

SOUTHEAST DAVIESS COUNTY WATER DISTRICT

3400 Bittel Rd
Owensboro, KY 42301
Phone : (270) 685-5594
Fax : (270) 683-6324

May 19, 2006

RECEIVED
MAY 22 2006
PUBLIC SERVICE
COMMISSION

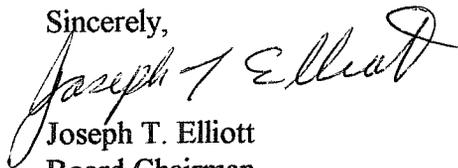
Ms. Beth O'Donnell
Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, KY 40601

RE: Case No. 2006-00160
Request for Rate Adjustment and New Tariff Rates

Ms. O'Donnell,

Southeast Daviess County Water District request your review and approval for rate adjustment in accordance with 807 KAR 5:001 (10). Enclosed are the original and ten (10) copies of the submittal information. We will send the affidavit from the local newspaper for the public notice once it becomes available after three consecutive weeks of publication. Please direct all inquiries / correspondence to the District Manager, William G. Higdon, (270) 685-5594.

Sincerely,


Joseph T. Elliott
Board Chairman

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

**THE APPLICATION OF THE SOUTHEAST)
DAVISS WATER DISTRICT FOR APPROVAL) CASE NO. 2006-00160
OF A PROPOSED INCREASE IN RATES FOR)
WATER SERVICE)**

STATEMENT AND NOTICE

Southeast Daviess Water District ("Southeast Daviess"), by counsel, pursuant to KRS 278.180 and KRS 278.190, hereby petitions the Commission for approval of a proposed increase in its water rates and charges. In support of its application, Southeast Daviess respectfully states as follows:

1. Southeast Daviess is a non-profit water district that has been engaged in the distribution and sale of water. It currently provides water service to approximately 5,724 customers in Daviess County, Kentucky. Southeast Daviess is organized under KRS Chapter 74; attached are its articles of incorporation and any amendments thereto. Southeast Daviess's principal office, place of business, and mailing address is 3400 Bittel Road, Owensboro, Kentucky 42301.

2. The proposed increase in the rates and charges is necessary for Southeast Daviess to meet its operating expenses, to maintain financial viability, and to continue to provide adequate service.

3. As authorized by KRS 278.192(1), and for the purpose of justifying the reasonableness of the proposed general increase in rates, Southeast Daviess has

utilized an historical test period consisting of the twelve (12) consecutive calendar months ending December 31, 2004.

4. Southeast Daviess's annual reports are on file with the Public Service Commission as required by 807 KAR 5:006, Section 3(1).

5. Southeast Daviess hereby gives notice to the Public Service Commission of the adjustment of its rates to those rates set forth in Exhibit No. 1 in the filing requirements. The proposed rates will result in increased annual revenues of \$176,151, which is an increase of 12.2 percent over normalized revenues from water sales of \$1,443,854.

6. The proposed tariffs (Exhibit No. 1) are shown in comparative form on the same sheets, side by side, and those comparative sheets are identified as Exhibit No. 2 in the filing requirements.

7. Southeast Daviess has complied with 807 KAR 5:011, Section 9, (2) and 807 KAR 5:001, Section 10, (3) and (4), by delivering to newspapers of general circulation in its service area a copy of the Notice identified as Exhibit No. 8 in the filing requirements, for publishing once a week for three consecutive weeks in a prominent manner, the first of said publications to be made no later than seven (7) days after May 19, 2006.

8. A copy of this filing has been mailed to the Utility Intervention and Rate Division of the Attorney General's office of the Commonwealth of Kentucky.

9. As required by 807 KAR 5:001, Section 10, (4), (f), Southeast Daviess will post a copy of its Customer Notices (Exhibit No. 8) at its place of business on May 19,

2006 and it will remain posted until the Public Service Commission has determined Southeast Daviess's rates.

10. The list of the documents filed in support of Southeast Daviess's application for approval of the proposed adjustment of rates or the explanation for their absence is contained in the Filing Requirement Index.

11. In addition to the increased rates, Southeast Daviess also asks the Commission to accept a revised rate design. West Daviess Water District and Southeast Daviess share the same billing and collection personnel and our customer characteristics are similar, so revising Southeast Daviess's rate design in this case to mirror the rate design already approved for West Daviess eases administrative burdens.

WHEREFORE, the Applicant, Southeast Daviess Water District requests that the Public Service Commission of Kentucky grant to the Applicant its proposal to increase its rates and charges as set forth in this Petition.

Dated at Owensboro, Kentucky this 8th day of May 2006.

SOUTHEAST DAVIESS WATER DISTRICT

By Joseph T. Elliott
Chairman

DAVIESS COUNTY ATTORNEY

By Robert M. Kirtley
Robert M. Kirtley
P.O. Box 158
Owensboro, Kentucky 42302
(270)685-8442

Filing Requirement Index Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 8(1)	Full name and P. O. address of applicant and reference to the particular provision of law requiring PSC approval.	Application – Page No. 1.
807 KAR 5:001 Section 8(2)	The original and 10 copies of application plus copy for anyone named as interested party.	The correct number of applications has been filed.
807 KAR 5:001 Section 10(1)(b)(1)	Reason adjustment is required.	Application – Page No. 1.
807 KAR 5:001 Section 10(1)(b)(2)	Statement that utility's annual reports, including the most recent calendar year, are filed with PSC. 807 KAR 5:006, Section 3(1)	Application – Page No. 2.
807 KAR 5:001 Section 10(1)(b)(3) & (5)	If utility is incorporated, certified copy of articles of incorporation and amendments or out of state documents of similar import. If they have already been filed with PSC refer to the style and case number of the prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed.	Application – Exhibit 10
807 KAR 5:001 Section 10(1)(b)(4) & (5)	If applicant is limited partnership, certified copy of limited partnership agreement. If agreement filed with PSC refer to style and case number of prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed.	N/A – Southeast Daviess is not a limited partnership.
807 KAR 5:001 Section 10(1)(b)(6)	Certified copy of certificate of assumed name required by KRS 365.015 or statement that certificate not necessary.	N/A – Southeast Daviess has never used an assumed name.
807 KAR 5:001 Section 10(1)(b)(7)	Proposed tariff in form complying with 807 KAR 5:011 effective not less than 30 days from date application filed.	Exhibit No. 1.
807 KAR 5:001 Section 10(1)(b)(8)	Proposed tariff changes shown by present and proposed tariffs in comparative form or by indicating additions in italics or by underscoring and striking over deletions in current tariff.	Exhibit No. 2.
807 KAR 5:001	Statement that notice given, see subsections (3) and (4) of	Application – Page No. 2.

**Filing Requirement Index
Historical Test Period Rate Case**

Filing Requirements	Filing Requirement Description	Location or Absence Reason
Section 10(1)(b)(9)	807 KAR 5:001, Section 10 with copy.	Exhibit No. 8.
807 KAR 5:001 Section 10(2)	If gross annual revenues exceed \$1,000,000, written notice of intent filed at least 4 weeks prior to application. Notice shall state whether application will be supported by historical or fully forecasted test period.	Written notice was filed on _____, 2006.
807 KAR 5:001 Section 10 (6)(a)	Complete description and quantified explanation for proposed adjustments with support for changes in price or activity levels, and other factors affecting the adjustment.	Exhibit No. 4.
807 KAR 5:001 Section 10 (6)(b) & (c)	If gross annual revenues exceed \$1,000,000, prepared testimony of each witness who will support the application. If less than \$1,000,000, prepared testimony of each witness who will support application or statement that utility does not plan to submit prepared testimony.	Commission Staff assisted with the application and therefore Southeast Daviess does not intend to submit prepared testimony.
807 KAR 5:001 Section 10 (6)(d)	Estimate of effect that new rate(s) will have on revenues including, at minimum, total revenues resulting from increase or decrease and percentage of increase or decrease.	Application – Page No. 2.
807 KAR 5:001 Section 10 (6)(e)	If electric, gas, water or sewer utility effect upon the average bill for each customer classification to which change will apply.	Exhibit No. 7 (Cost-of-Service Study).
807 KAR 5:001 Section 10 (6)(f)	If local exchange company, effect upon the average bill for 807 each customer class for change in basic local service.	N/A – Southeast Daviess is a Water District.
807 KAR 5:001 Section 10 (6)(g)	Analysis of customers' bills in such detail that revenues from present and proposed rates can be readily determined for each customer class.	Exhibit No 5.
807 KAR 5:001 Section 10 (6)(h)	Summary of determination of revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules.	Exhibit No. 4.

Filing Requirement Index Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10 (6)(i)	Reconciliation of rate base and capital used to determine revenue requirements.	N/A – Revenue Requirement reflects Operating Ratio.
807 KAR 5:001 Section 10 (6)(j):	Current chart of accounts if more detailed than the Uniform System of Accounts.	Not applicable
807 KAR 5:001 Section 10 (6)(k)	Independent auditor's annual opinion report, with any written communication from auditor, which indicates existence of material weakness in internal controls.	The 2004 Audit Report is attached as Exhibit 9.
807 KAR 5:001 Section 10 (6)(l):	The most recent FERC or FCC audit reports.	N/A to a Water District
807 KAR 5:001 Section 10 (6)m	The most recent FERC Form 1 (electric), FERC Form 2 (gas), or Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone).	N/A to a Water District
807 KAR 5:001 Section 10 (6)(n)	Summary of latest depreciation study with schedules by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall provide schedule identifying current and test period depreciation rates used by major plant accounts. If filed in another PSC case refer to that case's number and style.	Exhibit No. 6.
807 KAR 5:00 Section 10 (6)(o)	List of all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with the filing. Include each software, program, or model; what each was used for; its supplier; brief description and specifications for the computer hardware and the operating system required to run the program.	Word
807 KAR 5:001 Section 10 (6)(p)	Prospectuses of most recent stock or bond offerings.	N/A to a Water District
807 KAR 5:001 Section 10 (6)(q)	Annual report to shareholders, or members, and statistical supplements covering 2 years prior to application filing	N/A to a Water District

Filing Requirement Index Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10 (6)(r)	<p>date. Monthly managerial reports providing financial results for 12 months in test period.</p>	<p>Southeast Daviess requests a waiver from this filing requirement as it does not produce monthly managerial reports on a routine basis, and their production at this time would result in additional expense.</p>
807 KAR 5:001 Section 10 (6)(s)	<p>SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued within past 2 years, and Form 10-Qs issued during the past 6 quarters updated as current information becomes available.</p>	<p>N/A to a Water District</p>
807 KAR 5:001 Section 10 (6)(t)	<p>If utility had any amounts charged or allocated to it by affiliate or general or home office, or paid any monies to affiliate or general or home office during test period or during previous 3 calendar years, file:</p> <ol style="list-style-type: none"> 1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each charge allocation or payment; 2. Explanation of how allocator for the test period was determined; and 3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during test period was reasonable; 	<p>N/A – There are no affiliate allocations.</p>

**Filing Requirement Index
Historical Test Period Rate Case**

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10 (6)(u)	If gas, electric or water utility, whose annual gross revenues exceed \$5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from a single time period.	Exhibit No. 7.
807 KAR 5:001 Section 10 (6)(v)	<p>Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC. Local exchange carriers with more than 50,000 access lines shall file:</p> <ol style="list-style-type: none"> 1. Jurisdictional separations study consistent with Part 36 of the FCC's rules and regulations; and 2. Service specific cost studies to support pricing of all services that generate annual revenue greater than \$1,000,000, except local exchange access: <ol style="list-style-type: none"> (a) Based on current and reliable data from a single time period; and (b) Using generally recognized fully allocated, embedded, or incremental cost principles. 	N/A to a Water District
807 KAR 5:001 Section 10 (7)(a)	Detailed income statement and balance sheet reflecting impact of all proposed adjustments	Exhibit No. 3.
807 KAR 5:001 Section 10 (7)(b)	Most recent capital construction budget containing at least period of time as proposed for any pro forma adjustment for plant additions.	NA – There are no pro forma adjustments for plant additions.

