribution meter hourly datalogging will show exactly what usage was used from say 8am Mon to 8am Tue, etc. Further analysis can be done with time synchronized data to subtract the combined usage of all meters fed by a master meter to calculate water loss for a specific section and time period.

##### Signal Strength:

AMR systems aren't created equally and signal strength directly relates to performance. The stronger the signal, the less likely a missed read will occur. It also plays a crucial role in reducing travel routes and reading collection times. But, products must balance power, battery life & cost. All Itron radios have an expected 20 year battery life and 10 year full warranty. Many systems still operate at 1mw or less. Check the fcc code, part #249 is single or dual channel at 1mw or less, part #247 is multi channel at 1000mw or less. Itron radios are part #247 and the 100W has two available power modes at 10mw & 250mw. Low power systems will recommend or require plastic lids. While all manufacturers' radio modules will perform better under a plastic lid than a cast iron lid, Itron 100W modules will work under cast iron lids if desired.

##### Frequency & Bandwidth:

Most systems on the market today utilize the unlicensed 900Mhz channel. Some operate on only one or two channels while others such as Itron utilize spread spectrum technology allowing multiple channels. The Itron 100W broadcasts a signal on 200Khz wideband channels within the 902-928Mhz frequency across 50 channels in mobile mode and 120 channels in fixed network mode. Multiple channels reduce the likelihood of interference within the bandwidth. Plus, the Itron 100W is self-learning as it will quit using certain channels if there is RF traffic in that specific area. A few systems utilize a specific FCC licensed frequency. While you own the rights to that frequency you may still encounter interference. Such systems typically utilize a very narrow bandwidth and only have a few channels to operate within, thus compounding issues if there is interference or if much data throughput is needed.

##### Wired vs. Wireless:

AMR systems today are either wired or wireless and both have pros and cons. A wired option has more installation & trouble-shooting capabilities but can introduce infrequent cable issues. With a wired option (unattached or attached to a pit lid) the radio is installed closer to the top thus reducing many transmission issues. Most wired solutions are hardwired directly to the meter. However, the Itron solution includes a waterproof inline connector. The inline connector allows for easy troubleshooting; simply try a new radio to see if a radio or meter has failed. An inline connector also allows the use of virtually any meter on the market. A wireless option is easy to install and reduces possible cable issues. However, a wireless option will be at the bottom of a pit (possibly full of water). To reduce missed reads, a wireless option should transmit at a higher power. If a wireless device fails, most often the register or the entire meter must be pulled for trouble shooting.

##### Meter Compatibility:

Itron modules auto-detect the brand of meter when connected, change-outs on existing meters and/or meter registers with AMR compatible meter and/or registers is an available option. Itron 100W encoder Radio Modules are compatible with all meters that accept the following registers:

Badger: ADE meter registers	Elster/AMCO/ABB/Kent: InVISION meter registers
Mastermeter encoder register with inline connector.	Mueller/Hersey: Translator meter registers
Neptune/Schlumberger: ProRead & Ecoder meter registers	Sensus/Invensys/Rockwell: ICE or ECR meter registers

##### Bid Options:

Option 1: A laptop based mobile system can be substituted for an additional \$3,500.

Option 2: Mueller Nutating disc PD meters can be substituted at \$150 each with the 100W instead of the Flostar at \$160 each.





P.O. Box 547, 205 Ash Street, Benton, Kentucky 42025  
 Phone: (270) 527-3293 • Toll-Free: 1-800-455-3293  
 FAX: (270) 527-3132 • www.united-systems.com

**General:**

Prices do not include sales tax (if applicable). This quotation shall remain firm for ninety (90) days from the quotation date, unless modified in writing by USS prior to USS acceptance. All related invoices shall be paid on a Net 10 Day basis. All services are to be delivered during USS' standard service window (8AM-4:30PM, Monday thru Friday, excluding USS Holidays).

2 <sup>nd</sup> Year Maintenance-Recommended but Optional	Unit Pricing	Extended Pricing
1 ITRON MVRS / OMR annual maintenance:	\$ 1,104.	\$ 1,104.
1 ITRON MCLite-Port Mobile Unit annual maintenance / Each	\$ 576.	\$ 576.
1 ITRON FC200SR Handheld annual maintenance / Each	\$ 473.	\$ 473.
2 Existing Unitech PDA- Being Replaced(Existing maint)	\$ -395.	\$ -790.

Thank you,

Scott W. Smith

*Scott W. Smith / Treasury Manager*

United Systems & Software, Inc.

Office 1.800.455.3293 ~ Mobile 1.270.703.0697

**Agreement & Terms**

Both parties agree to the following terms and conditions as they related to the software, hardware and services outlined within this Sales Order outline:

1. This quotation shall remain firm for ninety (90) days from the date submitted, unless modified in writing by USS prior to USS acceptance.
2. This quotation supersedes all previous quotations, and all previous quotations are null and void.
3. Acceptance of this Agreement also requires the client to execute Itron's Indirect Sales Agreement.
4. The Client will be billed upon shipment or delivery of goods & services. All related invoices shall be paid on a 'Net 10 day' basis.
5. The system, which may include both equipment and software, includes the manufacturer's warranty. Warranty services will be provided on a mail-in depot basis with the manufacturer's warranty provisions prevailing. See Itron's End User License Agreement (EULA) for warranty durations on each system component.
6. Delivery shall be within 30-90 days. USS shall not be responsible for any delays beyond its control. Quotations do not include related shipping and/or sales tax, if applicable.
7. USS shall not be liable for any consequential damages arising out of the use of the system.

USS and the client understand and agree to the terms and conditions as outlined. Client acknowledges that Client has read this Agreement, understands it, and agrees to be bound by its terms. Client further agrees this is the complete and exclusive statement of Agreement between the parties, which supersedes all implied, oral, and written communications between the parties relating to this Agreement.

This Agreement shall be effective when signed by both parties.

This Agreement is entered into as of this \_\_\_\_ day of \_\_\_\_\_, 2011.

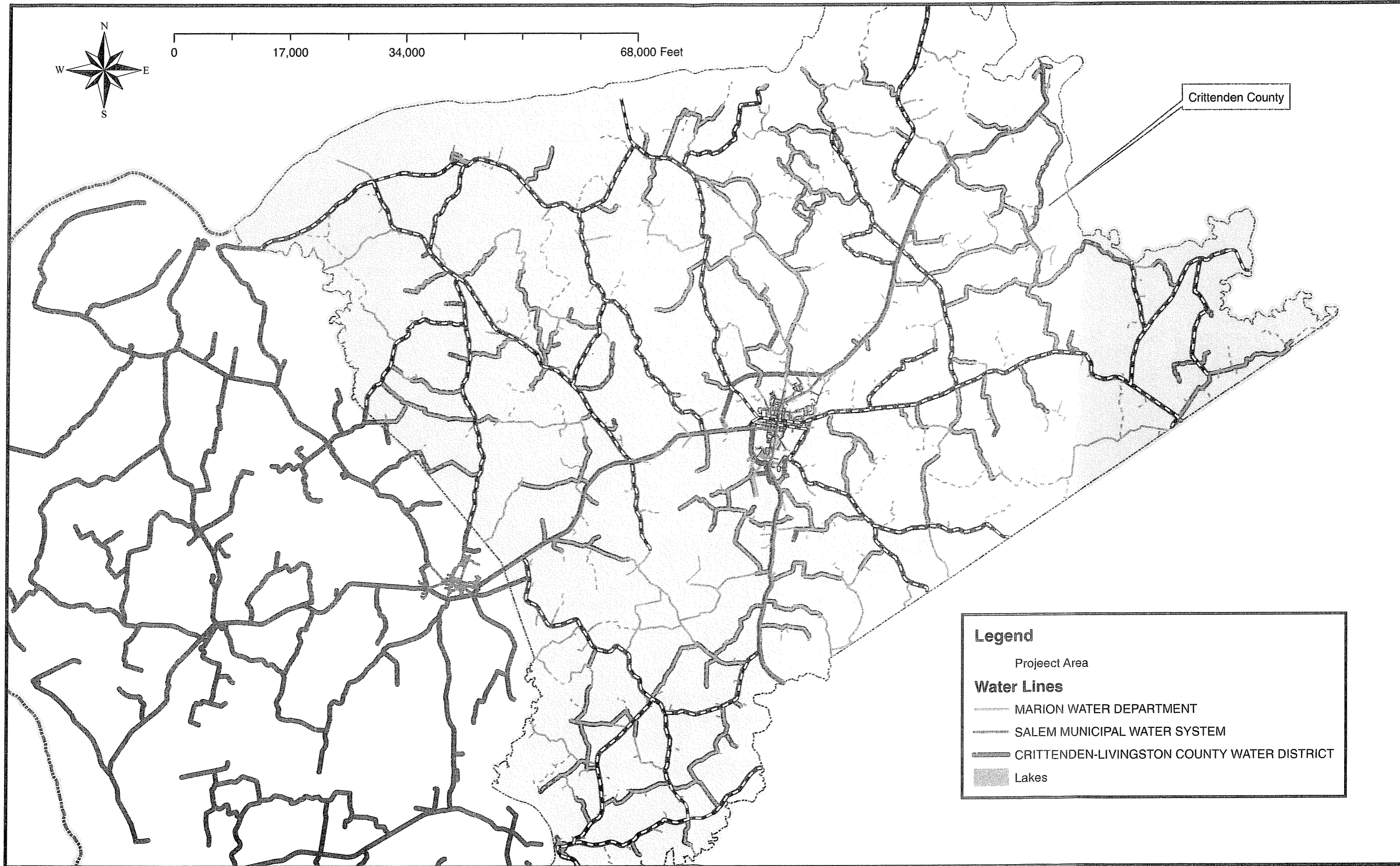
UNITED SYSTEMS & SOFTWARE, INC.

