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RECEIVED

FEB 14 2008

PUBLIC SERVICE
COMMISSION

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February 13, 2008

VIA UPS
#1Z X1R 324 22 1000 0556

Ms. Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Dear Ms. O'Donnell:

I enclose the original and six copies of Prestonsburg's response to the Commission's Staff's Second Data Request to be filed with the Public Service Commission. Please file the enclosed and return our file copy with your filed stamp on it in the enclosed envelope.

Thank you for your assistance with this and please do not hesitate to contact me if you have any questions.

Very truly yours,

Kipley J. McNally

KJM:jlr
Enclosures
cc: Mr. David M. Ellis
Bruce F. Clark, Esq.

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FEB 14 2008

PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
COMMONWEALTH OF KENTUCKY

In the Matter of:

THE APPLICATION OF AUXIER WATER)	
CO., FLOYD COUNTY, KENTUCKY FOR)	
AUTHORIZATION OF ITS PROPOSED SALE)	CASE NO.
AND CONVEYANCE OF ALL OF ITS WATER)	2007-00488
DISTRIBUTION SYSTEM AND CUSTOMER)	
DEPOSITS TO THE CITY OF PRESTONSBURG,)	
KENTUCKY)	

**APPLICANTS' RESPONSES TO COMMISSION STAFF'S
SECOND DATA REQUEST**

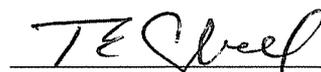
****CERTIFICATION****

The undersigned, David M. Ellis, being first duly sworn, state that he is the Superintendent of Prestonsburg City's Utilities Commission (herein after "Prestonsburg"), and certifies that he supervised the preparation of the following responses to the Second Data Request of the Commission Staff and that they are true and accurate to the best of his knowledge, information and belief formed after a reasonable inquiry.



David M. Ellis, Superintendent

Subscribed and sworn to before me, this 11TH day of February, 2008



Notary Public

My Commission expires on: SEPTEMBER 26, 2009

**PRESTONSBURG'S RESPONSES TO COMMISSION STAFF'S SECOND DATA
REQUEST**

Comes Prestonsburg, by counsel, and for its separate Response to the Commission Staff's Second Data Request in the above-captioned matter, states:

1. Provide all letters, analyses, notes, memoranda, studies, and related documents that Applicants prepared or commissioned the preparation of that were used to negotiate the purchase price of \$2,650,000.

RESPONSE: Please find attached as Exhibit A, a copy of the valuation of Auxier Water Company, Inc. prepared by: Kentucky Rural Water Association dated June, 2006. The Rural Water Association valuation placed a value on the system of \$2,401,417.00. In addition, please find attached as Exhibit B, a valuation determined by River Hill Capital, LLC (“River Hill”) that places a valuation of Auxier’s system at \$3,300,000.00. Lastly, please find attached as Exhibit C, Bocook Engineering, Inc. estimated that the replacement cost of Auxier’s distribution system is \$3,947,750.00.

JUSTIFICATION OF PURCHASE PRICE

Prestonsburg has contracted to pay Auxier an amount that is approximately \$250,000.00 in excess of the value placed on Auxier’s distribution system by Kentucky Rural Water Association. The following is a partial list of the reasons why Prestonsburg has agreed to pay an amount in excess of the valuation determined by Rural Water Association:

(A.) Water Purchase Contract. The Water Purchase Contract with Auxier Water Company expired February 11, 2008. Prestonsburg anticipated that the acquisition would avoid the necessity of having to present a full blown rate case before the Public Service Commission and the acquisition would avoid the costs and expenses associated with the preparation for a full hearing, including (without limitation) a cost-of-service study.

(B.) Service Dispute. Prestonsburg and Auxier have had a long standing disagreement as to whether Prestonsburg can lawfully serve Highlands Regional Hospital (“Hospital”) as a direct customer of Prestonsburg. Since the construction of the Hospital in the 1960s, the Hospital has been served directly by Auxier as a commercial customer. Prestonsburg has determined that it would be preferable to avoid the expense of litigating any dispute regarding the delivery of water service to the Hospital by acquiring Auxier’s distribution system.