**Filing Requirement Index
Historical Test Period Rate Case**

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10 (7)(c)	<p>For each proposed pro forma adjustment reflecting plant additions the following information:</p> <ol style="list-style-type: none"> 1. Starting date of the construction of each major component of plant; 2. Proposed in-service date; 3. Total estimated cost of construction at completion; 4. Amount contained in construction work in progress at end of test period; 5. Complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement; 6. Original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions; 7. Explanation of any differences in amounts contained in the capital construction budget and amounts of capital construction cost contained in the pro forma adjustment period; and 8. Impact on depreciation expense of all proposed pro 	NA – There are no pro forma adjustments for plant additions.

**Filing Requirement Index
Historical Test Period Rate Case**

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10 (7)(e)	forma adjustments for plant additions and retirements; Number of customers to be added to the test period – end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.	Exhibit No. 4.

Exhibit Index

<u>Exhibit Title</u>	<u>Number</u>
Proposed Tariff	1
Comparison of Proposed & Current Tariff	2
Pro Forma Financial Statements	3
Pro Forma Adjustment Descriptions/Revenue Requirements Determination	4
Billing Analysis	5
Analysis of Depreciation	6
Cost of Service Study	7
Customer Notification	8
2004 Audit Report	9
Articles of Incorporation/Amendments	10

EXHIBIT 1

Proposed Tariff

FOR Southeast Daviess County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2006-00160

SHEET NO. _____

Southeast Daviess County Water District
(Name of Utility)

CANCELLING P.S.C. KY. NO. _____

SHEET NO. _____

RATES

Customer Charge

5/8" x 3/4" Meters	\$2.36	per month
1" Meters	3.30	per month
1 1/2" Meters	4.25	per month
2" Meters	6.84	per month

Usage Charge

First 20,000 gallons	\$3.06	per 1,000 gallons
Over 20,000 gallons	2.37	per 1,000 gallons

Wholesale Customers

City of Whitesville	1.84	per 1,000 gallons
---------------------	------	-------------------

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY Joseph H. E. Leatt
(Signature of Officer)

TITLE Board Chairman

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2006-00160 DATED _____

EXHIBIT 2

Comparison of Proposed & Current Tariff

FOR Southeast Daviess County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2006-00160

SHEET NO. _____

Southeast Daviess County Water District
(Name of Utility)

CANCELLING P.S.C. KY. NO. _____

SHEET NO. _____

RATES

Monthly Rate:

	Current	Proposed
Non Users	\$5.34	
First 2,000 gallons	\$7.64 Minimum Bill	
Next 8,000 gallons	2.31 per 1,000 gallons	
Next 10,000 gallons	2.20 per 1,000 gallons	
Next 20,000 gallons	2.09 per 1,000 gallons	
Over 40,000 gallons	2.00 per 1,000 gallons	

Customer Charge

5/8" x 3/4"	Meters	\$2.36	per month
1"	Meters	3.30	per month
1 1/2"	Meters	4.25	per month
2"	Meters	6.84	per month

Usage Charge

First 20,000 gallons	\$3.06	per 1,000 gallons
Over 20,000 gallons	2.37	per 1,000 gallons

Wholesale Customers

City of Whitesville	\$1.75 per 1,000 gallons	\$1.84	per 1,000 gallons
---------------------	-------------------------------------	--------	-------------------

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY Joseph T. Elliott
(Signature of Officer)

TITLE Board Chairman

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2006-00160 DATED _____

EXHIBIT 3

Pro Forma Financial Statements

SE Daviess WD Exhibit 3 Income Statement With Proposed Increase Included	2004	Adjustments	Proforma
Water Sales	\$1,226,028	\$139,790 \$176,151	\$1,541,969
Other Revenues	\$71,679	\$6,357	\$78,036
Tot. Op. Revenues	\$1,297,707	\$322,298	\$1,620,005
Employee Salaries	\$192,599	\$4,669	\$197,268
Officer Salaries	\$41,895	(\$45)	\$41,850
Pensions/Benefits	\$66,597	\$3,455	\$70,052
Purchased Water	\$694,599	\$72,167 \$73,980	\$840,746
Purchased Power	\$26,211	0	\$26,211
Materials/Supplies	\$65,632	0	\$65,632
Contract Serv. -Eng.	\$893	0	\$893
Contract. Serv.-Acct.	\$3,950	\$250	\$4,200
Contract. Serv.-Legal	0	0	0
Contract. Serv.-Other	\$3,750	0	\$3,750
Rental of Bldg.	\$4,832	0	\$4,832
Transportation Exp.	\$21,325	(\$1,234)	\$20,091
Insurance-Vehicles	0	0	0
Ins.-Gen. Liability	\$13,437	0	\$13,437
Ins.-Workers Comp	\$4,401	0	\$4,401
Ins. - Other	\$204	0	\$204
Advertising Expense	\$142	0	\$142
Bad Debt Expense	\$3,593	0	\$3,593
Misc. Exp.	\$14,078	(\$2,000)	\$12,078
<i>Tot. Water Util. Exp.</i>	<i>\$1,158,138</i>	<i>\$77,262</i>	<i>1,235,400</i>
Depreciation Expense	\$126,892	(\$720)	\$126,172
Amortization Expense	0	\$411	\$411
Taxes OT Income	\$19,765	\$676	\$20,441
Total Op. Expenses	\$1,304,795	\$151,609	\$1,456,404
Total Op. Income	(\$7,088)	\$170,689	\$163,601
Gain fr. Util Prop. Disp.	\$1,053	(\$1,053)	0
Interest Income	\$17,430	\$17,570	\$35,000
Interest Expense	(\$2,105)	\$2,105	0
<i>Net Income</i>	<i>\$9,290</i>	<i>\$189,311</i>	<i>\$198,601</i>

Revenue Requirement:

\$1,456,404 – Total Operating Expenses

\$1,655,005 – Divided by 88% Operating Ratio

(1,443,854) – Normalized Revenues (\$1,297,707 + \$146,147)

 (35,000) – Interest Income

\$ 176,151 – Justified Increase (12.2% increase over proforma sales revenue)

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Assets
December 31, 2004 and 2003

	2004	2003 (Restated)
Assets		
CURRENT ASSETS		
Cash	\$ 169,853	\$ 192,712
Accounts receivable	180,338	167,511
Investment	732,524	605,666
Interest receivable	255	2,545
Prepaid insurance	9,480	8,679
Inventory	65,215	68,903
	<u>1,157,665</u>	<u>1,046,016</u>
TOTAL CURRENT ASSETS		
RESTRICTED ASSETS		
Cash - repair area extension fund	24,385	24,453
Cash - medical reimbursement fund	14,679	-
	<u>39,064</u>	<u>24,453</u>
TOTAL RESTRICTED ASSETS		
CAPITAL ASSETS		
Land	18,000	18,000
Construction in progress	45,920	15,840
Water plant	6,038,088	5,922,376
	<u>6,102,008</u>	<u>5,956,216</u>
Less accumulated depreciation	2,061,902	1,950,693
	<u>4,040,106</u>	<u>4,005,523</u>
NET CAPITAL ASSETS		
	<u>\$ 5,236,835</u>	<u>\$ 5,075,992</u>
TOTAL ASSETS		

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Assets
December 31, 2004 and 2003

	2004	2003 (Restated)
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 135,398	\$ 130,310
Customer deposits	84,339	78,224
Accrued pension	11,653	12,250
Accrued school and sales taxes	6,247	5,777
Payroll taxes and withholding	3,715	3,492
Accrued payroll	7,362	7,613
Current liabilities payable from restricted assets:		
Accounts payable	2,376	2,423
TOTAL CURRENT LIABILITIES	251,090	240,089
NET ASSETS		
Invested in capital assets, net of related debt	4,040,106	4,005,523
Restricted	36,688	22,030
Unrestricted	908,951	808,350
TOTAL NET ASSETS	4,985,745	4,835,903
TOTAL LIABILITIES AND NET ASSETS	\$ 5,236,835	\$ 5,075,992

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

EXHIBIT 4

Pro Forma Adjustment Descriptions / Revenue Requirement Determination

SE Daviess WD Exhibit 4	2004	Adjustments	Ref.	Adjusted Proforma
Water Sales	\$1,226,028	\$65,810 \$73,980		\$1,365,818
Other Revenues	\$71,679	\$6,357		\$78,036
Tot. Op. Revenues	\$1,297,707	\$72,167	A	\$1,443,854
Employee Salaries	\$192,599	\$4,669	B	\$197,268
Officer Salaries	\$41,895	(\$45)	C	\$41,850
Pensions/Benefits	\$66,597	\$3,455	D	\$70,052
Purchased Water	\$694,599	\$72,167 \$73,980	E	\$840,746
Purchased Power	\$26,211	0		\$26,211
Materials/Supplies	\$65,632	0		\$65,632
Contract Serv. –Eng.	\$893	0		\$893
Contract. Serv.-Acct.	\$3,950	\$250	F	\$4,200
Contract. Serv.-Legal	0	0		0
Contract. Serv.-Other	\$3,750	0		\$3,750
Rental of Bldg.	\$4,832	0		\$4,832
Transportation Exp.	\$21,325	(\$1,234)	G	\$20,091
Insurance-Vehicles	0	0		0
Ins.-Gen. Liability	\$13,437	0		\$13,437
Ins.-Workers Comp	\$4,401	0		\$4,401
Ins. - Other	\$204	0		\$204
Advertising Expense	\$142	0		\$142
Bad Debt Expense	\$3,593	0		\$3,593
Misc. Exp.	\$14,078	(\$2,000)	H	\$12,078
<i>Tot. Water Util. Exp.</i>	<i>\$1,158,138</i>	<i>\$151,242</i>		<i>1,309,380</i>
Depreciation Expense	\$126,892	(\$720)	I	\$126,172
Amortization Expense	0	\$411	J	\$411
Taxes OT Income	\$19,765	\$676	K	\$20,441
Total Op. Expenses	\$1,304,795	\$151,609		\$1,456,404
Total Op. Income	(\$7,088)	(\$5,462)		(\$12,550)
Gain from Utility Property Disposal	\$1,053	(\$1,053)	L	0
Interest Income	\$17,430	\$17,570	M	\$35,000
Interest Expense	(\$2,105)	\$2,105	N	0
<i>Net Income</i>	<i>\$9,290</i>	<i>\$13,160</i>		<i>\$22,450</i>

Revenue Requirement:

\$1,456,404 – Total Operating Expenses

\$1,655,005 – Divided by 88% Operating Ratio

(1,443,854) – Normalized Revenues

(35,000) – Interest Income

\$ 176,151 – Justified Increase (12.2% increase over proforma sales revenue)

Explanatory Notes

- A. Operating Revenues – Normalized revenues based upon the results of Commission Staff's billing analysis
- B. Employee Salaries – Adjusted to reflect 2005 employee salaries of \$195,121.53, plus an adjustment of \$2,146.64 to double the wages earned by a part-time worker hired halfway through 2005.
- C. Officer Salaries – Adjusted to reflect the District manager's current salary of \$2,625 x 24 checks = \$63,000. Of that amount, 55% is allocated to Southeast Daviess, or \$34,650 (45% goes to West Daviess). Adding \$7,200 in Board Fees results in total proforma Pensions and Benefits expense of \$41,850.
- D. Pensions/Benefits Expense – Adjusted to reflect increased health care premiums effective in 2006. The new annualized total premium is \$46,346, an increase of \$3,455 over test year expense of \$42,891.
- E. Purchased Water Expense – Normalized to reflect normalized sales and the purchased water rates currently in effect after increases in 2005 and 2006.
- F. Contract Services – Accounting Expense – Adjusted to reflect current annual accounting fees of \$4,200.
- G. Transportation Expense – Adjusted to remove a \$1,234 nonrecurring charge for transmission repairs to a vehicle.
- H. Miscellaneous Expense – Adjusted to remove a \$2,000 severance payment, which is a nonrecurring charge.
- I. Depreciation Expense – Adjusted to reflect depreciation expense based upon utility plant at the end of 2005.
- J. Amortization Expense – Adjusted to allow a three-year recovery for the transmission repair removed from transportation expense.
- K. Taxes Other Than Income Expense – Adjusted to reflect FICA tax at a rate of 7.65% x \$239,118 in Total Salaries, for a proforma FICA expense of \$18,293. Adding the PSC Assessment fee of \$2,148 results in a total proforma expense of \$20,441.
- L. Gain from Property Disposal – Removed from the calculation of revenue requirements because of its nonrecurring nature.