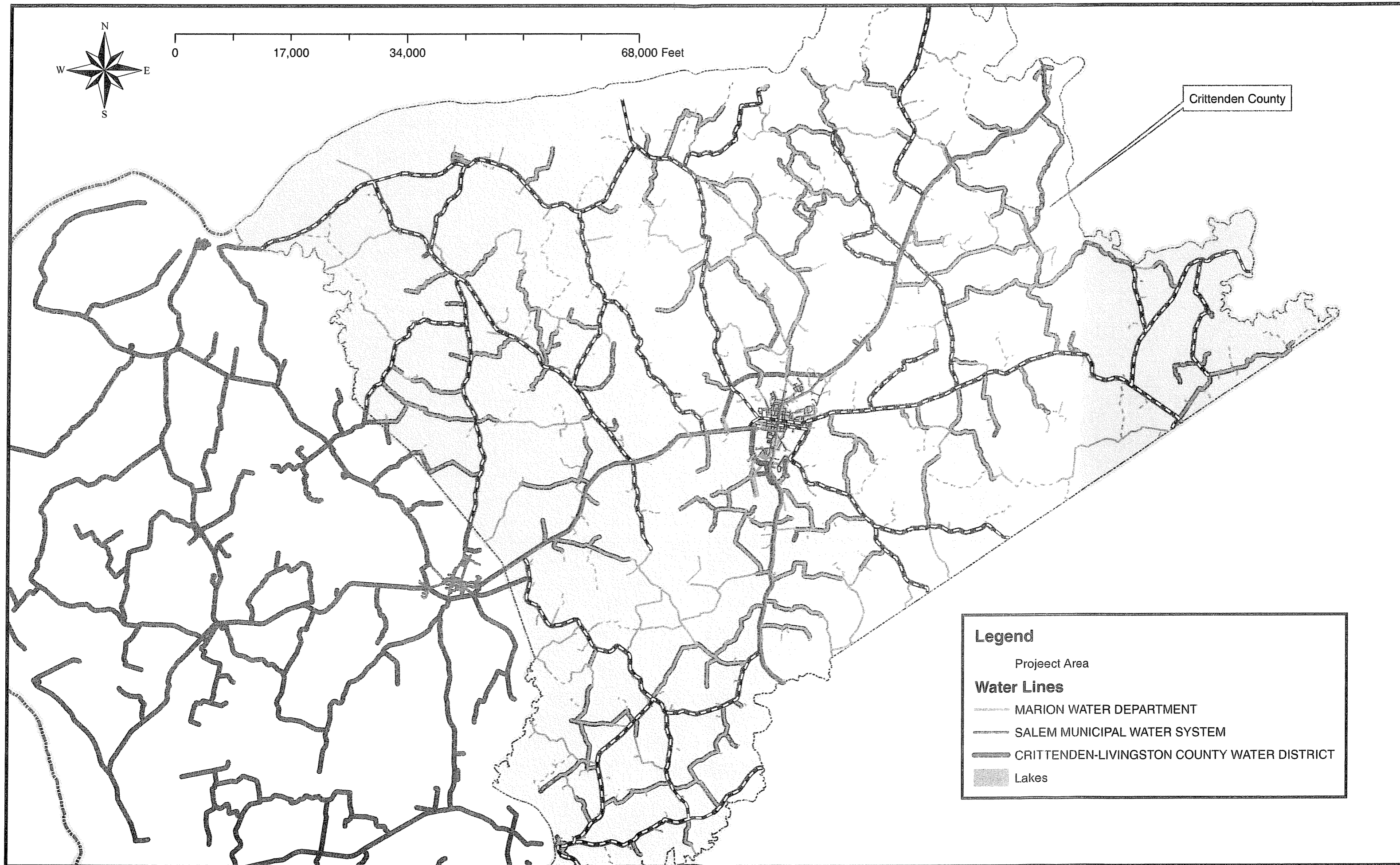
CRITTENDEN LIVINGSTON CO WD

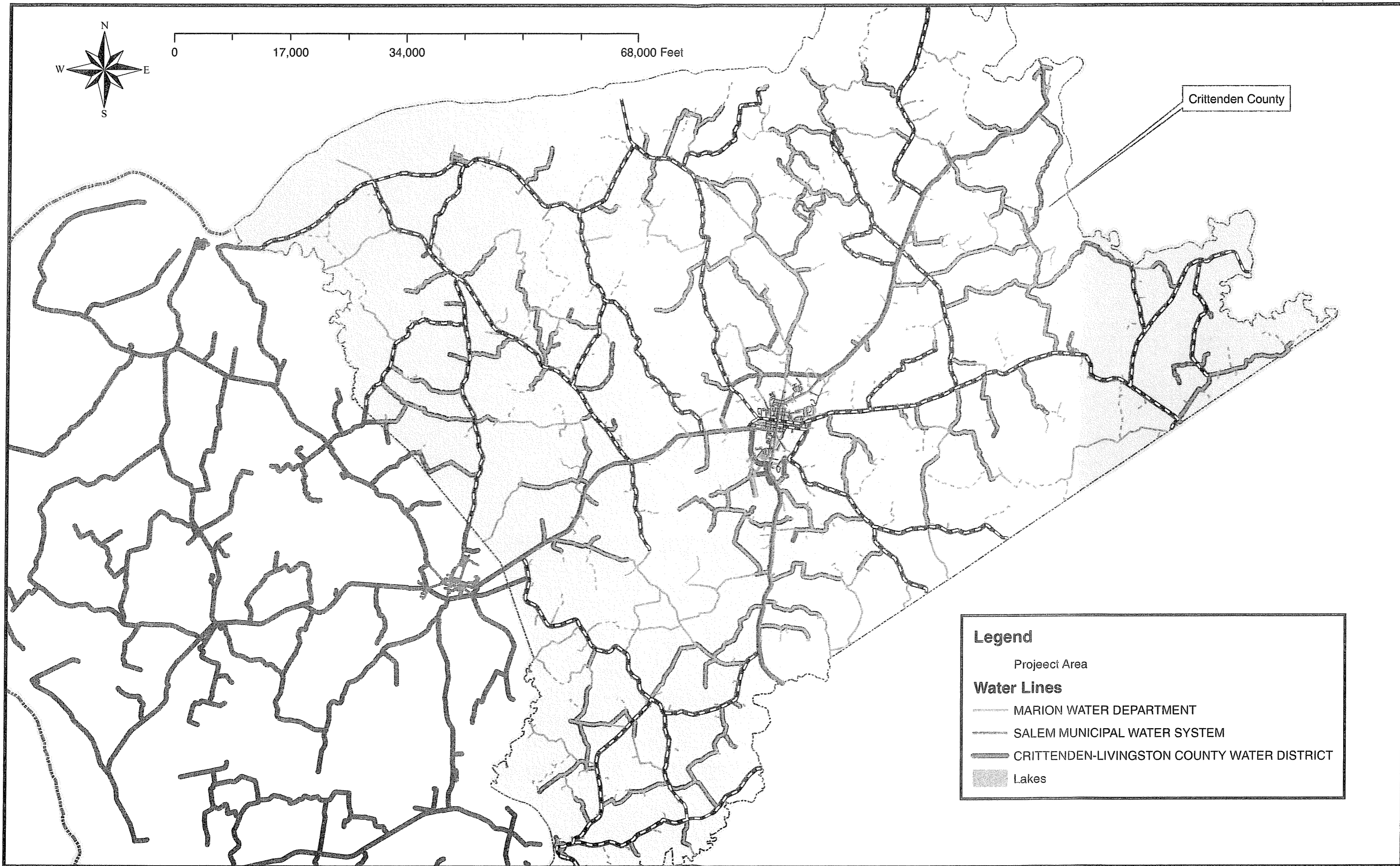
By/Title: *Scott W. Smith / Treasury Manager*

By/Title: \_\_\_\_\_

## EXHIBIT B







# EXHIBIT C

<b>EXECUTIVE SUMMARY</b>		Reviewer:	Kasi White	
<b>KENTUCKY INFRASTRUCTURE AUTHORITY</b>		Date:	August 4, 2011	
<b>FUND B, INFRASTRUCTURE</b>		KIA Loan Number:	<b>B11-10</b>	
<b>REVOLVING LOAN FUND</b>		WRIS Number	<b>WX21055012</b>	
<b>BORROWER:</b>	<b>CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT</b>			
	<b>LIVINGSTON COUNTY</b>			
<b>BRIEF DESCRIPTION:</b>	The Crittenden - Livingston Water District is requesting a Fund B loan in the amount of \$300,000 to replace the existing meters in Crittenden County with radio read meters. This will reduce the District's time reading meters by more than half and reduce operating and maintenance costs by limiting personnel costs. Meter replacements will affect approximately 45% of the customer base of the District.			
<b>PROJECT FINANCING:</b>	<b>PROJECT BUDGET</b>			
Fund B Loan	\$ 300,000	Administrative Expenses	\$ 7,250	
		Equipment	290,000	
		Contingency	2,750	
<b>TOTAL</b>	<b>\$ 300,000</b>	<b>TOTAL</b>	<b>\$ 300,000</b>	
<b>REPAYMENT</b>		Est. Annual		
	Rate	2.0%	Payment \$ 18,873	
	Term	20 years	1st Payment 6 Mo. after first draw	
<b>PROFESSIONAL SERVICES</b>	Engineer	Stigall Engineering Associates, Inc.		
	Bond Counsel	Peck, Shaffer, & Williams		
<b>PROJECT SCHEDULE</b>		Bid Opening:	August, 2011	
		Construction Start:	October, 2011	
		Construction Stop:	March, 2012	
<b>DEBT PER CUSTOMER</b>	Existing:	\$ 4,164		
	Proposed:	\$ 4,111		
<b>OTHER DEBT</b>	See Attached			
<b>OTHER STATE-FUNDED PROJECTS LAST 5 YRS</b>	See Attached			
<b>RESIDENTIAL RATES</b>		<u>Users</u>	<u>Avg. Bill</u>	
	Current	3,437	\$ 43.30 (for 4,000 gallons)	
	Additional	0	\$ 43.30 (for 4,000 gallons)	
<b>REGIONAL COORDINATION</b>	This project is consistent with regional planning recommendations.			
<b>CASHFLOW</b>	<b>Cash Available for</b>	<b>Income after Debt</b>	<b>Coverage Ratio</b>	
	<b>Debt Service</b>	<b>Debt Service</b>	<b>Service</b>	
Audited 2006	955,610	790,690	164,920	1.2
Audited 2007	1,210,673	951,377	259,296	1.3
Audited 2008	940,607	734,829	205,778	1.3
Audited 2009	1,324,280	1,170,389	153,891	1.1
Unaudited 2010	1,527,985	1,300,572	227,413	1.2
Projected 2011	1,043,870	613,337	430,533	1.7
Projected 2012	1,049,624	971,901	77,723	1.1
Projected 2013	1,082,532	1,082,301	230	1.0

Reviewer: Kasi White  
Date: August 4, 2011  
Loan Number: B11-10

**KENTUCKY INFRASTRUCTURE AUTHORITY  
INFRASTRUCTURE REVOLVING LOAN FUND (FUND "B")  
CRITTENDEN-LIVINGSTON COUNT WATER DISTRICT  
LIVINGSTON COUNTY  
PROJECT REVIEW  
WX21055012**

**I. PROJECT DESCRIPTION**

The Crittenden - Livingston Water District is requesting a Fund B loan in the amount of \$300,000 to replace the existing meters in Crittenden County with radio read meters. This will reduce the District's time reading meters by more than half and reduce operating and maintenance costs by limiting personnel costs. Meter replacements will affect approximately 45% of the customer base of the District.

The District serves more than 3,400 retail customers in Crittenden and Livingston counties and it sells wholesale water to the cities of Grand Rivers, Salem and Smithland, the Ledbetter Water District and the Lyon County Water District and its activities are subject to PSC jurisdiction.

**II. PROJECT BUDGET**

	<u>Total</u>
Administrative Expenses	\$ 7,250
Equipment	290,000
Contingency	2,750
<b>Total</b>	<b>\$ 300,000</b>

**III. PROJECT FUNDING**

	<u>Amount</u>	<u>%</u>
Fund B Loan	\$ 300,000	100%
<b>Total</b>	<b>\$ 300,000</b>	<b>100%</b>

**IV. KIA DEBT SERVICE**

Construction Loan	\$ 300,000
Interest Rate	2.0%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 18,273
Administrative Fee (0.20%)	\$ 600
<b>Total Estimated Annual Debt Service</b>	<b>\$ 18,873</b>



## **V. PROJECT SCHEDULE**

Bid Opening: August, 2011  
Construction Start: October, 2011  
Construction Stop: March, 2012

## **VI. CUSTOMER COMPOSITION AND RATE STRUCTURE**

### **A. Customers**

Residential	3,408
Commercial	13
Industrial	<u>16</u>
Total	3,437

### **B. Rates**

Rates were last increased February, 2006. The current rate structure is as follows:

	<u>Current</u>
First 1,000 Gallons	\$16.00
Next 9,000 Gallons	9.10
Next 10,000 Gallons	7.80
Over 20,000 Gallons	<u>6.15</u>
Cost for 4,000 gallons	\$43.30
Affordability Index (Rate/MHI)	1.4%

The district currently has agreements to provide water to the City of Salem, City of Grand Rivers, Lyon County Water District, Ledbetter Water District and the City of Smithland. Grand Rivers revenues accounts for approximately 9% of total revenue for the district.

## **VII. DEMOGRAPHICS**

In 2010, Crittenden and Livingston County's populations were 9,108 and 9,609, respectively, with a weighted average Median Household Income (MHI) of \$37,819. The project will qualify for a 2% interest rate because the MHI is greater than 80% of the \$41,197 MHI for the Commonwealth.