(C.) Operational Concerns. Due to the expansion of Prestonsburg’s distribution system, it now serves customers all around Auxier and has a main water line that extends through the service territory of Auxier which creates some operational difficulties. Prestonsburg desires to eliminate operational issues, including security over the system, through the acquisition of Auxier’s distribution system.

(D.) New Water Plant. The current customer load of Prestonsburg is nearing the maximum practical capacity, utilizing available treatment processes, of its existing water treatment plant. The existing water treatment plant was initially constructed in the late nineteen-fifties, and has been expanded and upgraded several times during the last half century. In its present configuration, the existing plant's capacity cannot be significantly increased. In addition to the customers directly served by Prestonsburg, Prestonsburg is the sole supplier of potable water to the City of Martin and Auxier. Furthermore, Prestonsburg is a substantial supplier to the Sandy Valley Water District. From time to time, Prestonsburg has supplied substantial quantities of potable water to Southern Sewer and Water District and the Martin County Water District.

If Prestonsburg only served its direct customer base, it would have sufficient capacity to serve future growth in its service area for many years. However, due to the substantial growth of its wholesale customers, Prestonsburg foresees the need to build a new plant, or limit delivery of potable water to its wholesale customers.

The acquisition of Auxier's distribution system will give Prestonsburg complete control of the northern end of its distribution system, without concern for loss of a significant service area in terms of both customers and volumes of potable water delivered. Prestonsburg must project future demands from a reliable customer base for potable water to justify the time and expense of constructing a new water treatment plant.

Prestonsburg has developed long-term plans to construct a new water plant on lower Johns Creek, which is in the service area currently served by Auxier. Prestonsburg is reluctant to build a new treatment plant that is not in its exclusive service area.

Prestonsburg desires to construct a new water treatment plant on lower Johns Creek to obtain water from an alternative source. Prestonsburg's existing water treatment plant is located on the Levisa Fork of the Big Sandy River ("Levisa Fork"), which is down stream of the City of Pikeville and nearby commercial and residential areas. Further, the Levisa Fork is listed as an "impaired" stream by the Environmental Protection Agency, and consequently, Prestonsburg's cost of treatment is high due to the treatment process and the cost of chemicals. Prestonsburg desires to construct a new plant downstream of the reservoir formed by Dewey Dam on Johns Creek. Prestonsburg expects that the water quality will be substantially improved by using raw water from Johns Creek at the new treatment plant.

2. At page 8, the Acquisition Contract provides "[u]pon the City's retirement of its Acquisition Debt, and the interest thereon, from the water revenues received from

water users in the Service Territory of Auxier, it will continue to furnish such water service at the City's Outside Rates (Exhibit B), or as the same may be adjusted from time to time." Does Prestonsburg agree to commit that all revenues received from the water users in Auxier's present service territory will be used solely for the retirement of the Acquisition Debt? If Prestonsburg objects to making this commitment, explain in detail the basis for its objection.

RESPONSE: Prestonsburg objects to the imposition of any limitation imposed on its cost recovery and revenue stream, and states:

A. Other Considerations. The acquisition of Auxier as viewed through the terms of the Acquisition Contract cannot be viewed in isolation without considering the impact on the operations and finances of the utility system as a whole; legal restrictions outside of the PSC's traditional regulation of "rates and service"; and changes due to the passage of time.

B. Duration of Negotiations. Auxier and Prestonsburg have had discussions on the conveyance to Prestonsburg of Auxier's distribution system for almost a decade. The discussions became more intense during 2005 as evidenced by the Replacement Cost Study prepared by Bocock Engineering at the request of Auxier. The outside of City rates listed on Exhibit B to the Acquisition Contract were the rates that became effective April 1, 2007. Due to the passage of time, these rates are no longer relevant. Prestonsburg's Commission has already approved a rate increase effective April 1, 2008. The new rate structure is expected to raise slightly more revenue from Auxier's customers than the revenues using Auxier's existing approved tariff schedule.