M. Interest Income – Adjusted to increase interest income because of higher interest rates earned on invested money.

N. Interest Expense - Removed from the calculation of revenue requirements because it represents interest expense on customer deposits.

EXHIBIT 5

Billing Analysis

Southeast Daviess Water District

Billing Analysis

**BILLING ANALYSIS FOR: SOUTHEAST DAVIESS COUNTY WATER DISTRICT
TEST PERIOD FROM JANUARY THROUGH DECEMBER 2004**

**USAGE TABLE
CURRENT RATES**

	USAGE	BILLS	GALLONS	2,000	8,000	10,000	20,000	40,000
FIRST	2,000	7,802	9,230,560	9,230,560				
NEXT	8,000	51,752	270,580,070	103,504,000	167,076,070			
NEXT	10,000	6,035	77,919,320	12,070,000	48,280,000	17,569,320		
NEXT	20,000	1,054	28,282,950	2,108,000	8,432,000	10,540,000	7,202,950	
OVER	40,000	440	47,631,330	880,000	3,520,000	4,400,000	8,800,000	30,031,330
	TOTAL	67,083	433,644,230	127,792,560	227,308,070	32,509,320	16,002,950	30,031,330

**REVENUE TABLE
REVENUE BY RATE INCREMENT**

		BILLS	GALLONS	RATE	REVENUE			
FIRST	2,000	67,083	127,792,560	\$7.64	\$512,514			
NEXT	8,000		227,308,070	2.31	525,082			
NEXT	10,000		32,509,320	2.20	71,521			
NEXT	20,000		16,002,950	2.09	33,446			
OVER	40,000		30,031,330	2.00	60,063			
		1,592		5.34	8,501			
Wholesale			88,395,000	1.75	154,691			
	TOTAL	68,675	522,039,230		\$1,365,818			

BILLING ANALYSIS FOR: SOUTHEAST DAVIESS COUNTY WATER DISTRICT					
TEST PERIOD FROM JANUARY THROUGH DECEMBER 2004					
USAGE TABLE					
PROPOSED RATES					
	<u>CLASS:</u>			<u>FIRST</u>	<u>OVER</u>
	<u>USAGE</u>	<u>BILLS</u>	<u>GALLONS</u>	<u>20,000</u>	<u>20,000</u>
FIRST	20,000	67,181	357,729,950	357,729,950	
OVER	20,000	1,494	75,914,280	29,880,000	46,034,280
	TOTAL	68,675	433,644,230	387,609,950	46,034,280
REVENUE TABLE					
REVENUE BY RATE INCREMENT					
		<u>BILLS</u>	<u>GALLONS</u>	<u>RATE</u>	<u>REVENUE</u>
Monthly Meter Charge					
	5/8"x3/4"	64,223		\$2.36	\$151,566
	1"	3,672		\$3.28	\$12,044
	1 1/2"	372		\$4.21	\$1,566
	2"	408		\$6.79	\$2,770
FIRST	20,000		387,609,950	3.06	1,186,086
OVER	20,000		46,034,280	2.37	109,101
Wholesale			88,395,000	1.84	162,647
	TOTAL	68,675	522,039,230		\$1,625,781

EXHIBIT 6

Analysis of Depreciation

SOUTHEAST DAVISS CO. WATER DIS [0024555]

Depreciation Expense

Financial

01/01/2005 - 12/31/2005

88-8888888

01/01/2005 - 12/31/2005

Sorted: General - GL asset acct.

System No.	S	Description	Date In Service	Method / Conv.	Life	Cost / Other Basis	Bus. / Inv. %	Sec. 179 / Bonus	Salvage / Basis Adj.	Beg. Accum. Depreciation	Current Depreciation	Total Depreciation
303												
		99 Year Lease	6/30/1982	No Calc / N/A	30.0000	4,000.00	100.0000	0.00	0.00	0.00	0.00	0.00
		Land Options	6/30/1988	No Calc / N/A	30.0000	3,000.00	100.0000	0.00	0.00	0.00	0.00	0.00
		Subtotal: 303				7,000.00		0.00	0.00	0.00	0.00	0.00
		Less dispositions and exchanges:				7,000.00		0.00	0.00	0.00	0.00	0.00
		Net for: 303										
304												
		Pumping Stati	1/1/1967	SL / N/A	50.0000	88,007.38	100.0000	0.00	0.00	66,885.70	1,760.15	68,645.85
		Fences	1/1/1967	SL / N/A	50.0000	3,952.57	100.0000	0.00	0.00	3,003.90	79.05	3,082.95
		Daniels Lane F	6/30/1983	SL / N/A	50.0000	96,279.51	100.0000	0.00	0.00	41,400.19	1,925.59	43,325.78
		Radio Controls	9/1/1985	SL / N/A	10.0000	10,131.96	100.0000	0.00	0.00	10,131.96	0.00	10,131.96
		Reid Road Pur	6/30/1994	SL / N/A	50.0000	583.00	100.0000	0.00	0.00	122.43	11.66	134.09
		Reid Road Pur	6/30/1995	SL / N/A	50.0000	3,570.00	100.0000	0.00	0.00	678.30	71.40	749.70
		Reid Road Pur	6/30/1996	SL / N/A	50.0000	5,020.00	100.0000	0.00	0.00	853.40	100.40	953.80
		Reid Road Pur	6/30/1997	SL / N/A	50.0000	22,329.00	100.0000	0.00	0.00	3,349.35	446.58	3,795.93
		Reid Road Pur	6/30/1998	SL / N/A	50.0000	203,680.90	100.0000	0.00	0.00	26,478.53	4,073.62	30,552.15
		Reid Road Pur	6/30/1999	SL / N/A	50.0000	145,308.46	100.0000	0.00	0.00	15,983.93	2,906.17	18,890.10
		Reid Road Pur	6/15/2000	SL / N/A	50.0000	77.50	100.0000	0.00	0.00	7.10	1.55	8.65
		Reid Road Pur	2/15/2001	SL / N/A	50.0000	1,000.00	100.0000	0.00	0.00	78.33	20.00	98.33
		Reid Road Pur	9/15/2004	SL / N/A	10.0000	878.59	100.0000	0.00	0.00	29.29	87.86	117.15
		Fence-Utica Tz				580,818.87		0.00	0.00	169,002.41	11,484.03	180,486.44
		Subtotal: 304				580,818.87		0.00	0.00	169,002.41	11,484.03	180,486.44
		Less dispositions and exchanges:										
		Net for: 304										
320												
		Land & Right c	1/1/1967	No Calc / N/A	30.0000	5,550.00	100.0000	0.00	0.00	0.00	0.00	0.00
		Land & Right c	7/1/1971	No Calc / N/A	30.0000	390.00	100.0000	0.00	0.00	0.00	0.00	0.00
		Land	6/30/1989	No Calc / N/A	30.0000	5,000.00	100.0000	0.00	0.00	0.00	0.00	0.00
		Deed Recordir	6/30/1991	No Calc / N/A	5.0000	60.00	100.0000	0.00	0.00	0.00	0.00	0.00
		Subtotal: 320				11,000.00		0.00	0.00	0.00	0.00	0.00
		Less dispositions and exchanges:				0.00						
		Net for: 320										
330												
		Tanks	1/1/1967	SL / N/A	70.0000	178,668.53	100.0000	0.00	0.00	96,991.58	2,552.41	99,543.99
		New Tank Wor	6/30/1990	SL / N/A	40.0000	5,177.92	100.0000	0.00	0.00	1,877.02	129.45	2,006.47
		Tank - Pleasan	6/15/1992	SL / N/A	40.0000	464,209.85	100.0000	0.00	0.00	146,032.73	11,605.25	157,637.98
		Tank - Add'l W	6/30/1993	SL / N/A	40.0000	1,768.00	100.0000	0.00	0.00	508.30	44.20	552.50
		Tank - Jones F	6/30/1995	SL / N/A	40.0000	26,949.25	100.0000	0.00	0.00	6,400.44	673.73	7,074.17
		Tank - Habit Hi	6/30/1995	SL / N/A	40.0000	643.00	100.0000	0.00	0.00	152.76	16.08	168.84
		Fence - Pleasa	6/30/1997	SL / N/A	40.0000	2,718.25	100.0000	0.00	0.00	509.70	67.96	577.66
		Subtotal: 330				1,100,000.00		0.00	0.00	169,002.41	11,484.03	180,486.44
		Less dispositions and exchanges:										
		Net for: 330										

SOUTHEAST DAVISS CO. WATER DIS [0024555]
Depreciation Expense

Financial
01/01/2005 - 12/31/2005

88-8888888
01/01/2005 - 12/31/2005
Sorted: General - GL asset acct.

System No.	S	Description	Date In Service	Method / Conv.	Life	Cost / Other Basis	Bus. / Inv. %	Sec. 179 / Bonus	Salvage / Basis Adj.	Beg. Accum. Depreciation	Current Depreciation	Total Depreciation
Subtotal: 330						680,134.80		0.00	0.00	252,472.53	15,089.08	267,561.61
Less dispositions and exchanges:						0.00				0.00	0.00	0.00
Net for: 330						680,134.80		0.00	0.00	252,472.53	15,089.08	267,561.61
331												
1		Meters and Lir	7/1/1967	SL / N/A	70.0000	1,203,447.21	100.0000	0.00	0.00	644,703.75	17,192.10	661,895.85
2		Meters and Lir	7/1/1967	SL / N/A	70.0000	2,839.53	100.0000	0.00	0.00	1,614.92	40.56	1,655.48
3		Meters and Lir	7/1/1968	SL / N/A	70.0000	3,750.67	100.0000	0.00	0.00	1,955.67	53.58	2,009.25
4		Meter & Line A	7/1/1969	SL / N/A	70.0000	4,562.32	100.0000	0.00	0.00	2,313.89	65.18	2,379.07
5		Meters and Lir	7/1/1970	SL / N/A	70.0000	5,331.77	100.0000	0.00	0.00	2,627.86	76.17	2,704.03
6		Meters & Line	7/1/1971	SL / N/A	70.0000	5,035.54	100.0000	0.00	0.00	2,409.99	71.94	2,481.93
7		Meters and Lir	7/1/1972	SL / N/A	70.0000	7,260.51	100.0000	0.00	0.00	3,370.90	103.72	3,474.62
8		Meters & Line	7/1/1973	SL / N/A	70.0000	10,081.33	100.0000	0.00	0.00	4,536.63	144.02	4,680.65
9		Meters & Line	7/1/1974	SL / N/A	70.0000	16,884.45	100.0000	0.00	0.00	7,356.90	241.21	7,598.11
10		Meters & Line	7/1/1975	SL / N/A	70.0000	9,536.65	100.0000	0.00	0.00	4,019.08	136.24	4,155.32
11		Meters & Line	7/1/1976	SL / N/A	70.0000	19,482.54	100.0000	0.00	0.00	7,932.12	278.32	8,210.44
12		Meters & Line	7/1/1969	SL / N/A	70.0000	21,343.00	100.0000	0.00	0.00	10,823.95	304.90	11,128.85
13		Meters & Line	7/1/1970	SL / N/A	70.0000	7,148.00	100.0000	0.00	0.00	3,522.80	102.11	3,624.91
14		Meters & Line	7/1/1971	SL / N/A	70.0000	2,382.00	100.0000	0.00	0.00	1,140.00	34.03	1,174.03
15		Meters & Line	7/1/1972	SL / N/A	70.0000	1,200.00	100.0000	0.00	0.00	557.05	17.14	574.19
16		Meters & Line	7/1/1973	SL / N/A	70.0000	9,327.00	100.0000	0.00	0.00	4,197.06	133.24	4,330.30
17		Meters & Line	7/1/1974	SL / N/A	70.0000	840.00	100.0000	0.00	0.00	366.00	12.00	378.00
18		Meters & Line	7/1/1975	SL / N/A	70.0000	28,290.00	100.0000	0.00	0.00	11,922.13	404.14	12,326.27
19		Meters & Line	7/1/1976	SL / N/A	70.0000	17,045.46	100.0000	0.00	0.00	6,940.03	243.51	7,183.54
20		Meters & Line	7/1/1977	SL / N/A	70.0000	99,048.16	100.0000	0.00	0.00	38,911.68	1,414.97	40,326.65
21		Meters & Line	7/1/1978	SL / N/A	70.0000	128,093.30	100.0000	0.00	0.00	48,492.35	1,829.90	50,322.25
22		Meters & Line	7/1/1979	SL / N/A	70.0000	114,953.23	100.0000	0.00	0.00	41,875.84	1,642.19	43,518.03
23		Meters & Line	7/1/1980	SL / N/A	70.0000	24,808.75	100.0000	0.00	0.00	8,693.05	354.41	9,037.46
24		Meters & Line	7/1/1981	SL / N/A	70.0000	37,948.77	100.0000	0.00	0.00	12,740.05	542.13	13,282.18
25		Meters & Line	7/1/1982	SL / N/A	70.0000	27,869.90	100.0000	0.00	0.00	8,958.15	398.14	9,356.29
26		Meters & Line	7/1/1983	SL / N/A	70.0000	100,149.61	100.0000	0.00	0.00	30,760.26	1,430.71	32,190.97
27		Meters & Line	7/1/1984	SL / N/A	70.0000	55,306.38	100.0000	0.00	0.00	16,196.85	790.09	16,986.94
28		Meters & Line	7/1/1985	SL / N/A	70.0000	98,255.26	100.0000	0.00	0.00	27,371.17	1,403.65	28,774.82
29		Meters & Line	6/30/1986	SL / N/A	70.0000	25,901.88	100.0000	0.00	0.00	6,845.55	370.03	7,215.58
30		Line Additions	6/30/1986	SL / N/A	70.0000	15,046.07	100.0000	0.00	0.00	3,976.39	214.94	4,191.33
31		Line Additions	6/30/1988	SL / N/A	40.0000	4,250.00	100.0000	0.00	0.00	1,753.13	106.25	1,859.38
32		Line Additions	6/30/1989	SL / N/A	40.0000	46,661.84	100.0000	0.00	0.00	18,081.52	1,166.55	19,248.07
33		Line Additions	6/30/1990	SL / N/A	40.0000	27,700.45	100.0000	0.00	0.00	10,041.40	692.51	10,733.91
34		Line Additions	6/30/1991	SL / N/A	40.0000	62,243.84	100.0000	0.00	0.00	21,007.35	1,556.10	22,563.45
35		Line Additions	6/30/1992	SL / N/A	40.0000	40,859.94	100.0000	0.00	0.00	12,768.75	1,021.50	13,790.25
36		Line Additions	6/30/1993	SL / N/A	40.0000	18,537.00	100.0000	0.00	0.00	5,329.44	463.43	5,792.87
37		Line Additions	6/30/1994	SL / N/A	40.0000	60,458.00	100.0000	0.00	0.00	15,870.23	1,511.45	17,381.68
38		Line Additions	6/30/1995	SL / N/A	40.0000	536,957.57	100.0000	0.00	0.00	127,527.43	13,423.94	140,951.37
39		Line Additions	6/30/1996	SL / N/A	40.0000	16,768.00	100.0000	0.00	0.00	3,563.20	419.20	3,982.40