## **VIII. FINANCIAL ANALYSIS (See Exhibit 1)**

Financial information for the Crittenden-Livingston County Water District was obtained from the audited financial statements for the years ended December 31, 2007 through 2009, selected compiled financial statement for 2010, and financial information filed with the PSC for 2010.

### **HISTORICAL**

Both revenues and operating expenses have been flat from 2007 to 2010. The customer count has increased about 3.6% however total gallons billed has declined 7.4% due to a decrease in commercial and resale sales.

The debt coverage ratio has ranged from a high of 1.3 in 2007 and 2008 to a low of 1.1 in 2009. The District received state grants designated for debt service totaling \$900,000 during 2009 and 2010.

The balance sheet reflects a debt to equity ratio of 1.6 and unrestricted cash is slightly less than one month's operating expenses. Sinking funds are maintained to fund debt service on revenue bonds. The 2006 through 2009 Reports on Internal Control over Financial Reporting and on Compliance and Other Matters noted that "deposits into the sinking fund were insufficient to meet the requirements of the bond ordinances." The 2009 report also noted that the majority of \$43,000 of inactive accounts receivable (15% of accounts receivable) was considered uncollectible and should be written off in 2010. It does not appear that this occurred.

### **PROJECTIONS**

Projections are based on the following assumptions:

- Revenues will increase 2% per year from growth
- Revenues will increase 3% in 2013 for the approximately 1,600 customers that receive new meters.
- Expenses will increase 4% per year.
- A replacement reserve of \$750 will be funded each year
- Debt service on the proposed loan will be \$18,873 annually.
- The debt service ratio is projected at 1.7 for 2011 with approximately \$430,000 in income after debt service. This is not the result of any favorable improvement in operating performance but is due to debt service timing associated with a lease with the Livingston County Fiscal Court. Funding was arranged through a financing agreement between the Court and KACO. Debt service coverage is 1.0 in 2013 when principal and interest repayments begin.

Based on the proforma assumptions, the utility shows adequate cash flow to repay the KIA Fund B loan.

### **REPLACEMENT RESERVE**

The annual replacement cost is \$750. This amount should be added to the replacement account each December 1 until the balance reaches \$7,500 and maintained for the life of the loan.

**IX. DEBT OBLIGATIONS**

	<u>Outstanding</u>	<u>Maturity</u>
1995 Series A Bonds	\$ 722,000	2035
2000 Series A Bonds	1,774,000	2040
2000 Series B Bonds	1,540,000	2040
2000 Series C Bonds	621,000	2040
2004 Bonds	4,386,000	2029
2008 Bonds	1,750,000	2030
KIA (F1-05)	1,001,711	2023
KACO Lease	2,560,000	2039
<b>Total</b>	<b>\$ 14,354,711</b>	

**X. OTHER STATE OR FEDERAL FUNDING IN PAST FIVE YEARS**

<u>Project Title</u>	<u>Funding Source</u>	<u>Amount</u>	<u>Type</u>
Water Project	HB380	800,000	Grant
Water Project	HB380	100,000	Grant
Debt Retirement	HB608	300,000	Grant
Debt Retirement	HB608	600,000	Grant

**XI. CONTACTS**

**Applicant**

Name Crittenden-Livingston Water District  
Address 620 East Main  
Salem, KY 42078  
Contact Ronnie Slayden  
Phone (270) 988-2680  
Email rslaydenh2o@yahoo.com

**Applicant Contact**

Name Pennyriple Area Development District  
Address 300 Hammond Drive  
Hopkinsville, KY 42240  
Contact John Herring  
Phone (270) 886-9484  
Email JohnM.Herring@ky.gov

**Engineer**

Name Robert Stigall  
Firm Stigall Engineering Associates, Inc.  
Address 4117 Hillsboro Pike, Suite 206  
Nashville, TN 37215  
Phone (615) 460-7515  
Email rstigall@bellsouth.net

**XII. RECOMMENDATIONS**

KIA staff recommends approval of the loan with the standard conditions.

<b>EXHIBIT 1</b>											
<b>CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT</b>											
<b>CASH FLOW ANALYSIS (DECEMBER YEAR END)</b>											
	<b>Audited</b>	<b>%</b>	<b>Audited</b>	<b>%</b>	<b>Audited</b>	<b>%</b>	<b>Unaudited</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
	<b>2007</b>	<b>Change</b>	<b>2008</b>	<b>Change</b>	<b>2009</b>	<b>Change</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	
<b>Operating Revenues</b>											
Charge for Services	2,033,137	-3%	1,970,972	-2%	1,922,917	4%	2,008,065	2,036,178	2,083,010	2,157,943	
Other	29,306	62%	47,421	-18%	38,958	18%	45,835	46,477	47,500	48,500	
<b>Total Revenues</b>	<b>2,062,443</b>	<b>-2%</b>	<b>2,018,393</b>	<b>-3%</b>	<b>1,961,875</b>	<b>5%</b>	<b>2,053,900</b>	<b>2,082,655</b>	<b>2,130,510</b>	<b>2,206,443</b>	
<b>Operating Expenses</b>											
Operating Expenses	1,020,402	10%	1,117,693	-3%	1,081,793	-7%	1,006,043	1,046,285	1,088,136	1,131,661	
Depreciation	594,580	0%	595,158	11%	660,206	-1%	650,972	650,972	651,000	666,000	
Replacement Reserve	15,000		15,000		15,000		15,000	15,000	15,750	15,750	
<b>Total Expenses</b>	<b>1,629,982</b>	<b>6%</b>	<b>1,727,851</b>	<b>2%</b>	<b>1,756,999</b>	<b>-5%</b>	<b>1,672,015</b>	<b>1,712,257</b>	<b>1,754,886</b>	<b>1,813,411</b>	
<b>Net Operating Income</b>	<b>432,461</b>	<b>-33%</b>	<b>290,542</b>	<b>-29%</b>	<b>204,876</b>	<b>86%</b>	<b>381,885</b>	<b>370,398</b>	<b>375,624</b>	<b>393,032</b>	
<b>Non-Operating Income and Expenses</b>											
Interest Income	58,111		11,207		1,527		2,099	2,500	3,000	3,500	
Tap Fees	125,521		43,700		29,600		21,100	20,000	20,000	20,000	
Grants (HB608 designated for debt retirement)	0		0		428,071		471,929	0	0	0	
<b>Total Non-Operating Income &amp; Expenses</b>	<b>183,632</b>		<b>54,907</b>		<b>459,198</b>		<b>495,128</b>	<b>22,500</b>	<b>23,000</b>	<b>23,500</b>	
<b>Add Non-Cash Expenses</b>											
Depreciation	594,580	0%	595,158	11%	660,206	-1%	650,972	650,972	651,000	666,000	
<b>Cash Available for Debt Service</b>	<b>1,210,673</b>	<b>-22%</b>	<b>940,607</b>	<b>41%</b>	<b>1,324,280</b>	<b>15%</b>	<b>1,527,985</b>	<b>1,043,870</b>	<b>1,049,624</b>	<b>1,082,532</b>	
<b>Debt Service</b> (enter as positive #s)											
Existing Principal	371,769		235,431		429,714		735,018	323,045	467,293	485,564	
Existing Interest	579,608		499,398		740,675		565,554	285,492	485,735	577,864	
Proposed KIA Loan	0		0		0		0	4,800	18,873	18,873	
<b>Total Debt Service</b>	<b>951,377</b>		<b>734,829</b>		<b>1,170,389</b>		<b>1,300,572</b>	<b>613,337</b>	<b>971,901</b>	<b>1,082,301</b>	
<b>Income After Debt Service</b>	<b>259,296</b>		<b>205,778</b>		<b>153,891</b>		<b>227,413</b>	<b>430,533</b>	<b>77,723</b>	<b>230</b>	
<b>Debt Coverage Ratio</b>	<b>1.3</b>		<b>1.3</b>		<b>1.1</b>		<b>1.2</b>	<b>1.7</b>	<b>1.1</b>	<b>1.0</b>	

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
BALANCE SHEETS (DECEMBER YEAR END)**

ASSETS	Audited 2007	Audited 2008	Audited 2009	Unaudited 2010	Upon Completion 2012
<b>Current Assets</b>					
Cash	46,608	61,279	78,440	73,283	327,400
Accounts Receivable	289,055	279,867	292,038	296,427	307,500
Grant Receivable	165,534	0	16,046	0	0
Prepaid	13,680	14,185	14,685	14,049	15,000
<b>Total Current Assets</b>	<b>514,877</b>	<b>355,331</b>	<b>401,209</b>	<b>383,759</b>	<b>649,900</b>
<b>Restricted Assets</b>					
Sinking Funds	400,518	482,763	526,968	584,222	584,222
Deposits	14,434	18,728	22,330	25,932	25,932
Constructions Projects	907,616	13	0	0	0
Depreciation Reserve	75,208	76,647	85,302	105,485	136,235
<b>Total Restricted Assets</b>	<b>1,397,776</b>	<b>578,151</b>	<b>634,600</b>	<b>715,639</b>	<b>746,389</b>
<b>Utility Plant</b>					
Land, System, Building and Equipment	27,346,862	27,780,988	27,805,325	27,837,373	28,187,373
Less Accumulated Depreciation ( )	(4,131,424)	(4,696,323)	(5,324,019)	(5,943,370)	(7,245,342)
<b>Net Fixed Assets</b>	<b>23,215,438</b>	<b>23,084,665</b>	<b>22,481,306</b>	<b>21,894,003</b>	<b>20,942,031</b>
<b>Other Assets</b>					
Unamortized Bond Costs and Discount, Net	259,839	252,510	259,999	394,314	324,314
<b>Total Other Assets</b>	<b>259,839</b>	<b>252,510</b>	<b>259,999</b>	<b>394,314</b>	<b>324,314</b>
<b>Total Assets</b>	<b>25,387,930</b>	<b>24,270,657</b>	<b>23,777,114</b>	<b>23,387,715</b>	<b>22,662,634</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts Payable	26,405	27,918	17,715	34,947	35,000
Accrued Payroll and Taxes	26,673	31,314	47,535	6,077	10,000
Deposits	17,689	21,285	9,284	9,780	9,500
Accrued Interest	101,864	315,531	162,279	178,515	170,000
C.P. Debt	235,431	3,071,114	341,818	323,045	485,564
<b>Total Current Liabilities</b>	<b>408,062</b>	<b>3,467,162</b>	<b>578,631</b>	<b>552,364</b>	<b>710,064</b>
<b>Liabilities Payable - Restricted Assets</b>					
Construction Payables	741,144	75,324	0	0	0
<b>Total Liabilities Payable - Restricted Assets</b>	<b>741,144</b>	<b>75,324</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Long Term Liabilities</b>					
Notes Payable	1,246,143	1,159,529	3,791,711	3,492,666	300,000
Bonds Payable	14,312,300	11,288,800	10,956,200	10,539,000	13,378,809
Deferred Refunding Costs	0	(47,823)	(45,000)	(42,177)	(36,531)
<b>Total Long Term Liabilities</b>	<b>15,558,443</b>	<b>12,400,506</b>	<b>14,702,911</b>	<b>13,989,489</b>	<b>13,642,278</b>
<b>Total Liabilities</b>	<b>16,707,649</b>	<b>15,942,992</b>	<b>15,281,542</b>	<b>14,541,853</b>	<b>14,352,342</b>
<b>Retained Earnings:</b>					
Invested in Capital Assets Net of Related Debt	7,585,471	7,529,289	7,391,578	7,581,469	6,814,189
Restricted	545,968	204,500	634,602	715,639	746,389
Unrestricted	548,842	593,876	469,392	548,754	749,714
<b>Total Retained Earnings</b>	<b>8,680,281</b>	<b>8,327,665</b>	<b>8,495,572</b>	<b>8,845,862</b>	<b>8,310,292</b>
<b>Total Liabilities and Equities</b>	<b>25,387,930</b>	<b>24,270,657</b>	<b>23,777,114</b>	<b>23,387,715</b>	<b>22,662,634</b>
<b>Balance Sheet Analysis</b>					
Current Ratio	1.3	0.1	0.7	0.7	0.9
Debt to Equity	1.9	1.9	1.8	1.6	1.7
Working Capital	106,815	(3,111,831)	(177,422)	(168,605)	(60,164)
Percent of Total Assets in Working Capital	0.4%	-12.8%	-0.7%	-0.7%	-0.3%
Days Sales in Accounts Receivable	51.2	50.6	54.3	52.7	52.7

## EXHIBIT D

CRITTENDEN LIVINGSTON WATER DISTRICT  
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS  
As of and for the year ended December 31, 2010



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**THURMAN CAMPBELL GROUP, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

Members:

American Institute of  
Certified Public Accountants

Kentucky Society of  
Certified Public Accountants

Tennessee Society of  
Certified Public Accountants

To the Members of the Commission  
Crittenden Livingston Water District

We have compiled the accompanying financial statements of Crittenden Livingston Water District, as of and for the year ended December 31, 2010, as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management of Crittenden Livingston Water District is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management of Crittenden Livingston Water District in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the required supplementary information.