C. Debt Covenants. Prestonsburg has previously entered into multiple loan and service agreements with KIA and has outstanding multiple bond issues. Each of the agreements with KIA as well as the bond indentures have various debt covenants, including (without limitation), obligations to fund both a depreciation reserve and a repair and maintenance reserve, a lien on the revenue stream of the entire system, and a covenant to adjust rates to satisfy minimum payment requirements. Prestonsburg has previously obtained consents from Rural Development and KIA for the funding of the acquisition for Auxier. In the event the Commission imposes a restriction on the rates of Prestonsburg, or on the ability of Prestonsburg to reasonably adjust rates, Prestonsburg will need to review all debt covenants and most likely, would need to obtain a supplemental consent from its lenders.

D. System Upgrades—“Old Auxier”. As stated in Prestonsburg’s Response to the Commission’s Staff’s First Data Request, Prestonsburg has immediate plans to perform a substantial replacement of the existing water distribution system in the area known as “Old Auxier” and will replace the meters for all of the existing customers of Auxier at a cost of approximately one-half million dollars. The customers of Auxier will receive significant improvements in terms of the quality and reliability of service.

E. System Improvements to Improve Reliability. As can be noted, the negotiations for Auxier have been on going for several years. Most recently, Kentucky Rural Water Association prepared its appraisal in June of 2006. Auxier had River Hill Capital, LLC prepare its appraisal dated January 11, 2006, and had Bocock Engineering prepare a Replacement Cost Estimate in May of 2005. In anticipation of the acquisition, Prestonsburg installed a one million gallon water storage tank on the hill directly behind Highlands Regional Hospital at a cost of \$374,000.00 (See Exhibit D) and a new water main that connects to the new water tank at a cost of \$531,464.05 (See Exhibit E). The new water main replaced an existing main constructed in the mid-1960s that included four (4) river crossings. During the history of Prestonsburg’s system, it has had two or more river crossings “wash-out” necessitating immediate replacement. Consequently, the service to the customers of Auxier should be more reliable, and Prestonsburg has incurred substantial costs in upgrading the service to the service area.

F. Jurisdiction. Prestonsburg objects to all inquiries and requests for production of documents regarding the establishment of its retail rates, or that imposes restrictions on the use(s) of its revenue streams. Arguably, the Commission has dual basis of jurisdiction in this proceeding. First, the Commission has jurisdiction over Auxier as to whether to approve the transfer and conveyance of Auxier’s entire distribution system and customer deposits under KRS 278.020(5). Second, the Commission has jurisdiction over Prestonsburg to the extent of contracts with Auxier, a regulated utility, under Simpson County Water and its progeny (citations omitted).

KRS 278.020(5) states, in part: “The Commission shall grant its approval if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service.” Prestonsburg has fully cooperated with the Commission’s Staff to permit the Commission’s Staff to conduct reasonable due diligence on Prestonsburg to reach a determination that Prestonsburg has the necessary “... financial, technical, and managerial abilities to provide reasonable service.” Prestonsburg does not believe that the Commission’s review of Prestonsburg’s internal accounting policies or rate setting processes is relevant or probative as to the determination under KRS 278.020(5).

Simpson County Water and its progeny, grants the Commission jurisdiction over contracts between regulated utilities and municipal utilities. Prestonsburg understands that this basis of jurisdiction is limited to the contractual relationship

between the parties, including the benefits and obligations of the parties thereunder. In the case of the now expired Water Purchase Agreement, Prestonsburg understands that the Commission has full jurisdiction over “rates and service” provided under that Agreement. Consequently, Prestonsburg does not believe this basis of jurisdiction gives the Commission jurisdiction over its internal accounting policies or rate setting policies and processes for the direct retail customers of Prestonsburg.

ALTERNATIVE PROPOSALS

ALTERNATIVE I: Without waiver of the foregoing objections, Prestonsburg is amendable to dedicating revenue to solely the reduction of debt for the difference between Auxier’s current tariff rates (not increased since 1986, except for PWA) and Prestonsburg outside city rates, as adjusted from time to time; provided, that no portion of the purchase price is disallowed for rate recovery purposes. Prestonsburg believes that it can obtain the consent of its lenders for such a covenant.