SOUTHEAST DAVIESS CO. WATER DIS [0024555]

Depreciation Expense

Financial

01/01/2005 - 12/31/2005

System No.	S	Description	Date in Service	Method / Conv.	Life	Cost / Other Basis	Bus. / Inv. %	Sec. 179 / Bonus	Salvage / Basis Adj.	Beg. Accum. Depreciation	Current Depreciation	Total Depreciation
331		Line Additions	6/30/1997	SL / N/A	40.0000	140,545.50	100.0000	0.00	0.00	26,352.30	3,513.64	29,865.94
40		Line Additions	12/15/2002	SL / N/A	40.0000	91,853.00	100.0000	0.00	0.00	4,784.00	2,296.32	7,080.32
64		Line Additions	6/30/1998	SL / N/A	40.0000	32,283.60	100.0000	0.00	0.00	5,246.09	807.09	6,053.18
134		Line Additions	6/30/1999	SL / N/A	40.0000	39,520.10	100.0000	0.00	0.00	5,434.00	988.00	6,422.00
145		Line Additions	6/30/2000	SL / N/A	40.0000	52,579.00	100.0000	0.00	0.00	6,024.70	1,314.48	7,339.18
152		Line Additions	12/31/2001	SL / N/A	40.0000	26,019.00	100.0000	0.00	0.00	2,005.65	650.48	2,656.13
161		Line Additions	6/30/2003	SL / N/A	40.0000	60,028.00	100.0000	0.00	0.00	2,251.05	1,500.70	3,751.75
167		Line Additions	6/30/2004	SL / N/A	40.0000	41,322.50	100.0000	0.00	0.00	516.53	1,033.06	1,549.59
171		Line Additions										
		Subtotal: 331				3,401,756.63		0.00	0.00	1,235,678.84	62,509.97	1,298,188.81
		Less dispositions and exchanges:				0.00				0.00	0.00	0.00
		Net for: 331				3,401,756.63				1,235,678.84	62,509.97	1,298,188.81
334		Meters	6/30/1989	SL / N/A	40.0000	36,233.17	100.0000	0.00	0.00	14,040.36	905.83	14,946.19
107		Meters	6/30/1990	SL / N/A	40.0000	28,353.05	100.0000	0.00	0.00	10,278.03	708.83	10,986.86
108		Meters	6/30/1991	SL / N/A	40.0000	34,735.34	100.0000	0.00	0.00	11,723.13	868.38	12,591.51
109		Meters	6/30/1992	SL / N/A	40.0000	28,769.41	100.0000	0.00	0.00	8,990.50	719.24	9,709.74
110		Meters	6/30/1993	SL / N/A	40.0000	42,230.85	100.0000	0.00	0.00	12,141.36	1,055.77	13,197.13
111		Meters	6/30/1994	SL / N/A	40.0000	56,763.99	100.0000	0.00	0.00	14,900.55	1,419.10	16,319.65
112		Meters	6/30/1995	SL / N/A	40.0000	36,704.03	100.0000	0.00	0.00	8,717.20	917.60	9,634.80
113		Meters	6/30/1996	SL / N/A	40.0000	40,348.87	100.0000	0.00	0.00	8,574.12	1,008.72	9,582.84
114		Meters	6/30/1987	SL / N/A	40.0000	33,528.62	100.0000	0.00	0.00	14,668.85	838.22	15,507.07
115		Meters	6/30/1988	SL / N/A	40.0000	29,735.90	100.0000	0.00	0.00	10,616.10	643.40	11,259.50
116		Meters	6/30/1997	SL / N/A	40.0000	40,083.98	100.0000	0.00	0.00	7,515.75	1,002.10	8,517.85
117		Meters	6/30/1998	SL / N/A	40.0000	59,893.73	100.0000	0.00	0.00	9,732.71	1,497.34	11,230.05
135		Meters	12/15/2002	SL / N/A	40.0000	72,907.76	100.0000	0.00	0.00	3,797.27	1,822.69	5,619.96
141		Meters	6/30/1999	SL / N/A	40.0000	54,981.37	100.0000	0.00	0.00	7,559.92	1,374.53	8,934.45
146		Meters	6/30/2000	SL / N/A	40.0000	77,793.45	100.0000	0.00	0.00	8,913.85	1,944.84	10,858.69
153		Meters	1/31/2001	SL / N/A	40.0000	61,109.43	100.0000	0.00	0.00	6,110.96	1,527.74	7,638.70
162		Meters	6/30/2003	SL / N/A	40.0000	48,164.00	100.0000	0.00	0.00	1,806.15	1,204.10	3,010.25
168		Meters	6/30/2004	SL / N/A	40.0000	53,783.03	100.0000	0.00	0.00	672.29	1,344.58	2,016.87
172		Meters										
		Subtotal: 334				832,119.98		0.00	0.00	160,759.10	20,803.01	181,562.11
		Less dispositions and exchanges:				0.00				0.00	0.00	0.00
		Net for: 334				832,119.98				160,759.10	20,803.01	181,562.11
335		11 hydrants	6/30/1989	SL / N/A	40.0000	14,092.88	100.0000	0.00	0.00	5,460.96	352.32	5,813.28
118		Hydrants	6/30/1990	SL / N/A	40.0000	1,919.40	100.0000	0.00	0.00	695.85	47.99	743.84
119		Hydrants	6/30/1991	SL / N/A	40.0000	10,750.00	100.0000	0.00	0.00	3,628.13	268.75	3,896.88
120		Hydrants	6/30/1992	SL / N/A	40.0000	13,637.12	100.0000	0.00	0.00	4,261.62	340.93	4,602.55
121		Hydrants	6/30/1993	SL / N/A	40.0000	11,600.00	100.0000	0.00	0.00	4,235.63	290.00	4,525.63
122		Hydrants	6/30/1994	SL / N/A	40.0000	13,750.00	100.0000	0.00	0.00	4,374.57	343.75	4,718.32
123		Hydrants										

SOUTHEAST DAVIESS CO. WATER DIS [0024555]

Depreciation Expense

Financial

01/01/2005 - 12/31/2005

88-8888888
01/01/2005 - 12/31/2005

Sorted: General - GL asset acct.

System No.	S	Description	Date In Service	Method / Conv.	Life	Cost / Other Basis	Bus. / Inv. %	Sec. 179 / Bonus	Salvage / Basis Adj.	Beg. Accum. Depreciation	Current Depreciation	Total Depreciation
335												
124		Hydrants	6/30/1995	SL / N/A	40.0000	21,591.17	100.0000	0.00	0.00	5,851.22	539.78	6,391.00
125		Hydrants	6/30/1996	SL / N/A	40.0000	6,000.00	100.0000	0.00	0.00	1,275.00	150.00	1,425.00
126		6 Hydrants	6/30/1986	SL / N/A	70.0000	4,510.00	100.0000	0.00	0.00	1,191.95	64.43	1,256.38
127		5 Hydrants	6/30/1987	SL / N/A	40.0000	8,403.90	100.0000	0.00	0.00	3,676.75	210.10	3,886.85
128		7 Hydrants	6/30/1988	SL / N/A	40.0000	11,189.86	100.0000	0.00	0.00	4,615.87	279.75	4,895.62
129		Hydrants	6/30/1997	SL / N/A	40.0000	70,500.00	100.0000	0.00	0.00	13,218.75	1,762.50	14,981.25
142		Hydrants	6/30/1998	SL / N/A	40.0000	10,500.00	100.0000	0.00	0.00	1,706.25	262.50	1,968.75
147		Hydrants	6/30/1999	SL / N/A	40.0000	6,000.00	100.0000	0.00	0.00	825.00	150.00	975.00
154		Hydrants	12/30/2000	SL / N/A	40.0000	16,500.00	100.0000	0.00	0.00	1,684.38	412.50	2,096.88
156		Hydrants	12/15/2002	SL / N/A	40.0000	42,000.00	100.0000	0.00	0.00	2,187.50	1,050.00	3,237.50
164		Hydrants	12/15/2001	SL / N/A	40.0000	4,500.00	100.0000	0.00	0.00	346.88	112.50	459.38
169		Hydrants	6/30/2003	SL / N/A	40.0000	22,500.00	100.0000	0.00	0.00	843.75	562.50	1,406.25
173		7 Hydrants	6/30/2004	SL / N/A	40.0000	10,500.00	100.0000	0.00	0.00	131.25	262.50	393.75
		Subtotal: 335				300,444.33		0.00	0.00	60,211.31	7,462.80	67,674.11
		Less dispositions and exchanges:				0.00				0.00	0.00	0.00
		Net for: 335				300,444.33		0.00	0.00	60,211.31	7,462.80	67,674.11
339												
94		Office Building	1/3/1986	SL / N/A	30.0000	74,435.52	100.0000	0.00	0.00	47,142.42	2,481.18	49,623.60
95		Storage Bldg.	1/3/1986	SL / N/A	20.0000	6,086.23	100.0000	0.00	0.00	5,781.89	304.34	6,086.23
96		Blacktop (50%	6/30/1989	SL / N/A	10.0000	2,050.00	100.0000	0.00	0.00	2,050.00	0.00	2,050.00
97		Shop Office W	6/30/1991	SL / N/A	20.0000	2,077.89	100.0000	0.00	0.00	1,402.52	103.89	1,506.41
98		Heater/A/C Un	12/15/1992	SL / N/A	10.0000	1,138.00	100.0000	0.00	0.00	1,138.00	0.00	1,138.00
148		Backhoe Build	1/19/1999	SL / N/A	20.0000	6,959.50	100.0000	0.00	0.00	2,058.88	347.98	2,406.86
163		Hell PGA036 C	1/31/2001	SL / N/A	10.0000	1,210.00	100.0000	0.00	0.00	484.00	121.00	605.00
		Subtotal: 339				93,957.14		0.00	0.00	60,057.71	3,358.39	63,416.10
		Less dispositions and exchanges:				0.00				0.00	0.00	0.00
		Net for: 339				93,957.14		0.00	0.00	60,057.71	3,358.39	63,416.10
340												
66		Telephone Sys	1/3/1986	SL / N/A	10.0000	1,300.00	100.0000	0.00	0.00	1,300.00	0.00	1,300.00
67		Office Furnitur	1/3/1986	SL / N/A	10.0000	2,134.78	100.0000	0.00	0.00	2,134.78	0.00	2,134.78
68		Computer	12/3/1986	SL / N/A	10.0000	9,982.00	100.0000	0.00	0.00	9,982.00	0.00	9,982.00
69		5 Crt Stands	6/30/1987	SL / N/A	10.0000	344.80	100.0000	0.00	0.00	344.80	0.00	344.80
70		Printer (50%)	6/15/1987	SL / N/A	10.0000	402.50	100.0000	0.00	0.00	402.50	0.00	402.50
71		Power Supply	6/30/1987	SL / N/A	10.0000	484.50	100.0000	0.00	0.00	484.50	0.00	484.50
72		Computer Upc	6/30/1988	SL / N/A	10.0000	2,000.00	100.0000	0.00	0.00	2,000.00	0.00	2,000.00
73		Hard Disk Driv	6/30/1990	SL / N/A	5.0000	529.00	100.0000	0.00	0.00	529.00	0.00	529.00
74		(4) Adding Mac	6/30/1991	SL / N/A	7.0000	639.00	100.0000	0.00	0.00	639.00	0.00	639.00
75		Adler Typewrit	6/30/1991	SL / N/A	7.0000	210.00	100.0000	0.00	0.00	210.00	0.00	210.00
76		Adler Typewrit	6/30/1991	SL / N/A	7.0000	197.50	100.0000	0.00	0.00	197.50	0.00	197.50
77		File Cabinets (	6/30/1991	SL / N/A	10.0000	384.48	100.0000	0.00	0.00	384.48	0.00	384.48