The statement of revenues, expenses and changes in net assets-budget and actual on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the required supplementary information.

We are not independent with respect to Crittenden Livingston Water District.

*Thurman Campbell Group, PLLC*

March 30, 2011

**CRITTENDEN LIVINGSTON WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2010

The Crittenden Livingston Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2010. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

**FINANCIAL HIGHLIGHTS**

The assets of the District exceeded its liabilities by \$8,803,685 at December 31, 2010. Of this amount \$594,002 is restricted and \$7,539,292 is invested in capital assets net of the related debt, leaving unrestricted net assets of \$670,391.

The District's net assets increased for the year by \$308,113. The District received grant funds during the 2010 year in the amount of \$477,076.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Crittenden Livingston Water District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.**

The District's basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. In addition, this report contains other supplementary information to provide the reader additional information about the District.

**Fund Financial Statements** - The focus of fund financial statements is directed to specific activities of a governmental entity rather than the entity as a whole. The District, like other state and local governments, uses fund accounting. All activities of the District are reported in the enterprise fund, a proprietary fund type.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Because the District consists of only a proprietary fund, reconciliations of the fund financial statements to government-wide financial statements are not necessary.

The basic proprietary fund financial statements can be found on pages 5 - 8 of this report.

**Notes to the Financial Statements** – These notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 9 - 18 of this report.

**Supplementary Information** – Supplementary information can be found on page 19 of this report.

## OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$8,803,685 at December 31, 2010.

During 2010, the District's capital assets decreased \$587,304 and total long-term debt decreased by \$756,104. These changes were accompanied by an increase in unrestricted net assets of \$200,999. The District's overall financial position and results of operations for the past two years are summarized as follows, based on the information included in the financial statements.

	<u>Business-type Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 980,072	\$ 928,179
Capital assets	21,894,003	22,481,307
Restricted assets	119,325	107,632
Other assets	309,453	259,999
Total assets	<u>23,302,853</u>	<u>23,777,117</u>
Long-term liabilities	13,946,807	14,702,911
Other liabilities	552,361	578,634
Total liabilities	<u>14,499,168</u>	<u>15,281,545</u>
Net assets:		
Invested in capital, net of debt	7,539,292	7,391,578
Restricted	594,002	634,602
Unrestricted	670,391	469,392
Total net assets	<u>8,803,685</u>	<u>8,495,572</u>
Operating revenue	2,053,900	1,961,875
Operating expenses	<u>(1,657,015)</u>	<u>(1,741,999)</u>
Operating income	396,885	219,876
Grant receipts	477,076	463,708
Tap-on fees	21,100	29,600
Donated capital	1,693	11,297
Interest revenue	2,099	1,527
Loss on debt extinguishment	(8,950)	-
Interest expense	<u>(581,790)</u>	<u>(590,246)</u>
Change in net assets	308,113	135,762
Net assets, beginning of year	<u>8,495,572</u>	<u>8,359,810</u>
Net assets, end of year	<u>\$ 8,803,685</u>	<u>\$ 8,495,572</u>

A portion of the District's net assets (\$7,539,292) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

**BUDGETARY HIGHLIGHTS**

The original budget and the final budget passed by the board anticipated operating revenues of \$1,999,000 and operating expenses of \$955,475. Actual operating revenues were over-budget \$54,900, actual operating expenses were over-budget by \$701,540 due in large part to the absence of depreciation in the budget. Actual non-operating revenues and expenses were over-budget \$109,822 for a total negative budget variance of \$756,462.

**CAPITAL ASSETS**

The District's investment in capital assets as of December 31, 2010 was \$21,894,003. During the year ended December 31, 2010, the District capitalized new meters. There were no other significant asset purchases during 2010.

	<u>2010</u>	<u>2009</u>
Land	\$ 58,267	\$ 51,267
Machinery	27,680,795	27,658,107
Buildings	51,928	51,928
Furniture & fixtures	46,383	44,023
Less: Accumulated depreciation	<u>(5,943,370)</u>	<u>(5,324,019)</u>
Total capital assets	<u>\$ 21,894,003</u>	<u>\$ 22,481,306</u>

$\frac{1}{35 \text{ years}} = 600,000$

**LONG-TERM DEBT**

The District's long-term debt at December 31, 2010 was \$14,031,666. The District entered into a lease agreement through Livingston County Fiscal Court for KACO Lease Agreement. Proceeds were used to retire the 2009 KY Rural Water short-term financing arrangement shown below. A schedule of the District's long-term debt at December 31, 2010 follows:

	<u>2010</u>	<u>2009</u>
Revenue Bond Series 1995A	\$ 722,000	\$ 737,000
Revenue Bond Series 1995B	-	84,200
Revenue Bond Series 2000A	1,774,000	1,804,000
Revenue Bond Series 2000B	1,540,000	1,564,000
Revenue Bond Series 2000C	621,000	631,000
Revenue Bond Series 2004	4,222,000	4,386,000
Revenue Bond Series 2008C	1,660,000	1,750,000
2009 KY Rural Water	-	2,720,000
KIA Loan	932,666	1,001,711
KADD Loan	-	70,000
KACO Loan	2,560,000	-
Total long-term debt	<u>\$ 14,031,666</u>	<u>\$ 14,747,911</u>

*Amortization*

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Crittenden Livingston Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Ronnie Slayden, Superintendent, Crittenden Livingston Water District, 620 East Main Street, Salem, KY 42078.

Crittenden Livingston Water District  
Statement of Net Assets - Proprietary Fund  
December 31, 2010

**Assets**

Current Assets:	
Cash and cash equivalents	\$ 85,375
Accounts receivable	296,426
Grants receivable	-
Prepaid expenses	14,049
Restricted cash	138,451
Restricted investments	<u>445,771</u>
<b>Total current assets</b>	<u><b>980,072</b></u>
Noncurrent assets:	
Restricted cash	<u>119,325</u>
Capital assets:	
Land	58,267
Machinery	27,680,795
Buildings	51,928
Furniture and fixtures	46,383
Less accumulated depreciation	<u>(5,943,370)</u>
Total capital assets	<u>21,894,003</u>
Other assets:	
Bond issue costs	441,789
Less accumulated amortization	<u>(132,336)</u>
Total other assets	<u>309,453</u>
<b>Total noncurrent assets</b>	<u><b>22,322,781</b></u>
<b>Total assets</b>	<u><u><b>\$ 23,302,853</b></u></u>

Crittenden Livingston Water District  
Statement of Net Assets - Proprietary Fund  
December 31, 2010

**Liabilities**

Current Liabilities:

Current maturities of long-term debt	\$ 323,045
Accounts payable trade	21,978
Payroll liabilities	19,043
Tenant deposits payable	9,780
Interest payable	178,515
Total current liabilities	<u>552,361</u>

Noncurrent liabilities:

Notes payable	3,492,666
Bonds payable	10,539,000
Deferred Bond Costs	(84,859)
Total noncurrent liabilities	<u>13,946,807</u>

Total liabilities	<u>14,499,168</u>
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**Net Assets**

Net assets invested in capital	7,539,292
Net assets restricted for debt service	594,002
Unrestricted net assets	670,391
Total net assets	<u>\$ 8,803,685</u>

Crittenden Livingston Water District  
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund  
Year Ended December 31, 2010

<b>Operating Revenues</b>	
Charges for services	\$ 2,008,065
Other income	45,835
Total operating revenue	2,053,900
 <b>Operating Expenses</b>	
Salary expenses	568,958
Water treatment expenses	190,067
Maintenance expenses	79,585
General operating expenses	167,433
Depreciation	619,352
Amortization	31,620
Total operating expenses	1,657,015
Operating income	396,885
 <b>Nonoperating Revenue (Expenses)</b>	
Interest revenue	2,099
Interest expense	(581,790)
Loss on debt extinguishment	(8,950)
Total nonoperating expenses	(588,641)
 <b>Capital Contributions</b>	
Proceeds from grants	477,076
Donated capital	1,693
Tap-on fees	21,100
Total capital contributions	499,869
Change in net assets	308,113
Net assets, beginning of year	8,495,572
Net assets, end of year	\$ 8,803,685

See accompanying notes and accountant's report.



CRITTENDEN LIVINGSTON WATER DISTRICT  
STATEMENT OF CASH FLOWS-PROPRIETARY FUND  
Year Ended December 31, 2010

Cash flows from operating activities:	
Cash received from customers	\$ 2,066,054
Cash payments to suppliers for goods and services	(432,186)
Cash payments to employees for services	<u>(597,450)</u>
Net cash provided (used) by operating activities	<u>1,036,418</u>
Cash flows from capital and related financing activities:	
Tap-on fees	21,100
Proceeds from grants	477,076
Acquisition and construction of property, plant and equipment	(31,897)
New debt acquired	2,560,000
Principal payments on long-term debt	(3,295,018)
Interest paid on long-term debt	(565,554)
Debt issuance costs	(133,000)
Loss on debt extinguishment	<u>4,658</u>
Net cash provided (used) for capital and related financing activities	<u>(962,635)</u>
Cash flows from investing activities:	
Interest on investments	<u>2,099</u>
Net cash provided (used) by investing activities	<u>2,099</u>
Net increase (decrease) in cash and cash equivalents	75,882
Cash and cash equivalents, beginning of year	<u>713,040</u>
Cash and cash equivalents, end of year	<u><u>\$ 788,922</u></u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents - current	\$ 85,375
Restricted cash - current	138,451
Restricted cash - noncurrent	119,325
Restricted investments - noncurrent	<u>445,771</u>
	<u><u>\$ 788,922</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operations:	
Operating income	\$ 396,885
Adjustments-operating activities	
Depreciation and amortization	650,972
(Increase) decrease in:	
Accounts receivable	(4,388)
Prepaid expenses	636
Grants receivable	16,046
Increase (decrease) in:	
Accounts payable	4,263
Customer deposits	496
Accrued liabilities	<u>(28,492)</u>
Net cash provided by operating activities	<u><u>\$ 1,036,418</u></u>

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Activity** - The Crittenden Livingston Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Salem, Kentucky and primarily serves the Crittenden and Livingston County, Kentucky area.

**Principles determining scope of reporting entity** - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed equally by the County Judge Executives of Crittenden and Livingston counties, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

**Basis of accounting** - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water 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.