ALTERNATIVE II. Without waiver of the foregoing objections, Prestonsburg is amendable to the following alternative:

Prestonsburg will charge all of Auxier’s former customers its outside of city rates, as adjusted from time to time, including the rate increases previously approved by Prestonsburg’s Commission; provided that no limitation or restrictions are imposed on Prestonsburg’s rates or ability to recover costs.

EXPLANATION of ALTERNATIVE II. As Exhibit G, please find attached the new rate schedules that were initially effective April 1, 2007, including the rate increase to be effective April 1, 2008 (“2008 Rates”). Once the 2008 Rates are implemented, Prestonsburg’s rates will be comparable to Auxier’s rates. Under Prestonsburg Outside of City 2008 Rates, residential customers of Auxier’s system would still have a somewhat lower average bill and the large commercial users would have a somewhat larger bill. For a comparison, see Exhibit H for a Proforma of Auxier’s Customer Demand Utilizing PCUC 04-01-08 Rates. If the Commission’s Staff recommends this alternative to the Commission, Prestonsburg requests that the Order expressly authorize the 2008 Rates, so that these customers can be integrated into Prestonsburg’s system on the same basis as it’s other outside of city customers. There are several advantages to this alternative, as follows:

A. Residential customers should have a lower average monthly bill compared to Auxier’s rates;

B. Prestonsburg will not have to determine if it’s outside of city “rates” are “higher” than Auxier’s rates;

C. Prestonsburg will not have to maintain separate accounting for the former Auxier customers;

D. Prestonsburg will not have to separately calculate and dedicate certain revenue streams to debt reduction under a Spears Water type of restriction;

E. Prestonsburg will not have to re-evaluate compliance with its various debt covenants;

F. Prestonsburg will not have to obtain supplemental consents from its lenders;

G. It may be possible to complete the closing on or before March 31, 2008.

3. In its response to Item 2 of the Commission Staff's First Data Request, Prestonsburg provided a Conditional Loan Commitment from the Kentucky Infrastructure Authority ("KIA") dated December 13, 2007. KIA has committed to a loan that shall not exceed \$2.7 million that will have a 20-year term and an interest rate of 0.7 percent per annum. Provide an amortization schedule for the proposed KIA loan.

RESPONSE: Prestonsburg does not have a copy of KIA's amortization schedule.

As Exhibit F, please find attached a copy of KIA's Executive Summary prepared by KIA's staff that recommends the loan. The KIA has included in the Executive Summary on page 26 under Project Funding an estimate of the annual debt service, which is \$150,306.00. Please note that KIA's staff's analysis is based on Prestonsburg's rate increase that became effective April 1, 2007, Prestonsburg had not increased its rates to retail customers in several years. Since a substantial increase in retail rates was needed, Prestonsburg's Commission decided to implement the increase on phase-in basis with the first rate increase effective April 1, 2007, and the second rate increase effective April 1, 2008.

4. a. Provide an analysis of the revenues Prestonsburg would receive over the 20-year KIA loan term that compares Auxier remaining a wholesale water customer and the customers currently served by Auxier becoming retail customers of Prestonsburg.

RESPONSE: See Exhibit F

b. For the same 20-year period as Item 4(a), provide the projected annual operational costs for Prestonsburg to provide retail water service to Auxier water customers.

RESPONSE: Prestonsburg is a combined utility providing potable water, sanitary sewer and natural gas services. Consequently, operational costs are not precisely identifiable because operations are done on an integrated basis. For example, a single work crew may install a new water tap, sewer tap and natural gas connection for new commercial or residential property since most operations and maintenance crews are cross-trained in all three utility services. Historically, Prestonsburg has not maintained accounting records utilizing standard utility accounts. In recent years, it has moved most accounts to standard utility accounts, but data based on historical records, such as the costs associated with capital improvements are not always clearly delineated between the different utility systems.