SOUTHEAST DAVIESS CO. WATER DIS [0024555]
Depreciation Expense

88-8888888
01/01/2005 - 12/31/2005
Sorted: General - GL asset acct.

01/01/2005 - 12/31/2005

System No.	S	Description	Date In Service	Method / Conv.	Life	Cost / Other Basis	Bus./ Inv. %	Sec. 179/ Bonus	Salvage/ Basis Adj.	Beg. Accum. Depreciation	Current Depreciation	Total Depreciation
340												
78		Genicom Printr	3/15/1992	SL / N/A	5.0000	1,710.37	100.0000	0.00	0.00	1,710.37	0.00	1,710.37
79		4 Meg Ram Bc	3/15/1992	SL / N/A	5.0000	137.50	100.0000	0.00	0.00	137.50	0.00	137.50
80		Altos Terminal	6/15/1992	SL / N/A	5.0000	255.75	100.0000	0.00	0.00	255.75	0.00	255.75
81		Adler 120 PD+	9/15/1993	SL / N/A	5.0000	71.22	100.0000	0.00	0.00	71.22	0.00	71.22
82		Computer	12/15/1993	SL / N/A	5.0000	3,378.25	100.0000	0.00	0.00	3,378.25	0.00	3,378.25
83		2 Desks w/Dra	1/31/1994	SL / N/A	7.0000	287.14	100.0000	0.00	0.00	287.14	0.00	287.14
84		10-Drawer Mat	3/15/1995	SL / N/A	7.0000	244.55	100.0000	0.00	0.00	244.55	0.00	244.55
85		Fax Machine	4/15/1995	SL / N/A	7.0000	449.97	100.0000	0.00	0.00	449.97	0.00	449.97
88		Cash Register	5/30/1996	SL / N/A	7.0000	208.83	100.0000	0.00	0.00	208.83	0.00	208.83
89		Adler Calculatc	8/31/1996	SL / N/A	3.0000	76.97	100.0000	0.00	0.00	76.97	0.00	76.97
90		Computer Batt	10/31/1996	SL / N/A	5.0000	504.44	100.0000	0.00	0.00	504.44	0.00	504.44
91		SCADA Monitc	9/30/1996	SL / N/A	5.0000	11,592.00	100.0000	0.00	0.00	11,592.00	0.00	11,592.00
93		2 Mahogany D	2/15/1997	SL / N/A	5.0000	164.99	100.0000	0.00	0.00	164.99	0.00	164.99
136		Colorado T30C	5/31/1998	SL / N/A	5.0000	97.50	100.0000	0.00	0.00	97.50	0.00	97.50
137		Muzak Equipr	6/30/1998	SL / N/A	5.0000	253.95	100.0000	0.00	0.00	253.95	0.00	253.95
138		Altos 930 Corr	8/31/1998	SL / N/A	5.0000	3,197.50	100.0000	0.00	0.00	3,197.50	0.00	3,197.50
155		Desk	4/15/2000	SL / N/A	7.0000	164.99	100.0000	0.00	0.00	164.99	0.00	164.99
158		Computer Ups	10/15/2000	SL / N/A	5.0000	5,300.00	100.0000	0.00	0.00	5,300.00	0.00	5,300.00
165		Computer	10/15/2002	SL / N/A	5.0000	496.00	100.0000	0.00	0.00	496.00	0.00	496.00
166		522 Laser Prin	11/30/2002	SL / N/A	5.0000	909.14	100.0000	0.00	0.00	909.14	0.00	909.14
174		Floor Safe	8/1/2004	SL / N/A	7.0000	263.00	100.0000	0.00	0.00	263.00	0.00	263.00
175		2 Acer Compu	9/15/2004	SL / N/A	5.0000	1,090.00	100.0000	0.00	0.00	1,090.00	0.00	1,090.00
176		Xerox Copier	9/30/2004	SL / N/A	7.0000	624.50	100.0000	0.00	0.00	624.50	0.00	624.50
Subtotal: 340						50,087.12				46,569.08	1,444.38	48,013.46
Less dispositions and exchanges:						0.00				0.00	0.00	0.00
Net for: 340						50,087.12				46,569.08	1,444.38	48,013.46
341												
65		1997 F151 Sty	10/15/1997	SL / N/A	5.0000	15,995.00	100.0000	0.00	0.00	15,995.00	0.00	15,995.00
140		1998 GMC Sle	10/21/1998	SL / N/A	5.0000	15,564.00	100.0000	0.00	0.00	15,564.00	0.00	15,564.00
149		2000 Chevy Si	11/22/1999	SL / N/A	5.0000	20,912.00	100.0000	0.00	0.00	20,912.00	0.00	20,912.00
177		2004 GMC Pic	6/15/2004	SL / N/A	5.0000	15,700.00	100.0000	0.00	0.00	1,831.67	3,140.00	4,971.67
Subtotal: 341						68,171.00				54,302.67	3,140.00	57,442.67
Less dispositions and exchanges:						0.00				0.00	0.00	0.00
Net for: 341						68,171.00				54,302.67	3,140.00	57,442.67
343												
130		Line Locator T	6/30/1991	SL / N/A	10.0000	1,381.51	100.0000	0.00	0.00	1,381.51	0.00	1,381.51
131		2500-Watt Ger	11/15/1994	SL / N/A	7.0000	379.99	100.0000	0.00	0.00	379.99	0.00	379.99
132		1000-Watt Flox	11/15/1994	SL / N/A	7.0000	88.95	100.0000	0.00	0.00	88.95	0.00	88.95

SOUTHEAST DAVIESS CO. WATER DIS [0024555]
Financial
Depreciation Expense

01/01/2005 - 12/31/2005

88-8888888
01/01/2005 - 12/31/2005
Sorted: General - GL asset acct.

System No.	S	Description	Date In Service	Method / Conv.	Life	Cost / Other Basis	Bus. / Inv. %	Sec. 179 / Bonus	Salvage / Basis Adj.	Beg. Accum. Depreciation	Current Depreciation	Total Depreciation
Subtotal: 343												
Less dispositions and exchanges:												
Net for: 343												
345		Backhoe	3/15/1987	SL / N/A	10.0000	13,195.00	100.0000	0.00	0.00	13,195.00	0.00	13,195.00
99		Lawn Mower	6/30/1989	SL / N/A	7.0000	773.60	100.0000	0.00	0.00	773.60	0.00	773.60
100		Lawn Tractor	6/23/1995	SL / N/A	7.0000	798.00	100.0000	0.00	0.00	798.00	0.00	798.00
101		Stihl Chainsaw	8/3/1995	SL / N/A	7.0000	137.48	100.0000	0.00	0.00	137.48	0.00	137.48
102		Concrete Saw	6/30/1991	SL / N/A	10.0000	447.75	100.0000	0.00	0.00	447.75	0.00	447.75
103		Riding Mower	5/15/1998	SL / N/A	7.0000	549.99	100.0000	0.00	0.00	523.80	26.19	549.99
139		Water Pump (€	12/15/1999	SL / N/A	7.0000	302.47	100.0000	0.00	0.00	219.65	43.21	262.86
150		Water Pump (€	2/15/2000	SL / N/A	7.0000	302.47	100.0000	0.00	0.00	212.45	43.21	255.66
159		Kubota Backho	11/15/2004	SL / N/A	10.0000	7,679.98	100.0000	0.00	0.00	128.00	768.00	896.00
178						24,186.74		0.00	0.00	16,435.73	880.61	17,316.34
Subtotal: 345												
Less dispositions and exchanges:												
Net for: 345												
346		Radios (50%)	6/30/1989	SL / N/A	5.0000	3,941.00	100.0000	0.00	0.00	3,941.00	0.00	3,941.00
104		Radio-MTX 80(	12/15/1992	SL / N/A	5.0000	538.87	100.0000	0.00	0.00	538.87	0.00	538.87
105		Radio & Charg	4/30/1996	SL / N/A	3.0000	82.50	100.0000	0.00	0.00	82.50	0.00	82.50
106						4,562.37		0.00	0.00	4,562.37	0.00	4,562.37
Subtotal: 346												
Less dispositions and exchanges:												
Net for: 346												
Subtotal: 6,056,089.43												
Less dispositions and exchanges:												
Grand Totals: 2,188,074.47												

EXHIBIT 7

Cost of Service Study

Southeast Daviess Water District

Cost of Service Study

Allocation of Plant Value				
	Total	Commodity	Demand	Customer
Land & Land Rights	\$18,000		\$18,000	
Structures & Improvements	674,776		674,776	
Reservoirs	680,135		680,135	
Transmission & Distribution Mains	3,401,756		3,401,756	
Meters & Meter Installation	832,120			832,120
Hydrants	300,444			300,444
Subtotal	\$5,907,231		\$4,774,667	\$1,132,564
Office Furniture & Equipment	50,088		40,471	9,617
Transportation Equipment	68,171		55,082	13,089
Power Operated Equipment	24,186		19,542	4,644
Communications Equipment	4,562		3,686	876
Tool Shop & Garage	1,850			
Total	\$6,056,088		\$4,894,943	\$1,161,145
Allocation Percentages			80.8%	19.2%
Source: 2004 PSC Annual Report				

Allocation of Depreciation				
	Total	Commodity	Demand	Customer
Structures & Improvements	\$229,061		\$229,061	
Dist. Reservoirs & Standpipes	252,472		252,472	
Trasmission & Distribution Mains	1,235,679		1,235,679	
Meters	160,759			160,759
Hydrants	60,212			60,212
Subtotal	\$1,938,183		\$1,717,212	\$220,971
Communications Equipment	\$4,562		\$4,042	\$520
Office Furniture & Equipment	46,570		41,261	5,309
Power Operated Equipment	16,435		14,561	1,874
Transportation Equipment	54,302		48,112	6,190
Tools, Shop & Garage Equip	1,850		1,639	211
Total	\$2,061,902		\$1,826,827	\$235,075
Allocation Percentages			88.6%	11.4%
Source: 2004 PSC Annual Report				