**Accounts receivable** - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Crittenden and Livingston counties.

**Utility plant** - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Buildings – 10 to 50 years	Pumping Equipment – 5 to 10 years
Transmission Lines – 5 to 50 years	Meters – 5 to 10 years
Plant Equipment – 5 to 10 years	Office Equipment – 5 to 10 years
Vehicles – 5 years	

**Intangible assets** - Financing and bond issue costs are being amortized over the life of the debt on the straight-line basis.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Use of Restricted/Unrestricted Net Assets** – When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to apply restricted assets first.

**Revenue Recognition** - Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income and are recognized when earned.

**Taxes on income** - The Crittenden Livingston Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

**Budget** – The District adopts an annual budget prepared under a basis of accounting in accordance with provisions of the Public Service Regulatory Commission.

**Cash and cash equivalents** – For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

**2 RESTRICTED CASH AND INVESTMENTS**

**Crittenden Livingston Water Sinking Fund and the Rural Water Bond Issue Sinking Fund** - The sinking funds were established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2010 the balance of the Sinking Fund was \$138,451.

**Depreciation Reserve** - The bond ordinances require Crittenden Livingston Water District to make monthly contributions to this fund after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$1,872 monthly deposits until the Depreciation fund reaches \$224,640 and shall be maintained throughout the life of the bonds. The 1995 bond ordinance amends all previous ordinances. Under the 2000 ordinance the District is to make \$2,115 monthly deposits over the life of the loan in addition to the requirement of all previous ordinances. At December 31, 2010 the balance of the Depreciation Reserve Fund was \$109,545.

**Crittenden Livingston Tenant Deposit Fund** - This account is set aside to account for customer deposits. At December 31, 2010 the balance of the Crittenden Livingston Tenant Deposit Fund was \$9,780.

**Construction Funds** – Occasionally, Crittenden Livingston Water District is involved in various on-going construction projects. A bank account has been established for each project referred to as "Phases". Monies deposited to the construction accounts is reserved for construction of the appropriate phase.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**2 RESTRICTED CASH AND INVESTMENTS (continued)**

**Regions Sinking Funds** – The District maintains sinking accounts with Regions Bank for payments on the 2004 and 2008 bond issuances and the 2009 short term financing which was retired in 2010. A monthly amount is transferred from the Rural Water Sinking Fund to meet the annual principal and interest obligations related to the previously mentioned financing. The balance held at Regions Bank for these purposes at December 31, 2010 was \$445,771.

**3 DEPOSITS**

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the district, includes disclosure of the following:

Risks related to custodial credit risk of bank deposits;

- Risks related to custodial credit risk of deposits;
- Risks related to custodial credit risk of investments;
- Interest rate risk; and
- Deposit and investment policies related to those risks.

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure.

As of December 31, 2010, the carrying amount of District's deposits was \$788,772 and the bank balance of \$794,994 was categorized as follows:

Insured by FDIC	\$	508,902
Uninsured and collateralized with securities held by the pledging financial institution in the district's name		286,092
<b>Total</b>	<b>\$</b>	<b><u>794,994</u></b>

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

Cash on deposit at Regions Bank is held in a AAA money market fund at Regions Bank. The investments serve as the bond sinking fund for the 2004, 2008 and 2009 bond series. Investments are held in Federated Treasury Obligations until required for debt payment. The investments are collateralized through the Trust Department at Regions Bank and consist of the following:

	Category			Carrying Amount	Market Value	Rating
	1	2	3			
Treasury Obligations	\$ 445,771	\$ -	\$ -	\$ 445,771	\$ 445,771	AAA

The district's investments are categorized to give an indication of the level of risk assumed by the district at December 31, 2010. The categories are described as follows:

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**3 DEPOSITS (continued)**

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the unit's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, in its trust department or agent but not in the entity's name.

Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- (b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- (c) Savings and loan associations insured by the U. S. government;
- (d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
- (e) Deposit accounts with banking institutions;
- (f) State treasurer investment pool.

The District does not have a deposit policy.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**4 CAPITAL ASSETS**

Capital asset activity for Crittenden Livingston Water District for the year ended December 31, 2010, was as follows:

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
<i>Capital assets being depreciated:</i>				
Lake and river intake	\$ 888,411	\$ -	\$ -	\$ 888,411
Pumping equipment	135,132	-	-	135,132
Water treatment equipment	4,402,784	-	-	4,402,784
Transportation equipment	153,114	-	-	153,114
Distribution reservoirs and pipe	809,623	-	-	809,623
Small equipment	17,779	-	-	17,779
Transmission and distribution mains	14,069,114	-	-	14,069,114
Lab equipment	4,080	2,151	-	6,231
Power operated equipment	65,632	-	-	65,632
Services	6,012,089	-	-	6,012,089
Meters and installation	861,954	20,537	-	882,491
Communication equipment	9,456	-	-	9,456
Hydrants	228,940	-	-	228,940
Office furniture and fixtures	44,023	2,360	-	46,383
Office building	51,928	-	-	51,928
<b>Subtotal</b>	<b>27,754,059</b>	<b>25,048</b>	<b>-</b>	<b>27,779,107</b>
<i>Less accumulated depreciation:</i>				
Lake and river intake	(51,242)	(17,768)	-	(69,010)
Pumping equipment	(24,216)	(4,149)	-	(28,365)
Water treatment equipment	(1,010,034)	(88,129)	-	(1,098,163)
Transportation equipment	(138,984)	(6,932)	-	(145,916)
Distribution reservoirs and pipe	(231,420)	(16,192)	-	(247,612)
Small equipment	(14,871)	(232)	-	(15,103)
Transmission and distribution mains	(2,674,178)	(281,382)	-	(2,955,560)
Lab equipment	(4,080)	(97)	-	(4,177)
Power operated equipment	(65,632)	-	-	(65,632)
Services	(712,130)	(171,551)	-	(883,681)
Meters and installation	(278,581)	(24,682)	-	(303,263)
Communication equipment	(5,308)	(549)	-	(5,857)
Hydrants	(54,702)	(4,793)	-	(59,495)
Office furniture and fixtures	(37,758)	(1,500)	-	(39,258)
Office building	(20,883)	(1,396)	-	(22,279)
<b>Subtotal</b>	<b>(5,324,019)</b>	<b>(619,352)</b>	<b>-</b>	<b>(5,943,371)</b>
<b>Capital assets being depreciated, net</b>	<b>22,430,040</b>	<b>(594,304)</b>	<b>-</b>	<b>21,835,736</b>
<i>Capital assets not being depreciated:</i>				
Land	51,267	7,000	-	58,267
<b>Capital assets, net</b>	<b>\$ 22,481,307</b>	<b>\$ (587,304)</b>	<b>\$ -</b>	<b>\$ 21,894,003</b>

Depreciation charged to income was \$619,352 during the year ending December 31, 2010.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**5 LONG-TERM DEBT**

Bonds Payable

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series A) were issued in the amount of \$884,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series B) were issued in the amount of \$100,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 5.13%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development. The 1995 Series B was refunded in April 2010 through grant proceeds obtained from Kentucky Infrastructure Authority.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series A) in the amount of \$2,000,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series B) in the amount of \$1,725,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.75%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series C) in the amount of \$700,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2004 (Series D) in the amount of \$4,998,000 were issued to finance the cost of the Phase 9 construction project (system additions). The bond maturity dates are January 1, 2004-2029. This issue was purchased by Morgan, Keegan and Company, Inc. Interest rates are shown below:

**CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**5 LONG-TERM DEBT (continued)**

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
January 1, 2005	3.120%	January 1, 2018	4.120%
January 1, 2006	3.120%	January 1, 2019	4.120%
January 1, 2007	3.120%	January 1, 2020	4.120%
January 1, 2008	3.220%	January 1, 2021	4.250%
January 1, 2009	3.370%	January 1, 2022	4.250%
January 1, 2010	3.370%	January 1, 2023	4.620%
January 1, 2011	3.370%	January 1, 2024	4.620%
January 1, 2012	3.620%	January 1, 2025	4.620%
January 1, 2013	4.120%	January 1, 2026	4.620%
January 1, 2014	4.120%	January 1, 2027	0.046%
January 1, 2015	4.120%	January 1, 2028	4.620%
January 1, 2016	4.120%	January 1, 2029	4.620%
January 1, 2017	4.120%		

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

In May 2008 Crittenden Livingston Water District issued Waterworks Revenue Bonds of 2008 (Series C) in the amount of \$1,920,000 to current refund revenue bonds 1998, 1991, 1994 & 1996 issuances. The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements.

The bond maturity dates are January 1, 2009-2030. This issue was purchased by Morgan, Keegan and Company, Inc. Interest rates are shown below:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
January 1, 2009	2.350%	January 1, 2022	4.175%
January 1, 2010	2.550%	January 1, 2023	4.175%
January 1, 2011	3.050%	January 1, 2024	4.300%
January 1, 2012	3.050%	January 1, 2025	4.300%
January 1, 2013	3.300%	January 1, 2026	4.300%
January 1, 2014	3.300%	January 1, 2027	4.425%
January 1, 2015	3.550%	January 1, 2028	4.425%
January 1, 2016	3.550%	January 1, 2029	4.550%
January 1, 2017	4.050%	January 1, 2030	4.550%
January 1, 2018	4.050%		
January 1, 2019	4.050%		
January 1, 2020	4.050%		
January 1, 2021	4.050%		

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

The Crittenden Livingston Water District obtained financing through the Kentucky Rural Water Finance Corporation Flexible Term Program for construction of lines. The agreement calls for semi-annual interest payments in February and August at a 3.00% interest rate. The short term note was repaid with a lease agreement through Kentucky Association of Counties (KACO) for \$2,560,000.



CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**5 LONG-TERM DEBT (continued)**

Notes Payable

Notes payable consisted of the following at December 31, 2010:

Kentucky Area Development District (KADD) note dated June 4, 2004, original amount \$205,000, payable in ten semiannual payments including principal and interest at 2.5%, beginning October 20, 2003. This note was repaid in April 2010 with a grant obtained through Kentucky Infrastructure Authority.

Kentucky Infrastructure Authority (KIA) note dated November 1, 2001, at 1.8%, payable in 40 semiannual payments including principal and interest. Loan funds advanced are used on an interim basis to finance the construction of extensions, additions, and improvements to the existing waterworks system.

The Fiscal Court of Livingston County, Kentucky, in an Ordinance passed and adopted on August 24, 2010, authorized a plan to payoff a short term note of the Crittenden Livingston Water District in the amount of \$2,500,000 with funds provided to the County by the Kentucky Association of Counties Finance Corporation through a financing agreement between the county and KACO. The amount of \$2,560,000 carries a variable interest rate of 4.15% - 5.00% and matures on February 1, 2039.