The KIA Staff prepared a projection of operational revenues and costs, which is included in the Executive Summary attached as Exhibit F.

c. Provide all workpapers, assumptions, and calculations used in the responses to Items 4(a) and 4(b).

RESPONSE: See Exhibit H and Exhibit F

5. In Case No. 2001-00325,¹ the Commission ordered: “No portion of the rates charged to Spears Water's existing customers and to future customers in the area now served by Spears Water shall be used to recover the difference between the purchase price for the Spears Water system and the net unrecovered value of the system at the time of transfer.” Explain why the Commission should not condition its approval of the proposed transaction upon restricting Prestonsburg to assessing Auxier’s current rates to

¹ Case No. 2001-00325, The Joint Application of the Spears Water Company, Inc. and the City of Nicholasville for Approval of an Asset Purchase Agreement (Ky. PSC Mar. 7, 2002) at 5.

Auxier's customers until the net unrecovered value of the Auxier system at the time of the transfer is paid by those customers at which time the customers' rates will become the City's Outside Water Rates.

RESPONSE: Prestonsburg Objects and incorporates by reference its Response to Request Number 2, and adopts that response as part of the response to the request.

In addition, Prestonsburg owes a duty to its citizens to not supplement the cost of providing service to non-residents of the city at the expense of the citizens of the city. Prestonsburg has to recover the full cost of providing potable water, including (without limitation) the cost of water treatment, operations and maintenance, capital improvements, administrative expenses, etc.

In addition, Auxier has received deviations from PSC regulations requiring adequate storage. Auxier has no operational storage tanks. Auxier has relied on Prestonsburg's storage capacity. At such time as Prestonsburg's outside city rates are higher than Auxier's rates (not increased since 1986), Prestonsburg should be allowed to charge the higher rates because Prestonsburg service is more reliable. In the event of a shortage of water, Prestonsburg's water supply agreements with its wholesale customers provide that such service is provided on an interruptible basis. Prestonsburg would interrupt its wholesale customers' service before curtailing service to either direct inside or outside of city customers. Direct outside of city customers water service would be interrupted after the wholesale customer's service is interrupted. For example, wholesale service could be interrupted on an emergency basis in the case of a large-scale fire fought by the City Fire Department; in the case of line breakage; or in the situation where peak demand exceeds the capacity of the existing treatment plant. As a direct outside of city customer, such customer will receive an enhanced service compared to wholesale customers.

6. Explain in detail why customers of Auxier should not be charged Prestonsburg's current rates upon completing the proposed transaction.

RESPONSE: Prestonsburg incorporates by reference its Responses to Request Number 2 and 5, and adopts those responses as its response to this Request.

7. a. Provide a copy of the most recent cost-of-service study that Prestonsburg has performed or commissioned for its water operations.

RESPONSE: Prestonsburg does not have a cost-of-service study.

b. In the event that no cost-of-service study is available, provide all analyses that are the basis for Prestonsburg's present water service rates. Include all workpapers, assumptions, and calculations used to arrive at Prestonsburg's rates.

RESPONSE: Prestonsburg objects to all inquiries and requests for production of documents regarding the establishment of its retail rates. Arguably, the Commission has dual basis of jurisdiction in this proceeding. First, the Commission has jurisdiction over Auxier as to whether to approve the transfer and conveyance of Auxier's entire distribution system and customer deposits under KRS 278.020(5). Second, the Commission has jurisdiction over Prestonsburg to the extent of contracts with Auxier, a regulated utility, under Simpson County Water and its progeny (citations omitted).

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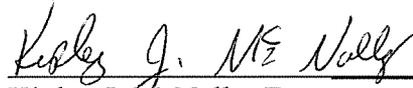
Without waiver of the foregoing jurisdictional objections, please find attached as Exhibit I various work papers of Prestonsburg.

8. Provide in detail an explanation of the method and basis that will be used to determine future adjustments to Prestonsburg's water service rates.