Allocation of Operation & Maintenance Expense				
	Total	Commodity	Demand	Customer
Salaries & Wages	\$159,118		\$107,485	\$51,633
Contractual Services Water Test	3,750		3,750	
Pensions & Benefits	56,247		37,779	18,468
Transportation	20,091		20,091	
Rental Building	3,075		3,075	
Contractual Serv. - Engineering	893		893	
Purchased Water	840,746	840,746		
Purchased Power	25,285	24,359		926
Insurance - Workers Comp	3,565		2,421	1,144
Materials & Supplies	63,184		41,148	22,036
Miscellaneous	9,904		6,744	3,160
Bad Debt Expense	3,593			3,593
Subtotal	\$1,189,451	\$865,105	\$223,386	\$100,960
Less Commodity	(865,105)			
Total	\$324,346		\$223,386	\$100,960
Allocation Percentages	100%		68.9%	31.1%
Salaries Officers	\$41,850		\$28,835	\$13,015
Salaries Employees	38,150		26,285	11,865
Pension & Benefits-Admin	13,805		9,512	4,293
Insurance-General Liability	13,437		9,258	4,179
Insurance-Workers Comp	836		576	260
Insurance-Other	204		141	63
Purchased Power	926		638	288
Materials & Supplies	2,448		1,687	761
Contactural Services Acct.	4,200		2,894	1,306
Rental of Building	1,757		1,211	546
Advertising	142		98	44
Amoritization	411		283	128
Purchased Power	926		638	288
Miscellaneous Expense	2,174		1,498	676
Taxes other than Income	20,441		14,084	6,357
Subtotal	\$141,707		\$97,638	\$44,069
Operating Expenses	\$1,331,158	\$865,105	\$321,024	\$145,029

WATER PURCHASED AND SOLD		
Total Purchased	567,807,000	
Other	404,000	0.0007
System Use	9,300,000	0.0164
Line Loss	36,468,000	0.0642
Retail Sales	433,644,000	0.7632
Wholesale Sales	88,395,000	0.1556
Total	568,211,000	1.00

Jointly Used Mains					
Total System				Jointly Used	
Main Size	Feet	Miles of line	Inch Miles	Miles of line	Inch Miles
16	948	0.18	2.87	0.18	2.87
12	20,667	3.91	46.97	2	24
10	26,981	5.11	51.1	5	50
8	150,891	28.58	228.62	5.5	44
6	221,306	41.91	251.48	-	-
4	148,011	28.03	112.13	-	-
3	75,574	14.31	42.94	-	-
2.5	29,662	5.62	14.04	-	-
2.25	44,320	8.39	18.89	-	-
2	14,973	2.84	5.67	-	-
Total	733,333	138.89	774.72	12.68	120.87
Inch Mile Ratio		0.1560			

ALLOCATION FACTORS				
Southeast Daviess Water Production Factor				
Plant Use and Line Loss and Other	0.0813			
Water Production Factor	1			1.0885
	1 - .0813			
Jointly Used Pipe / Total Pipe	120.87	/	774.72	0.1560
Wholesale Water Production Factor				
Plant and System Use + Line Loss x Jointly Used Lines	0.0806	x	0.1560	0.0126
Wholesale Water Production Factor	1			1.0128
	1 - .0126			
Wholesale Production Allocation Factor	1.0127 * 88,395,000			0.1574
	1.0884 * 522,443,000			
Transmission Factor	88,395,000	x	0.1560	0.0264
	522,443,000			
Commodity Factor	88,395,000			0.1692
	522,443,000			

Allocation of Cost of Service To Wholesale Customer

	Total	Commodity	Demand	Customer
Operation & Maintenance	\$1,331,158	\$865,105	\$321,024	\$145,029
Operating Ratio*	197,675		159,721	37,954
Depreciation**	126,172		111,788	14,384
General Water Service Cost	\$1,655,005	\$865,105	\$592,533	\$197,367
Less: Interest Income	(35,000)			(35,000)
Revenue Required from Rates	\$1,620,005	\$865,105	\$592,533	\$162,367
Wholesale Allocation Factors		0.1692	0.0264	
Allocated to Wholesale	\$162,647	\$146,376	\$16,271	0
Amount Allocated to Retail	\$1,469,989	\$718,729	\$588,893	\$162,367
Wholesale Rate	Gallons			
City of Whitesville	88,395,000			
Calculation of Wholesale Rate	Allocated Expense/Sales			
	162019/(88,395,000/1000)		\$1.84	
Verification***	(88,395,000/1000)*1.84		\$162,647	
NOTES:				
*Operating Ratio has been allocated on the allocation percentage from the Plant Value Sheet.				
**Depreciation has been allocated on the allocation percentage from the Depreciation Sheet.				
***The Wholesale Rate has been adjusted to recover the total amount that should be recovered from the wholesale customer. This adjustment collects an additional amount of \$628, this amount was reduced to the Retail Customers allocation.				

Calculation of Water Rates			
	Total	First 20,000	Over 20,000
Actual Water Sales:			
Thousand Gallons	433,644,230	387,609,950	46,034,280
Percent	100%	89.4%	10.6%
Weighted Sales for Demand:			
Thousand Gallons	821,254,180	775,219,900	46,034,280
Percent	100%	94.4%	5.6%
Allocation of Volumetric Costs:			
Commodity	\$718,729	\$642,544	\$76,185
Demand	\$588,893	555,915	32,978
Total	\$1,307,622	\$1,198,459	\$109,163
Allocation of Customer Costs:			
Customer	\$162,367		
Number of Bills	68,675		
Proposed Rates			
Customer Charge	2.36		
Volumetric Rate		\$3.09	\$2.37

Revenue Calculations of New Rates				
	Bills	Gallons	Rate	Revenue
Customer Charge				
5/8"x3/4" Meter	64,223		\$2.36	\$151,566
1" Meter	3,672		\$3.30	12,118
1 1/2" Meter	372		\$4.25	1,581
2" Meter	408		\$6.84	2,791
Customer Charge Total	68,675			168,056
Volumetric Rate				
First 20,000		387,609,950	\$3.06	\$1,186,086
Over 20,000		46,034,280	\$2.37	109,101
Volumetric Rate Total				1,295,187
City of Whitesville		88,395,000	\$1.84	\$162,647
Total Revenue from Rates				\$1,625,890
Interest Income				35,000
Total Operating Revenue		522,039,230		\$1,660,890
NOTE: The First 20,000 step has been reduced by (\$.03) to limit the over recovery of the revenue requirement.				

Comparison of Rates				
Gallon Usage	Current Rates	Proposed Rates	Increase	Percentage
2,000	\$7.64	\$8.48	\$0.84	11.0%
3,000	9.95	11.54	1.59	16.0%
4,000	12.26	14.60	2.34	19.1%
5,000	14.57	17.66	3.09	21.2%
6,000	16.88	20.72	3.84	22.7%
7,000	19.19	23.78	4.59	23.9%
8,000	21.50	26.84	5.34	24.8%
9,000	23.81	29.90	6.09	25.6%
10,000	26.12	32.96	6.84	26.2%
15,000	37.12	48.26	11.14	30.0%
20,000	48.12	63.56	15.44	32.1%
25,000	58.57	75.41	16.84	28.8%
30,000	69.02	87.26	18.24	26.4%
35,000	79.47	99.11	19.64	24.7%
40,000	89.92	110.96	21.04	23.4%
50,000	109.92	134.66	24.74	22.5%
75,000	159.92	193.91	33.99	21.3%
100,000	209.92	253.16	43.24	20.6%
250,000	509.92	608.66	98.74	19.4%
500,000	1,009.92	1,201.16	191.24	18.9%
1,000,000	2,009.92	2,386.16	376.24	18.7%
2,000,000	4,009.92	4,756.16	746.24	18.6%
Current Rates				
First 2,000 gallons		\$7.64	Proposed Rates	
Next 8,000 gallons		2.31	Customer Chg	\$2.36
Next 10,000 gallons		2.20	First 20,000 gallons	3.06
Next 20,000 gallons		2.09	Over 20,000 gallons	2.37
Over 40,000 gallons		2.00		
Effect on Customer Average Bill - 5,000 Gallons Usage				
Current Rates	Proposed Rates	Amount Increase	% Increase	
\$14.57	\$17.66	\$3.09	21.2%	

EXHIBIT 8

Customer Notification

NOTICE

Southeast Daviess County Water District has filed an application with the Public Service Commission to increase its rates for water service.

Current

Non Users		\$5.34
First	2,000 gallons	\$7.64 Minimum Bill
Next	8,000 gallons	2.31 per 1,000 gallons
Next	10,000 gallons	2.20 per 1,000 gallons
Next	20,000 gallons	2.09 per 1,000 gallons
Over	40,000 gallons	2.00 per 1,000 gallons

Proposed

Customer Charge

5/8" x 3/4" Meters	\$2.36 per month
1" Meters	3.30 per month
1 1/2" Meters	4.25 per month
2" Meters	6.84 per month

Usage Charge

First 20,000 gallons	\$3.06 per 1,000 gallons
Over 20,000 gallons	2.37 per 1,000 gallons

Wholesale Customers

City of Whitesville	\$1.75 per 1,000 gallons	\$1.84 per 1,000 gallons
---------------------	--------------------------	--------------------------

The rates contained in this notice are the rates proposed by the Southeast Daviess County Water District. However, the Public Service Commission may order rates to be charged that are higher or lower than the rates proposed in this notice.

Any corporation, association, body politic, or person may request leave to intervene, by motion within thirty (30) days after notice of the proposed rate change is given. A motion to intervene shall be in writing, shall be submitted to the Executive Director, Public Service Commission, Post Office Box 615, Frankfort, KY 40602, and shall set forth the grounds for the motion, including the status and interest of the party movant. Copies of the application may be obtained at no charge from the District office at 3400 Bittel Road, Owensboro, KY 42301. Upon request from an intervenor, the District shall furnish to the intervenor a copy of the application and supporting documents.

Southeast Daviess County Water District

EXHIBIT 9

2004 Audit Report

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
REPORT ON AUDITS OF FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003

Alexander & Company, PSC

Certified Public Accountants and Consultants

2707 Breckenridge Street, Suite 1

Owensboro, Kentucky 42303

Phone (270) 684-3237

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Contents
December 31, 2004 and 2003

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statements of Net Assets	3-4
Statements of Revenues, Expenses, and Changes in Net Assets	5-6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-15
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16-17
Schedule of Findings and Questioned Costs	18

ALEXANDER & COMPANY, PSC

CERTIFIED PUBLIC ACCOUNTANTS

2707 BRECKENRIDGE STREET, SUITE # 1
OWENSBORO, KENTUCKY 42303
TELEPHONE (270) 684-3237
FAX (270) 684-3200
E-MAIL: ACO@ACOCPA.NET

ROBERT E. NATION, CPA
LARRY E. O'BRYAN, CPA
J.L. BYRNE, CPA
PHILLIP O. ALTMAN, CPA
DONALD W. HAAS, CPA
TONY BYRNE, CPA
JOSEPH B. KELLER, JR., CPA
W. ANNETTE POGUE, CPA
JERRY L. KELLER, CPA
SONJA R. LEE, CPA
JENNIFER L. ESTES, CPA

INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners
Southeast Daviess County Water District

We have audited the accompanying financial statements of Southeast Daviess County Water District (District), a component unit of the Daviess County Fiscal Court, Kentucky, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Daviess County Water District as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

As described in Note A, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and analysis-for State and Local Governments*, as of January 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2005 on our consideration of Southeast Daviess County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Alexander & Company, PSC

Owensboro, Kentucky
March 4, 2005

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Assets
December 31, 2004 and 2003

	2004	2003 (Restated)
Assets		
CURRENT ASSETS	\$ 169,853	\$ 192,712
Cash	180,338	167,511
Accounts receivable	732,524	605,666
Investment	255	2,545
Interest receivable	9,480	8,679
Prepaid insurance	65,215	68,903
Inventory		
TOTAL CURRENT ASSETS	1,157,665	1,046,016
 RESTRICTED ASSETS		
Cash - repair area extension fund	24,385	24,453
Cash - medical reimbursement fund	14,679	-
TOTAL RESTRICTED ASSETS	39,064	24,453
 CAPITAL ASSETS		
Land	18,000	18,000
Construction in progress	45,920	15,840
Water plant	6,038,088	5,922,376
	6,102,008	5,956,216
Less accumulated depreciation	2,061,902	1,950,693
NET CAPITAL ASSETS	4,040,106	4,005,523
 TOTAL ASSETS	\$ 5,236,835	\$ 5,075,992