A detail of the Crittenden Livingston Water District Waterworks long-term debt is as follows:

	Balance January 1, 2010	Proceeds	Repayments	Balance December 31, 2010	Current Amount Due
Crittenden Livingston					
Waterworks revenue bonds:					
1995 Issue (Series A)	737,000	-	15,000	722,000	-
1995 Issue (Series B)	84,200	-	84,200	-	-
2000 Issue (Series A)	1,804,000	-	30,000	1,774,000	-
2000 Issue (Series B)	1,564,000	-	24,000	1,540,000	-
2000 Issue (Series C)	631,000	-	10,000	621,000	-
2004 Issue	4,545,000	-	159,000	4,386,000	164,000
2008 Bonds	1,845,000	-	95,000	1,750,000	90,000
2009 Short-term financing	2,720,000	-	2,720,000	-	-
Notes payable:					
KADD	90,000	-	90,000	-	-
KIA	1,069,529	-	67,818	1,001,711	69,045
KACO Lease Agreement	-	2,560,000	-	2,560,000	-
<b>Total</b>	<b>\$ 15,089,729</b>	<b>\$ 2,560,000</b>	<b>\$ 3,295,018</b>	<b>\$ 14,354,711</b>	<b>\$ 323,045</b>

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**5 LONG-TERM DEBT (continued)**

Annual debt service requirements for long-term debt to maturity are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 323,045	\$ 285,492
2012	467,293	485,735
2013	485,564	577,864
2014	499,858	560,147
2015	513,175	541,298
2016-2020	2,833,485	2,392,727
2021-2025	3,081,292	1,792,674
2026-2030	2,759,000	1,133,090
2031-2035	1,697,000	650,375
2036-2040	1,695,000	232,653
	<u>\$ 14,354,711</u>	<u>\$ 8,652,053</u>

**6 RETIREMENT PLAN**

The Crittenden Livingston Water District is a participant in the County Employees Retirement System (CERS), a cost-sharing, multi-employer public employee retirement system. CERS provides 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 state legislature. Kentucky Retirement Systems 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, 12600 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-4646.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at three (3) percent compounded annually through June 30, 1980, six (6) percent thereafter through June 30, 1986, and four (4) percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

Employees are required to contribute 5% of their creditable compensation by State statute. The district is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. Employer contributions rates are set July 1 for the upcoming fiscal year. Employer rates were set at 16.93% effective July 1, 2010, 16.16% effective July 1, 2009 and 13.50% effective July 1, 2008. Contributions for the County Employees Retirement System are as follows:

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contribution</u>
December 31, 2010	\$ 83,058	\$ 83,058	100%
December 31, 2009	\$ 65,125	\$ 65,125	100%
December 31, 2008	\$ 75,078	\$ 75,078	100%

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**7 COMMERCIAL INSURANCE**

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**8 INTEREST EXPENSE**

The District incurred interest cost in 2010 of \$581,790. The entire amount has been recognized as a current operating expense.

**9 KENTUCKY INFRASTRUCTURE FINANCING**

The District had a grant assistance agreement with Kentucky Infrastructure Authority. Grant funds are to be used for debt reduction and interest expense assistance. The total funded under the grant agreement was \$900,000. A total of \$428,071 was received during the year ending December 31, 2009 and was used for principal and interest payments due during the year. The District received \$178,747 in March 2010 which was used to payoff the 1995B bonds and the KADD loan. The balance on the original grant of \$293,182 was drawn in October 2010 and used to pay the USDA payment due in January 2011.

CRITTENDEN LIVINGSTON WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND  
BUDGET AND ACTUAL  
For the Year Ending December 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Operating revenues:</b>				
Charges for services	\$ 1,949,000	\$ 1,949,000	\$ 2,008,065	\$ 59,065
Other income	50,000	50,000	45,835	(4,165)
Total operating revenues	<u>1,999,000</u>	<u>1,999,000</u>	2,053,900	54,900
<b>Operating expenses:</b>				
Salary expenses	613,875	613,875	568,958	44,917
Water treatment expenses	156,500	156,500	190,067	(33,567)
Maintenance expenses	50,800	50,800	79,585	(28,785)
General operating expenses	134,300	134,300	167,433	(33,133)
Depreciation	-	-	619,352	(619,352)
Amortization	-	-	31,620	(31,620)
Total operating expenses	<u>955,475</u>	<u>955,475</u>	1,657,015	(701,540)
Operating income	1,043,525	1,043,525	396,885	(646,640)
<b>Non-operating income (expenses):</b>				
Tap-on fees	30,000	30,000	21,100	(8,900)
Interest revenue	-	-	2,099	2,099
Proceeds from grants	-	-	477,076	477,076
Donated capital	-	-	1,693	1,693
Loss on debt extinguishment	-	-	(8,950)	(8,950)
Interest expense	-	-	(581,790)	(581,790)
Total non-operating revenue (expenses)	<u>30,000</u>	<u>30,000</u>	(88,772)	(109,822)
Change in net assets	<u>\$ 1,073,525</u>	<u>\$ 1,073,525</u>	308,113	<u>\$ (756,462)</u>
Net assets, beginning of year			<u>8,495,572</u>	
Net assets, end of year			<u>\$ 8,803,685</u>	

# EXHIBIT E

**CRITTENDEN/LIVINGSTON CO. WATER DISTRICT BUDGET AMENDED FOR 2011****REVENUES**

WATER SALES	2,000,000
MISCELLANEOUS OPERATING REVENUE	52,000
<b>TOTAL REVENUES</b>	<b>2,052,000</b>

**TRANSMISSION & DISTRIBUTION**

TREATMENT - ELECTRICITY	60,000
PUMPING - ELECTRICITY	21,000
BUILDING & GROUNDS MAINTENANCE	7,000
TREATMENT - CHEMICALS	73,000
SALARIES - TREATMENT PLANT	133,000
SALARIES TRANSMISSION & DISTRIBUTION	136,000
MAINTENANCE SUPPLIES - TRANSMISSION & DISTRIBUTION	6,000
WATER PLANT SUPPLIES	6,000
R&M WATER MAINS & OLD METERS	35,000
MAINTENANCE - WATER PLANT	40,000
LAB TESTING	9,000
<b>TOTAL TRANSMISSION &amp; DISTRIBUTION</b>	<b>526,000</b>

**OPERATING EXPENSES**

SALARIES - ADMINISTRATION	115,000
COMMISSIONERS EXPENSE	6,000
PAYROLL TAX EXPENSE	30,000
UNEMPLOYMENT	2,500
RETIREMENT	62,000
EMPLOYEE INSURANCE	51,000
ELECTRIC OFFICE	2,400
SUPPLIES OFFICE	12,000
REPAIR & MAINTENANCE - EQUIPMENT	12,000
COMPUTER MAINTENANCE	500
REPAIR & MAINTENANCE - VEHICLES	8,000
INSURANCE - PROPERTY & LIABILITY	31,000
INSURANCE - BOND	1,500
FUEL	19,000
SEMINAR	1,500
BANK CHARGES	3,400
PROFESSIONAL FEES	24,000
COMMUNICATION & POSTAGE	20,000
WATER OFFICE	375
PROPANE OFFICE	1,800
TRAVEL	1,000
TRASH DISPOSAL	3,200
BAD DEBTS	4,000
MISCELLANEOUS	2,000
<b>TOTAL OPERATING EXPENSES</b>	<b>413,175</b>

**NONOPERATING REVENUE**

INTEREST EARNED	2,000
TAP ON FEES	20,000
<b>TOTAL NONOPERATING REVENUE</b>	<b>22,000</b>

**NONOPERATING (NONCASH)**

DEPRECIATION	616,488
AMORIZATION	12,348
INTEREST EXPENSE	652,656
<b>TOTAL NONOPERATING (NONCASH) EXPENSES</b>	<b>1,281,492</b>

## EXHIBIT F



**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**  
**With Independent Auditor's Report**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

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**BAKER, ANDERSON & ELLIOTT**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
738 U.S. HIGHWAY 62  
GRAND RIVERS, KY 42045

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Commissioners  
Crittenden-Livingston County Water District  
620 East Main Street  
Salem, KY 42078

We have audited the accompanying financial statements of the Crittenden-Livingston County Water District (the Water District), as of and for the year ended December 31, 2010, which collectively comprise the Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water District's management. Our responsibility is to express an opinion 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Crittenden-Livingston County Water District as of December 31, 2010, 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 July 25, 2011, on our consideration of the Water District's internal control over financial reporting and 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 19 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 we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Baker, Anderson & Elliott, CPAs*

July 25, 2011

**CRITTENDEN LIVINGSTON WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2010

The Crittenden Livingston Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2010. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

**FINANCIAL HIGHLIGHTS**

The assets of the District exceeded its liabilities by \$8,803,685 at December 31, 2010. Of this amount \$594,002 is restricted and \$7,539,292 is invested in capital assets net of the related debt, leaving unrestricted net assets of \$670,391.

The District's net assets increased for the year by \$308,113. The District received grant funds during the 2010 year in the amount of \$477,076.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Crittenden Livingston Water District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.**

The District's basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. In addition, this report contains other supplementary information to provide the reader additional information about the District.

**Fund Financial Statements** - The focus of fund financial statements is directed to specific activities of a governmental entity rather than the entity as a whole. The District, like other state and local governments, uses fund accounting. All activities of the District are reported in the enterprise fund, a proprietary fund type.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Because the District consists of only a proprietary fund, reconciliations of the fund financial statements to government-wide financial statements are not necessary.

The basic proprietary fund financial statements can be found on pages 5 - 8 of this report.

**Notes to the Financial Statements** – These notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 9 - 18 of this report.

**Supplementary Information** – Supplementary information can be found on page 19 of this report.

## OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$8,803,685 at December 31, 2010.

During 2010, the District's capital assets decreased \$587,304 and total long-term debt decreased by \$756,104. These changes were accompanied by an increase in unrestricted net assets of \$200,999. The District's overall financial position and results of operations for the past two years are summarized as follows, based on the information included in the financial statements.

	<u>Business-type Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 980,072	\$ 928,179
Capital assets	21,894,003	22,481,307
Restricted assets	119,325	107,632
Other assets	309,453	259,999
Total assets	<u>23,302,853</u>	<u>23,777,117</u>
Long-term liabilities	13,946,807	14,702,911
Other liabilities	552,361	578,634
Total liabilities	<u>14,499,168</u>	<u>15,281,545</u>
Net assets:		
Invested in capital, net of debt	7,539,292	7,391,578
Restricted	594,002	634,602
Unrestricted	670,391	469,392
Total net assets	<u>8,803,685</u>	<u>8,495,572</u>
Operating revenue	2,053,900	1,961,875
Operating expenses	<u>(1,657,015)</u>	<u>(1,741,999)</u>
Operating income	396,885	219,876
Grant receipts	477,076	463,708
Tap-on fees	21,100	29,600
Donated capital	1,693	11,297
Interest revenue	2,099	1,527
Loss on debt extinguishment	(8,950)	-
Interest expense	<u>(581,790)</u>	<u>(590,246)</u>
Change in net assets	308,113	135,762
Net assets, beginning of year	<u>8,495,572</u>	<u>8,359,810</u>
Net assets, end of year	<u>\$ 8,803,685</u>	<u>\$ 8,495,572</u>

A portion of the District's net assets (\$7,539,292) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

## BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the board anticipated operating revenues of \$1,999,000 and operating expenses of \$955,475. Actual operating revenues were over-budget \$54,900, actual operating expenses were over-budget by \$701,540 due in large part to the absence of depreciation in the budget. Actual non-operating revenues and expenses were over-budget \$109,822 for a total negative budget variance of \$756,462.

## CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2010 was \$21,894,003. During the year ended December 31, 2010, the District capitalized new meters. There were no other significant asset purchases during 2010.

	<u>2010</u>	<u>2009</u>
Land	\$ 58,267	\$ 51,267
Machinery	27,680,795	27,658,107
Buildings	51,928	51,928
Furniture & fixtures	46,383	44,023
Less: Accumulated depreciation	<u>(5,943,370)</u>	<u>(5,324,019)</u>
Total capital assets	<u>\$ 21,894,003</u>	<u>\$ 22,481,306</u>

## LONG-TERM DEBT

The District's long-term debt at December 31, 2010 was \$14,031,666. The District entered into a lease agreement through Livingston County Fiscal Court for KACO Lease Agreement. Proceeds were used to retire the 2009 KY Rural Water short-term financing arrangement shown below. A schedule of the District's long-term debt at December 31, 2010 follows:

	<u>2010</u>	<u>2009</u>
Revenue Bond Series 1995A	\$ 722,000	\$ 737,000
Revenue Bond Series 1995B	-	84,200
Revenue Bond Series 2000A	1,774,000	1,804,000
Revenue Bond Series 2000B	1,540,000	1,564,000
Revenue Bond Series 2000C	621,000	631,000
Revenue Bond Series 2004	4,222,000	4,386,000
Revenue Bond Series 2008C	1,660,000	1,750,000
2009 KY Rural Water	-	2,720,000
KIA Loan	932,666	1,001,711
KADD Loan	-	70,000
KACO Loan	2,560,000	-
Total long-term debt	<u>\$ 14,031,666</u>	<u>\$ 14,747,911</u>

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Crittenden Livingston Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Ronnie Slayden, Superintendent, Crittenden Livingston Water District, 620 East Main Street, Salem, KY 42078.