RESPONSE: As noted previously, Prestonsburg has recently increased rates for all classes of retail customers, except for wholesale customers, and potable water

supplied pursuant to emergency water supply agreements. In the near future, Prestonsburg does not anticipate increasing water rates for its direct inside and outside city retail customers. Further rate increases will be based on a cost-of-service study (performed in-house).

Respectfully submitted,



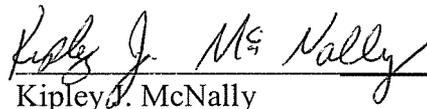
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Counsel for Prestonsburg City's
Utilities Commission

Date submitted: February 13th, 2008

CERTIFICATE OF SERVICE

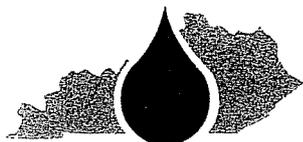
I hereby certify that the foregoing has been served by electronic mail without exhibits on Bruce F. Clark, Esq., Stites & Harbison, PLLC, 421 West Main Street, Frankfort, Kentucky 40601, on the 13th day of February, 2008, and with exhibits via U.S. mail, postage prepaid on the 13th day of February, 2008.



Kipley J. McNally

INDEX TO EXHIBITS
RESPONSE TO SECOND DATA REQUEST
PRESTONSBURG CITY'S UTILITIES COMMISSION

- A. Kentucky Rural Water Association's Appraisal – "Valuation of Auxier Water Company, Inc."
- B. River Hill Capital, LLC's Appraisal
- C. Bocock Engineering, Inc.'s – Replacement Cost Estimate dated May, 2005
- D. Partial Payment Estimate – Final for Laurel Construction Co., Inc.
- E. Cost Estimate No. 7 – Final for Contract – Ky. 321 Waterline and Pump Station Project
- F. Kentucky Infrastructure Authority's (KIA) – Executive Summary with Staff Recommendation
- G. Prestonsburg Rate Schedule for Water Rates. Effective for April 1, 2007, and April 1, 2008
- H. Proforma of Auxier's Customer Demand Utilizing PCUC 04-01-08 Rates
- I. Prestonsburg's Work Papers Used to Establish Rates



Kentucky Rural Water Association

Helping water and wastewater utilities help themselves

June 21, 2006

David Ellis, Superintendent
Prestonsburg City's Utilities Commission
2560 South Lake Drive
Prestonsburg, KY 41653-1048

Dear Mr. Ellis: *David*

Please find enclosed a Valuation of Auxier Water Company prepared by the Kentucky Rural Water Association. We thank you for the opportunity to work with you, your staff and Phillip Ward, owner of Auxier in trying to determine a fair price for Prestonsburg's potential purchase of the distribution system assets and customer-base in Auxier.

This valuation represents our best estimation of the current value of Auxier's assets from the perspective of a municipally-owned public utility. We hope that this Valuation will allow both parties to reach an agreement that will be benefit all of the parties, Auxier, Prestonsburg, and, most importantly, the current water customers in Auxier.

If you have any questions about any of the information contained in this report or need any further assistance in this matter, or any other, please contact us at your convenience.

Sincerely,

Andy Lange
Assistant Director

AL:bs

Enclosure

Valuation of Auxier Water Company, Inc.

Prepared by: **Kentucky Rural Water Association**

June 2006

Background

The Kentucky Rural Water Association ("KRWA") appreciates the opportunity to work with the Auxier Water Company, Inc. ("Auxier") and the Prestonsburg City's Utilities Commission ("Prestonsburg") to help the utilities reach a mutually acceptable agreement on the purchase of the distribution assets of Auxier by Prestonsburg. We recognize from the start that both the seller and the potential buyer are serious about the negotiations for this transaction. We also understand that both parties want what is best in their own interests. In the case of Auxier, the interests are more personal in nature along with a keen sense of doing what is best for their neighbors and water customers of over 40 years. Prestonsburg, on the other hand, being a publicly owned utility is naturally more concerned about how the purchase will affect their existing customers and in developing a plan to serve the potential new customers in Auxier efficiently and fairly.