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Assets
December 31, 2004 and 2003

	2004	2003 (Restated)
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 135,398	\$ 130,310
Customer deposits	84,339	78,224
Accrued pension	11,653	12,250
Accrued school and sales taxes	6,247	5,777
Payroll taxes and withholding	3,715	3,492
Accrued payroll	7,362	7,613
Current liabilities payable from restricted assets:		
Accounts payable	2,376	2,423
TOTAL CURRENT LIABILITIES	251,090	240,089
NET ASSETS		
Invested in capital assets, net of related debt	4,040,106	4,005,523
Restricted	36,688	22,030
Unrestricted	908,951	808,350
TOTAL NET ASSETS	4,985,745	4,835,903
TOTAL LIABILITIES AND NET ASSETS	\$ 5,236,835	\$ 5,075,992

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2004 and 2003

	2004	2003 (Restated)
OPERATING REVENUES		
Water sales	\$ 1,226,028	\$ 1,174,944
Tap on fees	74,130	77,230
Miscellaneous service revenues	71,679	69,809
TOTAL OPERATING REVENUES	1,371,837	1,321,983
OPERATING EXPENSES		
Advertising	142	162
Audit, accounting and legal	3,950	3,900
Bad debts	3,593	3,632
Board member fees	7,200	7,200
Depreciation	126,892	125,297
Education and seminars	605	405
Employee benefits	66,597	85,568
Engineering	893	165
Insurance	18,042	15,042
Materials, supplies, and repairs	41,148	90,716
Miscellaneous	7,733	5,269
Office supplies and expense	24,484	23,835
Payroll taxes	17,617	17,506
Phone and communication	3,707	4,081
PSC assessment	2,148	2,316
Rent of real estate	4,832	4,832
Salaries and wages	227,294	221,842
Transportation	21,325	19,266
Uniforms	2,033	1,949
Utilities	26,211	25,484
Water purchased	694,599	648,241
Water tests and meter service	3,750	4,845
TOTAL OPERATING EXPENSES	1,304,795	1,311,553
INCOME FROM OPERATIONS	67,042	10,430
NONOPERATING REVENUES (EXPENSES)		
Interest income	17,430	20,220
Gain on sale of assets	1,053	-
Interest expense	(2,105)	(2,523)
TOTAL NONOPERATING REVENUES (EXPENSES)	16,378	17,697
INCOME BEFORE CONTRIBUTIONS	83,420	28,127

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u> (Restated)
CONTRIBUTED CAPITAL REVENUE		
State grants	\$ 14,600	\$ -
Contributions in aid of construction	51,822	82,528
	<u>66,422</u>	<u>82,528</u>
TOTAL CONTRIBUTED CAPITAL REVENUE		
	149,842	110,655
CHANGE IN NET ASSETS		
	4,835,903	4,725,248
NET ASSETS, BEGINNING OF YEAR		
	<u>\$ 4,985,745</u>	<u>\$ 4,835,903</u>
NET ASSETS, END OF YEAR		

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flow
For the Years Ended December 31, 2004 and 2003

	2004	2003 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,371,837	\$ 1,321,983
Cash payments to employees for services	(334,159)	(332,006)
Cash payments for services and goods	(842,684)	(850,692)
	194,994	139,285
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(95,499)	(64,003)
Proceeds from sales of fixed assets	1,500	-
Interest paid	(2,105)	(2,523)
	(96,104)	(66,526)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investment - net	(126,858)	(19,058)
Interest on investments	19,720	21,267
	(107,138)	2,209
NET INCREASE (DECREASE) IN CASH	(8,248)	74,968
CASH AT BEGINNING OF YEAR	217,165	142,197
CASH AT END OF YEAR	\$ 208,917	\$ 217,165

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flow
For the Years Ended December 31, 2004 and 2003

	2004	2003 (Restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income from operations	\$ 67,042	\$ 10,430
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	126,892	125,297
(Increase) decrease in:		
Accounts receivable	(12,827)	(2,395)
Prepaid insurance	(801)	(2,104)
Inventory	3,688	2,810
Increase (decrease) in:		
Accounts payable	5,040	4,975
Customer deposits	6,115	7,024
Accrued pension	(597)	(110)
Accrued school and sales taxes	470	(184)
Bond interest coupons	-	(6,681)
Payroll taxes and withholding	223	(107)
Accrued payroll	(251)	330
Total adjustments	127,952	128,855
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 194,994	\$ 139,285

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Southeast Daviess County Water District (District) is a component unit of the Daviess County Fiscal Court, Kentucky and, therefore, is part of the financial reporting entity of the Daviess County Fiscal Court. The District is a water utility which operates in the rural section of Southeast Daviess County, Kentucky, and its sales are primarily to residential customers.

Proprietary Fund

The District is classified as a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary funds' activities are included on its statement of net assets.

Implementation of New GASB Statements

The District adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, effective January 1, 2003. The Statement establishes financial reporting standards to guide state and local governments' decisions about when (in which fiscal year) to report the results of nonexchange transactions (including grants and donations by non-governmental entities) involving cash and other financial and capital resources. GASB Statement No. 33 includes a significant change in the recognition of capital contributions made to proprietary funds.

This provision requires that capital contributions be recognized as revenues in the period that those amounts are earned. Those resources were previously reported as contributed capital in the equity section of the Balance Sheet.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. GASB Statement No. 34 represents the most important single change in the history of accounting and financial reporting for state and local governments. The Water District has implemented the applicable provisions of GASB Statement No. 34, effective January 1, 2004.

GASB Statement No. 34 provides new information and restructures information provided in the past. A Statement of Net Assets replaces the Balance Sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A Statement of Revenues, Expenses, and Changes in Net Assets replaces both the Income Statement and the Statement of Changes in Retained Earnings and Contributed Capital. GASB Statement No. 34 also requires that the Statement of Cash Flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In June 2001, GASB issued Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*. This statement is effective for the same periods as GASB Statement No. 34 and either clarifies or modifies certain provisions in GASB Statements Nos. 21 *Accounting for Escheat Property* and No. 34. It establishes guidance in the following areas: reporting of escheat property, topics for discussion in the Management's Discussion and Analysis (MD & A), program revenue classifications, the minimum level of detail required for business-type activities in the statement of activities, etc.

Also in June 2001, GASB issued statement No. 38, *Certain Financial Statement Note Disclosures*, which is effective for the same periods as GASB Statement No. 34. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) actions taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) interfund balances. These new disclosure requirements address the needs of users of financial statements identified by GASB.

Comparative Data

The impact of adopting GASB Statements Nos. 34, 37, and 38, resulted in changes in the presentation of the financial statements for both 2004 and 2003 and provides additional disclosures in the notes to the statements.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements. A proprietary fund applies Financial Accounting Standards Board (FASB) Pronouncement and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accrual basis of accounting is used for proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

Regulation

The District's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. The District's accounting policies recognize the financial effects of the rate making and accounting practices and policies of the Public Service Commission.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Revenue

Operating revenue is recognized upon completion of monthly meter readings. At the end of each month water service which has been rendered from the latest meter reading to the end of the month is unbilled.

Inventory

Inventory consists of materials and supplies and are stated at lower of cost (determined on the first-in, first-out basis) or market.

Utility Plant

Utility plant is stated at original cost (cost of the property to whomever first devoted it to public service). The cost of labor for additions to the utility plant constructed by the District's employees is not capitalized.

Depreciation

Depreciation is provided on the basis of the estimated useful lives of assets using the straight-line method. Depreciation expense was \$ 126,892 and \$ 125,297 for the years 2004 and 2003, respectively. Estimated useful lives of major class of the utility plant in service are as follows:

Pumping system	10-50 years
Transmission and distribution system	30-70 years
General plant	5-30 years

Statements of Cash Flows

For the purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Noncash financing activities for 2004 and 2003, representing utility plant donated to the Water District, were \$ 51,822 and \$ 82,528, respectively.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2004 and 2003

NOTE B – CASH DEPOSITS AND INVESTMENTS

Kentucky Statutes authorize the District to invest in certificates of deposit, passbooks, and other bank investments provided that such funds are insured by an agency of the United States, or provided that the financial institution pledges as security, obligations of the United States or the Commonwealth of Kentucky having a quoted market value at least equal to any uninsured deposits or investments. In addition, the Statutes authorize the District to invest money subject to its control in obligations of the United States or bonds or certificates of indebtedness of Kentucky and its agencies or instrumentalities.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 1.

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three level of risk are:

- Category 1 Investments that are insured, registered or held by the entity or by its agent in the District's name.
- Category 2 Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the District's name.

The District's investments which consist principally of Certificates of Deposit are classified by risk level as Category 1.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2004 and 2003

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not depreciated:				
Land	\$ 18,000	\$ -	\$ -	\$ 18,000
Construction in progress	15,840	30,080	-	45,920
Total capital assets not depreciated	<u>33,840</u>	<u>30,080</u>	<u>-</u>	<u>63,920</u>
Capital assets depreciated:				
Buildings	93,957	-	-	93,957
Pumping stations	579,940	878	-	580,818
Equipment	139,630	25,358	16,130	148,858
Tanks, lines, meters and hydrants	5,108,849	105,606	-	5,214,455
Total capital assets depreciated	<u>5,922,376</u>	<u>131,842</u>	<u>16,130</u>	<u>6,038,088</u>
Less accumulated depreciation:				
Buildings	56,699	3,359	-	60,058
Pumping stations	157,577	11,425	-	169,002
Equipment	131,840	7,563	15,683	123,720
Tanks, lines, meters and hydrants	1,604,577	104,545	-	1,709,122
Total accumulated depreciation	<u>1,950,693</u>	<u>126,892</u>	<u>15,683</u>	<u>2,061,902</u>
Total capital assets depreciated, net	<u>3,971,683</u>	<u>4,950</u>	<u>447</u>	<u>3,976,187</u>
Total capital assets, net	<u>\$ 4,005,523</u>	<u>\$ 35,030</u>	<u>\$ 447</u>	<u>\$ 4,040,106</u>

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2004 and 2003

NOTE D – RESTRICTED FUNDS

Cash and investments held by fiscal agents or in trusts are classified as restricted funds and liabilities to be paid by the fiscal agents or trusts are classified as current liabilities payable from restricted funds. The cash and investments are current assets and the liabilities are current liabilities.

NOTE E – CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction represent additions to utility plant through extensions of the water distribution system. These additions are funded by individual users through payments made directly to the District or to independent contractors. Contributions to the water distribution system amounted to \$51,822 for 2004 and \$82,528 for 2003.

NOTE F – PENSION PLAN

The District has a money purchase pension plan covering substantially all employees. The District's policy is to fund pension cost accrued. Pension expense was \$ 23,706 for 2004 and \$ 24,075 for 2003.

NOTE G – INCOME TAX STATUS

The District is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made.

NOTE H – OPERATING AND ADMINISTRATION EXPENSES

The District shares office space and personnel with the West Daviess County Water District. Administrative expenses and operating salaries and wages are allocated between the two water districts based upon management's estimated usage. Currently 55% of those expenses are allocated to the District.

NOTE I – LEASING ARRANGEMENTS

The District conducts its operations from facilities which are constructed upon land leased for a period of ten years commencing March 1, 1982. The lease provides that the lessee shall have the right to extend this lease for additional five-year periods. Unless notice is given to cancel this lease sixty (60) days before the end of the original period or any extension thereof, then such extension shall be automatic.

In the event of one or more extensions, the rental shall be increased during such extensions by an amount equal to 10% of the rent set in the preceding period. The District renewed the option to extend the lease in February, 2002.

The following is a schedule of future minimum rental payments required under the above lease as of December 31, 2004.

<u>Date</u>	<u>Amount</u>
2005	\$ 4,836
2006	4,836
2007	<u>403</u>
	<u>\$ 10,075</u>

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2004 and 2003

NOTE J – SUPPLIER

The District purchases approximately 100% of its water for resale either directly or indirectly from the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU).