Crittenden-Livingston County Water District  
Statement of Net Assets - Proprietary Fund  
December 31, 2010

**Liabilities**

Current Liabilities:

Current maturities of long-term debt	\$ 323,045
Accounts payable trade	21,978
Payroll liabilities	19,043
Tenant deposits payable	9,780
Interest payable	178,515
Total current liabilities	552,361

Noncurrent liabilities:

Notes payable	3,492,666
Bonds payable	10,539,000
Deferred Bond Costs	(84,859)
Total noncurrent liabilities	13,946,807

Total liabilities	14,499,168
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**Net Assets**

Net assets invested in capital	7,539,292
Net assets restricted for debt service	594,002
Unrestricted net assets	670,391
Total net assets	\$ 8,803,685



Crittenden-Livingston County Water District  
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund  
Year Ended December 31, 2010

<b>Operating Revenues</b>	
Charges for services	\$ 2,008,065
Other income	45,835
Total operating revenue	2,053,900
 <b>Operating Expenses</b>	
Salary expenses	568,958
Water treatment expenses	190,067
Maintenance expenses	79,585
General operating expenses	167,433
Depreciation	619,352
Amortization	31,620
Total operating expenses	1,657,015
Operating income	396,885
 <b>Nonoperating Revenue (Expenses)</b>	
Interest revenue	2,099
Interest expense	(581,790)
Loss on debt extinguishment	(8,950)
Total nonoperating expenses	(588,641)
 <b>Capital Contributions</b>	
Proceeds from grants	477,076
Donated capital	1,693
Tap-on fees	21,100
Total capital contributions	499,869
Change in net assets	308,113
Net assets, beginning of year	8,495,572
Net assets, end of year	\$ 8,803,685

See accompanying notes and auditor's report.

CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS-PROPRIETARY FUND  
Year Ended December 31, 2010

<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 2,066,054
Cash payments to suppliers for goods and services	(432,186)
Cash payments to employees for services	<u>(597,450)</u>
Net cash provided (used) by operating activities	<u>1,036,418</u>
<b>Cash flows from capital and related financing activities:</b>	
Tap-on fees	21,100
Proceeds from grants	477,076
Acquisition and construction of property, plant and equipment	(31,897)
New debt acquired	2,560,000
Principal payments on long-term debt	(3,295,018)
Interest paid on long-term debt	(565,554)
Debt Issuance Costs	(133,000)
Loss on debt extinguishment	<u>4,658</u>
Net cash provided (used) for capital and related financing activities	<u>(962,635)</u>
<b>Cash flows from investing activities:</b>	
Interest on investments	<u>2,099</u>
Net cash provided (used) by investing activities	<u>2,099</u>
Net increase (decrease) in cash and cash equivalents	75,882
Cash and cash equivalents, beginning of year	<u>713,040</u>
Cash and cash equivalents, end of year	<u><u>\$ 788,922</u></u>
<b>Reconciliation to Statement of Net Assets:</b>	
Cash and cash equivalents - current	\$ 85,375
Restricted cash - current	138,451
Restricted cash - noncurrent	119,325
Restricted investments - noncurrent	445,771
	<u>\$ 788,922</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operations:</b>	
Operating income	\$ 396,885
Adjustments-operating activities	
Depreciation and amortization	650,972
(Increase) decrease in:	
Accounts receivable	(4,388)
Prepaid expenses	636
Grants receivable	16,046
Increase (decrease) in:	
Accounts payable	4,263
Customer deposits	496
Accrued liabilities	<u>(28,492)</u>
Net cash provided by operating activities	<u>\$ 1,036,418</u>

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Activity** - The Crittenden Livingston Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Salem, Kentucky and primarily serves the Crittenden and Livingston County, Kentucky area.

**Principles determining scope of reporting entity** - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed equally by the County Judge Executives of Crittenden and Livingston counties, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

**Basis of accounting** - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water 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.

**Accounts receivable** - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Crittenden and Livingston counties.

**Utility plant** - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Buildings – 10 to 50 years	Pumping Equipment – 5 to 10 years
Transmission Lines – 5 to 50 years	Meters – 5 to 10 years
Plant Equipment – 5 to 10 years	Office Equipment – 5 to 10 years
Vehicles – 5 years	

**Intangible assets** - Financing and bond issue costs are being amortized over the life of the debt on the straight-line basis.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Use of Restricted/Unrestricted Net Assets** – When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to apply restricted assets first.

**Revenue Recognition** - Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income and are recognized when earned.

**Taxes on income** - The Crittenden Livingston Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

**Budget** – The District adopts an annual budget prepared under a basis of accounting in accordance with provisions of the Public Service Regulatory Commission.

**Cash and cash equivalents** – For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

**2 RESTRICTED CASH AND INVESTMENTS**

**Crittenden Livingston Water Sinking Fund and the Rural Water Bond Issue Sinking Fund** - The sinking funds were established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2010 the balance of the Sinking Fund was \$138,451.

**Depreciation Reserve** - The bond ordinances require Crittenden Livingston Water District to make monthly contributions to this fund after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$1,872 monthly deposits until the Depreciation fund reaches \$224,640 and shall be maintained throughout the life of the bonds. The 1995 bond ordinance amends all previous ordinances. Under the 2000 ordinance the District is to make \$2,115 monthly deposits over the life of the loan in addition to the requirement of all previous ordinances. At December 31, 2010 the balance of the Depreciation Reserve Fund was \$109,545.

**Crittenden Livingston Tenant Deposit Fund** - This account is set aside to account for customer deposits. At December 31, 2010 the balance of the Crittenden Livingston Tenant Deposit Fund was \$9,780.

**Construction Funds** – Occasionally, Crittenden Livingston Water District is involved in various on-going construction projects. A bank account has been established for each project referred to as "Phases". Monies deposited to the construction accounts is reserved for construction of the appropriate phase.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**2 RESTRICTED CASH AND INVESTMENTS (continued)**

**Regions Sinking Funds** – The District maintains sinking accounts with Regions Bank for payments on the 2004 and 2008 bond issuances and the 2009 short term financing which was retired in 2010. A monthly amount is transferred from the Rural Water Sinking Fund to meet the annual principal and interest obligations related to the previously mentioned financing. The balance held at Regions Bank for these purposes at December 31, 2010 was \$445,771.

**3 DEPOSITS**

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the district, includes disclosure of the following:

Risks related to custodial credit risk of bank deposits;

- Risks related to custodial credit risk of deposits;
- Risks related to custodial credit risk of investments;
- Interest rate risk; and
- Deposit and investment policies related to those risks.

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure.

As of December 31, 2010, the carrying amount of District's deposits was \$788,772 and the bank balance of \$794,994 was categorized as follows:

Insured by FDIC	\$	508,902
Uninsured and collateralized with securities held by the pledging financial institution in the district's name		286,092
Total	\$	<u>794,994</u>

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

Cash on deposit at Regions Bank is held in a AAA money market fund at Regions Bank. The investments serve as the bond sinking fund for the 2004, 2008 and 2009 bond series. Investments are held in Federated Treasury Obligations until required for debt payment. The investments are collateralized through the Trust Department at Regions Bank and consist of the following:

	Category			Carrying Amount	Market Value	Rating
	1	2	3			
Treasury Obligations	<u>\$ 445,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 445,771</u>	<u>\$ 445,771</u>	<u>AAA</u>

The district's investments are categorized to give an indication of the level of risk assumed by the district at December 31, 2010. The categories are described as follows:

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**3 DEPOSITS (continued)**

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the unit's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, in its trust department or agent but not in the entity's name.

Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- (b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- (c) Savings and loan associations insured by the U. S. government;
- (d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
- (e) Deposit accounts with banking institutions;
- (f) State treasurer investment pool.

The District does not have a deposit policy.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**4 CAPITAL ASSETS**

Capital asset activity for Crittenden Livingston Water District for the year ended December 31, 2010, was as follows:

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
Capital assets being depreciated:				
Lake and river intake	\$ 888,411	\$ -	\$ -	\$ 888,411
Pumping equipment	135,132	-	-	135,132
Water treatment equipment	4,402,784	-	-	4,402,784
Transportation equipment	153,114	-	-	153,114
Distribution reservoirs and pipe	809,623	-	-	809,623
Small equipment	17,779	-	-	17,779
Transmission and distribution mains	14,069,114	-	-	14,069,114
Lab equipment	4,080	2,151	-	6,231
Power operated equipment	65,632	-	-	65,632
Services	6,012,089	-	-	6,012,089
Meters and installation	861,954	20,537	-	882,491
Communication equipment	9,456	-	-	9,456
Hydrants	228,940	-	-	228,940
Office furniture and fixtures	44,023	2,360	-	46,383
Office building	51,928	-	-	51,928
Subtotal	27,754,059	25,048	-	27,779,107
Less accumulated depreciation:				
Lake and river intake	(51,242)	(17,768)	-	(69,010)
Pumping equipment	(24,216)	(4,149)	-	(28,365)
Water treatment equipment	(1,010,034)	(88,129)	-	(1,098,163)
Transportation equipment	(138,984)	(6,932)	-	(145,916)
Distribution reservoirs and pipe	(231,420)	(16,192)	-	(247,612)
Small equipment	(14,871)	(232)	-	(15,103)
Transmission and distribution mains	(2,674,178)	(281,382)	-	(2,955,560)
Lab equipment	(4,080)	(97)	-	(4,177)
Power operated equipment	(65,632)	-	-	(65,632)
Services	(712,130)	(171,551)	-	(883,681)
Meters and installation	(278,581)	(24,682)	-	(303,263)
Communication equipment	(5,308)	(549)	-	(5,857)
Hydrants	(54,702)	(4,793)	-	(59,495)
Office furniture and fixtures	(37,758)	(1,500)	-	(39,258)
Office building	(20,883)	(1,396)	-	(22,279)
Subtotal	(5,324,019)	(619,352)	-	(5,943,371)
Capital assets being depreciated, net	22,430,040	(594,304)	-	21,835,736
Capital assets not being depreciated:				
Land	51,267	7,000	-	58,267
Capital assets, net	\$ 22,481,307	\$ (587,304)	\$ -	\$ 21,894,003

Depreciation charged to income was \$619,352 during the year ending December 31, 2010.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**5 LONG-TERM DEBT**

Bonds Payable

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series A) were issued in the amount of \$884,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series B) were issued in the amount of \$100,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 5.13%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development. The 1995 Series B was refunded in April 2010 through grant proceeds obtained from Kentucky Infrastructure Authority.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series A) in the amount of \$2,000,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series B) in the amount of \$1,725,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.75%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series C) in the amount of \$700,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2004 (Series D) in the amount of \$4,998,000 were issued to finance the cost of the Phase 9 construction project (system additions). The bond maturity dates are January 1, 2004-2029. This issue was purchased by Morgan, Keegan and Company, Inc. Interest rates are shown below:



**CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**5 LONG-TERM DEBT (continued)**

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
January 1, 2005	3.120%	January 1, 2018	4.120%
January 1, 2006	3.120%	January 1, 2019	4.120%
January 1, 2007	3.120%	January 1, 2020	4.120%
January 1, 2008	3.220%	January 1, 2021	4.250%
January 1, 2009	3.370%	January 1, 2022	4.250%
January 1, 2010	3.370%	January 1, 2023	4.620%
January 1, 2011	3.370%	January 1, 2024	4.620%
January 1, 2012	3.620%	January 1, 2025	4.620%
January 1, 2013	4.120%	January 1, 2026	4.620%
January 1, 2014	4.120%	January 1, 2027	0.046%
January 1, 2015	4.120%	January 1, 2028	4.620%
January 1, 2016	4.120%	January 1, 2029	4.620%
January 1, 2017	4.120%		

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

In May 2008 Crittenden Livingston Water District issued Waterworks Revenue Bonds of 2008 (Series C) in the amount of \$1,920,000 to current refund revenue bonds 1998, 1991, 1994 & 1996 issuances. The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements.