NOTE K – CHANGE IN ACCOUNTING PRINCIPLES

Net assets of the District on the statements of activities and on the statements of revenue, expenses and changes in net assets have been restated as of the beginning of the year for the effect of implementing GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The beginning net assets of the District were derived by aggregating the previously reported unappropriated retained earnings and contributions in aid of construction.

NOTE L – CASH FLOWS INFORMATION

Cash at December 31, 2004 and 2003 consists of:

	2004	2003
Cash	\$ 169,853	192,712
Cash – Repair Area Extension Fund	24,385	24,453
Cash – Medical Reimbursement Fund	14,679	-
	\$ 208,917	217,165

ALEXANDER & COMPANY, PSC

CERTIFIED PUBLIC ACCOUNTANTS

2707 BRECKENRIDGE STREET, SUITE # 1
OWENSBORO, KENTUCKY 42303
TELEPHONE (270) 684-3237
FAX (270) 684-3200
E-MAIL: ACO@ACOCPA.NET

ROBERT E. NATION, CPA
LARRY E. O'BRYAN, CPA
J.L. BYRNE, CPA
PHILLIP O. ALTMAN, CPA
DONALD W. HAAS, CPA
TONY BYRNE, CPA
JOSEPH B. KELLER, JR., CPA
W. ANNETTE POGUE, CPA
JERRY L. KELLER, CPA
SONJA R. LEE, CPA
JENNIFER L. ESTES, CPA

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

To the Board of Commissioners
Southeast Daviess County Water District

We have audited the financial statements of Southeast Daviess County Water District as of and for the year ended December 31, 2004, and have issued our report thereon dated March 4, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether Southeast Daviess 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 grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southeast Daviess County Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Southeast Daviess County Water District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-1 to be a material weakness.

This report is intended solely for the information and use of the Board of Commissioners, management, Daviess County Fiscal Court and others and is not intended to be and should not be used by anyone other than those specified parties.

Alexander & Company, PSC

Owensboro, Kentucky
March 4, 2005

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Schedule of Findings and Questioned Costs
Year Ended December 31, 2004

SUMMARY OF AUDITORS' RESULTS

1. An unqualified opinion was issued on the financial statements for the year ended December 31, 2004.
2. Reportable condition in the internal control was disclosed during the audit. This reportable condition was also deemed a material weakness.
3. The audit did not disclose any noncompliance which was material to the financial statements.

FINDINGS – FINANCIAL STATEMENT AUDIT

04-1 Reportable Condition and Material Weakness:

Segregation of Duties: Segregation of duties is normally difficult to accomplish within a small organization. The small size of the District's bookkeeping staff limits that segregation. Although the segregation between the custody and recording of cash is good, other areas remain weak. Ultimately management is responsible for the internal control structure and must weigh any cost for improvement in regards to cost vs. benefit.

District's Response: Due to the limited number of personnel, management believes that an adequate segregation of duties is not achievable and that the costs of correcting the weakness would exceed the benefits that would be derived.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There are no known prior unresolved audit findings.

EXHIBIT 10

Articles of Incorporation/Amendments

EXHIBIT "A"

DAVISS COUNTY COURT

Your Petitioners:	)	<u>Ex Parte Southeast Daviess</u>
	)	County Water District
John D. Reid, et al)	

ORDER ESTABLISHING SOUTHEAST DAVIESS
COUNTY WATER DISTRICT AND APPOINTING
BOARD OF COMMISSIONERS PURSUANT TO
KRS CHAPTER 74

It appearing to the Court that a petition was filed on June 11, 1964, praying for a merger of the Thruston Water District and the Masonville-Habit Water District and for annexation of additional territory, all under the name of SOUTHEAST DAVIESS COUNTY WATER DISTRICT,

AND IT FURTHER APPEARING that due notice was given of said petition as required by KRS 74.010(2) by advertisement in three separate issues of the Owensboro Messenger & Inquirer, a newspaper of general circulation throughout Daviess County, Kentucky, which three issues appeared on the days of June 12 and 13, 1964,

AND IT FURTHER APPEARING that more than thirty days have elapsed since the giving of said notice and that no objections have been filed in response to said petition,

AND IT FURTHER APPEARING that after merging the Thruston Water District and Masonville-Habit Water District a certain portion of the land sought to be annexed by the petition herein should be annexed and a certain portion should not be annexed for reason that the latter is already served, or will be so served in the immediate

future, with sufficient water by the City of Owensboro, Kentucky,

AND IT FURTHER APPEARING to the Court that the establishment of a new water district by the merging of the Thruston Water District and the Masonville-Habit Water District and the annexation of additional territory is both economically expediant and reasonably necessary for the public health, convenience, fire protection and comfort of the residents of the area,

AND IT FURTHER APPEARING that the petition herein contained the resignation of the present Boards of Commissioners of the aforementioned Thruston Water District and the Masonville-Habit Water District,

AND IT FURTHER APPEARING that John D. Reid, O. D. Hazelrigg, Jr., and Aubrey Pendley, each a freehold resident of the water district sought to be established, have consented to act as commissioners for the proposed district to serve for the terms of four, three and two years respectively, and that said commissioners have this day, in open court, taken and assumed the following oath prescribed by law, to-wit:

"I do solemnly swear that I will support the Constitution of the United States and the Constitution of this Commonwealth, and be faithful and true to the Commonwealth of Kentucky so long as I continue a citizen thereof, and that I will faithfully execute to the best of my ability, the office of commissioner for the Southeast Daviess County Water District according to law; and I do further solemnly swear that since the adoption of the present Constitution, I, being a citizen of this State, have not fought a duel with deadly weapons within this State nor out of it, nor have I sent or accepted a challenge to fight a duel with deadly weapons, nor have I acted as second in carrying a challenge, nor aided or assisted any person thus offending, so help me God."

AND IT FURTHER APPEARING that the said John D. Reid, O. D. Hazelrigg, Jr. and Aubrey Pendley have posted good and sufficient bond as required by KRS 74.020(3),

NOW THEREFORE, the court having been sufficiently advised of all matters herein, be it ordered and adjudged as follows:

I. That the Thruston Water District and the Masonville-Habit Water District be, and they are, hereby merged in a single water district under the name of SOUTHEAST DAVIESS COUNTY WATER DISTRICT, and additional territory is hereby ordered annexed after which the said district conforms to the following boundary:

Beginning at a point in the Owensboro City Limit line adjacent to the southern boundary of the General Electric Tube Plant, such point being 600 feet east of the centerline of the Old Hartford Road, and proceeding as follows:

1. In a southwardly direction along a line parallel to and 600 feet east of the Old Hartford Road a distance of 5600 feet, more or less, to a point in the centerline of Johnson Road; thence,
2. Continuing on Johnson Road in an eastwardly direction a distance of 1420 feet, more or less, to a point in the centerline of Johnson Road; thence,
3. Southeastwardly along the northeast boundary of Hillcrest Park, this being the Alco Barnes property, a distance of 810 feet, more or less, to a corner; thence,
4. Southwardly along the east boundary of Hillcrest Park area a distance of 1850 feet, more or less, to a point in the centerline of the Old Hartford Road; thence,
5. Southeastwardly a distance of 600 feet, more or less, to a point west of Old Hartford Road; thence,
6. Southwardly along a line parallel to and 600 feet west of the Old Hartford Road a distance of 10,400 feet, more or less, to a point in the centerline of the North Fork Panther Creek; thence,
7. Proceeding downstream along the centerline of the North Fork Panther Creek a distance of 8000 feet, more or less, to the confluence of the South Fork Panther Creek and the North Fork Panther Creek; thence,
8. Upstream along the centerline of the South Fork Panther Creek realigned, 35,000 feet, more or less, to a point in the centerline of a road, said point being approximately 3600 feet southwest from the centerline of Highway 231; thence,

9. Proceeding across said road along the centerline of South Fork Panther Creek a distance of 2000 feet; thence,
10. Leaving said creek and proceeding in a northeastwardly direction 1500 feet, more or less, to a point in the centerline of Highway 231, said point being at the intersection of a road crossing and approximately 1000 feet northeast of the South Fork Panther Creek; thence,
11. Continuing in a northeastwardly direction a distance of 7000 feet to a point 2000 feet northwest of Sweepstakes Branch and 4600 feet southeast of the centerline of Highway 142; thence,
12. Proceeding in a northeastwardly direction parallel to and 4600 feet from Highway 142, a distance of 10,000 feet to a point in the centerline of Miller's Mill Road; thence,
13. Proceeding in a northerly direction a distance of 8000 feet to a point 4500 feet southwest of Highway 142, said point being at a 90-degree turn in a county road; thence,
14. Northeastwardly parallel to and 4500 feet east of Highway 142 a distance of 6100 feet to a point in the centerline of North Fork Panther Creek straightened; thence,
15. Northwestwardly 2500 feet to a point which is the intersection of the Illinois Central Railroad and Highway 54; thence, proceeding in the same northwestwardly direction 2100 feet to a point which is 600 feet east of Winkler Road; thence,
16. Proceeding in a northeastwardly direction parallel to and 600 feet east of Winkler Road a distance of 2100 feet to the centerline of King Road; thence,
17. Westwardly on a line parallel to and 600 feet north of Pleasant Grove Road a distance of 2700 feet to a point 600 feet east of King Road; thence,
18. Northwardly along a line parallel to and 600 feet east of King Road a distance of 5800 feet to the centerline of Pleasant Valley Road and proceeding across said road 600 feet to a point; thence,
19. Proceeding westwardly parallel to and 600 feet north of Pleasant Valley Road a distance of 900 feet, more or less, to a point 600 feet east of the centerline of Dee Acre Road; thence,

20. Northwardly parallel to and 600 feet east of Dee Acre Road a distance of 5000 feet to a point in the centerline of South Hampton Road extended; thence,
21. Northwardly a distance of 5700 feet to a point 600 feet east of the intersection of Highways 142 and 144; thence,
22. Westwardly along a line parallel to and 600 feet north of Highway 144 a distance of 4200 feet to a point 600 feet east of Jones Road; thence,
23. Northwardly along a line parallel to and 600 feet east of Jones Road a distance of 6000 feet to a point 600 feet north of Wright's Landing Road; thence,
24. Westwardly along a line parallel to and 600 feet north of Wright's Landing Road to a point in the east right-of-way of the Louisville and Nashville Railway, a distance of 14,700 feet; thence,
25. Southwardly along the east right-of-way of the Louisville and Nashville Railway a distance of 13,100 feet, more or less, to the centerline of Highway 144, thence eastwardly to the intersection of the centerlines of Highway 144 and Reid Road, thence southwardly along the centerline of Reid Road to a point 600 feet east of the right-of-way of the Louisville and Nashville Railway; thence,
26. Southwestwardly along a line parallel to and 600 feet east of the east right-of-way of the Louisville and Nashville Railway a distance of 9000 feet, more or less, to a point, said point being 600 feet west of the centerline of the Pleasant Valley Road; thence,
27. Southwardly parallel to and 600 feet west of Pleasant Valley Road a distance of 5000 feet to a point in the centerline of Daniel Lane extended; thence,
28. Southwestwardly along a line of Daniel Lane extended and crossing Highway 54, a distance of 6000 feet to a point 1300 feet south of the Owensboro City Limits; thence,
29. Southwardly 3800 feet, more or less, to a point in the City Limits line and Southeast of the General Electric plant; said point being the southeast corner of the City Limits line east of the General Electric Tube Plant; thence,
30. Westwardly along the City Limits line a distance of 2100 feet, more or less, to the point of beginning.

Revised as of July 23, 1964

a plat of which is attached hereto and incorporated herewith;
marked Exhibit "C".

II. The resignations of John D. Reid, Goebel Yeiser and George Bender, constituting the Board of Commissioners of the Thruston Water District, and O. D. Hazelrigg, Jr., M. H. Taylor and Paul H. McHale, constituting the Board of Commissioners of the Masonville Water District, are hereby accepted and John D. Reid, O. D. Hazelrigg, Jr., and Aubrey Pendley are hereby appointed to act as the Board of Commissioners of the Southeast Daviess County Water District for the terms of four, three and two years, respectively, which Commissioners shall have all the powers conferred upon them by law, including the employing of legal counsel to represent, counsel and advise them in any legal matters pertinent to the district.

This the 29 day of July, 1964.

F. B. Zwickhead
Judge, Daviess County Court

A COPY ATTEST:

CHARLES W. WARE, CLERK

By Charles W. Ware C. W.