The bond maturity dates are January 1, 2009-2030. This issue was purchased by Morgan, Keegan and Company, Inc. Interest rates are shown below:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
January 1, 2009	2.350%	January 1, 2022	4.175%
January 1, 2010	2.550%	January 1, 2023	4.175%
January 1, 2011	3.050%	January 1, 2024	4.300%
January 1, 2012	3.050%	January 1, 2025	4.300%
January 1, 2013	3.300%	January 1, 2026	4.300%
January 1, 2014	3.300%	January 1, 2027	4.425%
January 1, 2015	3.550%	January 1, 2028	4.425%
January 1, 2016	3.550%	January 1, 2029	4.550%
January 1, 2017	4.050%	January 1, 2030	4.550%
January 1, 2018	4.050%		
January 1, 2019	4.050%		
January 1, 2020	4.050%		
January 1, 2021	4.050%		

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

The Crittenden Livingston Water District obtained financing through the Kentucky Rural Water Finance Corporation Flexible Term Program for construction of lines. The agreement calls for semi-annual interest payments in February and August at a 3.00% interest rate. The short term note was repaid with a lease agreement through Kentucky Association of Counties (KACO) for \$2,560,000.

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**5 LONG-TERM DEBT (continued)**

Notes Payable

Notes payable consisted of the following at December 31, 2010:

Kentucky Area Development District (KADD) note dated June 4, 2004, original amount \$205,000, payable in ten semiannual payments including principal and interest at 2.5%, beginning October 20, 2003. This note was repaid in April 2010 with a grant obtained through Kentucky Infrastructure Authority.

Kentucky Infrastructure Authority (KIA) note dated November 1, 2001, at 1.8%, payable in 40 semiannual payments including principal and interest. Loan funds advanced are used on an interim basis to finance the construction of extensions, additions, and improvements to the existing waterworks system.

The Fiscal Court of Livingston County, Kentucky, in an Ordinance passed and adopted on August 24, 2010, authorized a plan to payoff a short term note of the Crittenden Livingston Water District in the amount of \$2,500,000 with funds provided to the County by the Kentucky Association of Counties Finance Corporation through a financing agreement between the county and KACO. The amount of \$2,560,000 carries a variable interest rate of 4.15% - 5.00% and matures on February 1, 2039.

A detail of the Crittenden Livingston Water District Waterworks long-term debt is as follows:

	Balance January 1, 2010	Proceeds	Repayments	Balance December 31, 2010	Current Amount Due
Crittenden Livingston					
Waterworks revenue bonds:					
1995 Issue (Series A)	737,000	-	15,000	722,000	-
1995 Issue (Series B)	84,200	-	84,200	-	-
2000 Issue (Series A)	1,804,000	-	30,000	1,774,000	-
2000 Issue (Series B)	1,564,000	-	24,000	1,540,000	-
2000 Issue (Series C)	631,000	-	10,000	621,000	-
2004 Issue	4,545,000		159,000	4,386,000	164,000
2008 Bonds	1,845,000		95,000	1,750,000	90,000
2009 Short-term financing	2,720,000		2,720,000	-	
Notes payable:					
KADD	90,000		90,000	-	-
KIA	1,069,529		67,818	1,001,711	69,045
KACO Lease Agreement	-	2,560,000	-	2,560,000	
<b>Total</b>	<b>\$ 15,089,729</b>	<b>\$ 2,560,000</b>	<b>\$ 3,295,018</b>	<b>\$ 14,354,711</b>	<b>\$ 323,045</b>

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**5 LONG-TERM DEBT (continued)**

Annual debt service requirements for long-term debt to maturity are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 323,045	\$ 390,392
2012	467,293	485,735
2013	485,564	577,864
2014	499,858	560,147
2015	513,175	541,298
2016-2020	2,833,485	2,392,727
2021-2025	3,081,292	1,792,674
2026-2030	2,759,000	1,133,090
2031-2035	1,697,000	650,375
2036-2040	1,695,000	232,653
	<u>\$ 14,354,711</u>	<u>\$ 8,756,953</u>

**6 RETIREMENT PLAN**

The Crittenden Livingston Water District is a participant in the County Employees Retirement System (CERS), a cost-sharing, multi-employer public employee retirement system. CERS provides 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 state legislature. Kentucky Retirement Systems 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, 12600 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-4646.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at three (3) percent compounded annually through June 30, 1980, six (6) percent thereafter through June 30, 1986, and four (4) percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

Employees are required to contribute 5% of their creditable compensation by State statute. The district is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. Employer contributions rates are set July 1 for the upcoming fiscal year. Employer rates were set at 16.93% effective July 1, 2010, 16.16% effective July 1, 2009 and 13.50% effective July 1, 2008. Contributions for the County Employees Retirement System are as follows:

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contribution</u>
December 31, 2010	\$ 83,058	\$ 83,058	100%
December 31, 2009	\$ 65,125	\$ 65,125	100%
December 31, 2008	\$ 75,078	\$ 75,078	100%

CRITTENDEN LIVINGSTON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**7 COMMERCIAL INSURANCE**

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**8 INTEREST EXPENSE**

The District incurred interest cost in 2010 of \$581,790. The entire amount has been recognized as a current operating expense.

**9 KENTUCKY INFRASTRUCTURE FINANCING**

The District had a grant assistance agreement with Kentucky Infrastructure Authority. Grant funds are to be used for debt reduction and interest expense assistance. The total funded under the grant agreement was \$900,000. A total of \$428,071 was received during the year ending December 31, 2009 and was used for principal and interest payments due during the year. The District received \$178,747 in March 2010 which was used to payoff the 1995B bonds and the KADD loan. The balance on the original grant of \$293,182 was drawn in October 2010 and used to pay the USDA payment due in January 2011.

Crittenden-Livingston County Water District  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND  
 BUDGET AND ACTUAL  
 For the Year Ending December 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 1,949,000	\$ 1,949,000	\$ 2,008,065	\$ 59,065
Other income	<u>50,000</u>	<u>50,000</u>	<u>45,835</u>	<u>(4,165)</u>
Total operating revenues	1,999,000	1,999,000	2,053,900	54,900
Operating expenses:				
Salary expenses	613,875	613,875	568,958	44,917
Water treatment expenses	156,500	156,500	190,067	(33,567)
Maintenance expenses	50,800	50,800	79,585	(28,785)
General operating expenses	134,300	134,300	167,433	(33,133)
Depreciation	-	-	619,352	(619,352)
Amortization	<u>-</u>	<u>-</u>	<u>31,620</u>	<u>(31,620)</u>
Total operating expenses	955,475	955,475	1,657,015	(701,540)
Operating income	1,043,525	1,043,525	396,885	(646,640)
Non-operating income (expenses):				
Tap-on fees	30,000	30,000	21,100	(8,900)
Interest revenue	-	-	2,099	2,099
Proceeds from grants	-	-	477,076	477,076
Donated capital	-	-	1,693	1,693
Loss on debt extinguishment	-	-	(8,950)	(8,950)
Interest expense	<u>-</u>	<u>-</u>	<u>(581,790)</u>	<u>(581,790)</u>
Total non-operating revenue (expenses)	30,000	30,000	(88,772)	(118,772)
Change in net assets	<u>\$ 1,073,525</u>	<u>\$ 1,073,525</u>	308,113	<u>\$ (765,412)</u>
Net assets, beginning of year			<u>8,495,572</u>	
Net assets, end of year			<u>\$ 8,803,685</u>	

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 Members of the Board of Commissioners  
Crittenden-Livingston County Water District  
620 East Main Street  
Salem, KY 42078

We have audited the financial statements of the Crittenden-Livingston County Water District, as of and for the year ended December 31, 2010, and have issued our report thereon dated July 25, 2011. 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 Crittenden-Livingston 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 Crittenden-Livingston County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Crittenden-Livingston County Water District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as item 2010-1 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crittenden-Livingston 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2010-1.

Crittenden-Livingston County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Crittenden-Livingston County Water District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, commissioners, others within the entity, 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.

*Baker, Anderson & Elliott, CPAs*

Crittenden-Livingston County Water District

Schedule of Findings and Responses relating to both Internal Controls over Financial Reporting and to Compliance

December 31, 2010

2010-1 Bond Sinking Funds and Depreciation Fund Deposit Requirements:

**CONDITION:** We noted that the various bond ordinances require that an amount equal to one-sixth (1/6) of the next succeeding interest requirement and one-twelfth (1/12) of the principal requirements coming due on the note on the next succeeding January 1, be deposited into a bond sinking fund. During the year, deposits into the sinking fund were insufficient to meet the requirements of the bond ordinances.

The 1995 Bond ordinance requires the District to make monthly contributions to the Depreciation Fund after observing the priority of the Sinking Fund. Under the 1995 Ordinance the District is to make \$1,872 monthly deposits until the Depreciation Fund reaches \$224,640 and shall be maintained throughout the life of the bonds. In addition, the 2000 Bond ordinance requires a monthly deposit of \$2,115 over the life of this loan in addition to the requirements of all other ordinances. As of December 31, 2010 the Depreciation Reserve Fund was \$109,545.

**CRITERIA:** Resolutions in various Revenue Bonds issued by the District.

**CAUSE OF CONDITION:** The District has not complied with the various monthly Sinking Fund and Depreciation Fund deposit requirements.

**EFFECT OF CONDITION:** The deposits into the Sinking Funds and Depreciation Fund were insufficient to meet the requirements of the various bond ordinances.

**RECOMMENDATION:** The Crittenden-Livingston County Water District should routinely make the deposits required by the covenants of the various Bond Ordinances.

**OFFICIAL'S RESPONSE:** The District's Chairman of the Board of Commissioners said that the deposits would be made to the Sinking Funds and Depreciation Fund if sufficient revenues were available each month.

**EVALUATION OF OFFICIAL'S COMMENTS:** The District is currently pursuing water sales contracts with several neighboring communities' water entities. Success with these sales efforts to other water providers and/or periodic modest rate increases to its own water customers should provide the needed additional revenue to comply with its Sinking Funds and Depreciation Fund deposit requirements.

# EXHIBIT G





P.O. Box 547 • 205 Ash Street • Benton, Kentucky 42025  
Phone: 270.527.3293 • FAX: 270.527.3132  
[www.united-systems.com](http://www.united-systems.com)

January 19, 2012

Crittenden-Livingston County Water District  
620 E Main St  
Salem, KY 42078

RE: SEALED BID: Radio Read Meters

To whom it may concern,

This letter is to confirm that pricing related to the Sept 26, 2011 sealed bid for radio read meters and the subsequent bid addendum dated 11/28/11 will be honored by United Systems until 4/1/12.

We thank you for consideration of our bid. Should any questions or concerns arise, feel free to contact me at [scotts@united-systems.com](mailto:scotts@united-systems.com) or 1.800.455.3293.

Sincerely,

A handwritten signature in cursive script that reads "Scott W. Smith / Territory Manager".

Scott W. Smith

The logo for Itron, featuring the word "Itron" in a bold, sans-serif font with a stylized exclamation point above the letter 'o'.