On June 5, 2006, a meeting was held with Phillip Ward, owner of Auxier, David Ellis, superintendent and Eddie Campbell, chief financial officer of Prestonsburg, Bob McGlothlin, water superintendent of the Big Sandy Water District, and Andy Lange, assistant director, Carryn Lee, financial analyst, and Barry Back, circuit rider, representing KRWA.

This meeting began with a general discussion between the interested parties and served to inform the evaluation team from KRWA in regards to the intentions of both parties and to gain a better understanding of the utility's current operations, interconnections, and agreements. After these initial discussions, Mr. Ward took Mr. McGlothlin and Mr. Back on a driving tour of approximately one-third of Auxier's 40-mile distribution system. Mr. Lange and Ms. Lee remained with Mr. Ellis and Mr. Campbell to continue discussions with the potential buyers.

Previous Valuations

Prior to the meeting, copies of two independent valuations commissioned by Auxier were reviewed by the members of the KRWA evaluation team. The first valuation, an opinion of “current realistically attainable value,” was performed by River Hill Capital, LLC (“River Hill”) in Louisville, Kentucky. The other valuation, a “replacement cost analysis,” was performed by Bocock Engineering, Inc. (“Bocock”) in Paintsville, Kentucky. River Hill’s report estimates the value of Auxier at approximately **\$3,300,000**. Bocock Engineering estimated the replacement cost of Auxier at **\$3,947,750**.

River Hill’s valuation approach seems to best fit a situation where one retail business is being purchased by an investor with the intentions of continuing the retail operations and relying on an acceptable rate of return on the investment. Several of the assumptions used in projecting future revenue levels appear to us to be overly optimistic based on the past growth rates in the number of customers and revenues. According to Kentucky Public Service Commission (“PSC”) annual reports submitted by Auxier over the past 15 years, the customer base has increased by 2.6% annually and revenue has increased by 2.25%.

Several of the other factors cited by River Hill as incentives for the purchase of Auxier are specious or exaggerated. The penitentiary, Jenny Wiley State Resort Park, and the thoroughbred racetrack can not be expected to attract substantial new economic activities as claimed in the assumptions and opinions offered by River Hill.

User rates in Auxier are already higher than state and regional averages. Realistically, Prestonsburg would likely need to lower water rates to bring the Auxier customers more into line with their existing municipal customers. Because Prestonsburg, as a potential buyer, would probably lower user rates the revenue projections used by River Hill appear to be overly optimistic.

Bocock Engineering has provided Auxier with a schedule of assets and estimated the replacement cost for these assets as of May 2005. By itself, replacement cost is not an acceptable standard method for determining the value of a utility. Normally, accumulated depreciation must be subtracted from the replacement cost to reflect a more realistic value. In addition, Bocock included engineering costs in the estimate for Auxier. Engineering costs have no bearing on the value of a utility that has already been built and therefore should not be included in the

total. Assuming that the cost estimates provided by Bocock are accurate, the replacement cost would be just under \$4 million.

KRWA Valuation

In our research of accepted methodologies for the valuation of utilities for the purpose of sale, we have encountered three primary approaches. These are 1) **Comparative**, 2) **Income** or Capitalization, and 3) **Cost** (Replacement Cost-New less Depreciation). The Comparative method is probably the most realistic and accurate because it uses real-world examples, but it relies on having enough similar transactions in a state or region to make valid comparisons. Income or Capitalization methods seem to be used most often when a transaction involves one privately-owned utility being sold to another privately-owned utility. The Cost method is generally the simplest method to use because it is easily quantifiable through accurate price estimates and properly audited accounts.

We have chosen to use the **Cost** method for our valuation because we have very limited examples of appropriate **Comparative** sales in Kentucky. The **Income** method does not seem to be the best fit in this case because the potential sale involves a private and a public utility. In addition, there already exists a recent and acceptable replacement cost estimate prepared by Bocock to combine with accumulated depreciation data contained in Auxier's 2004 PSC Annual Report, extrapolated to reflect 2005 levels of depreciation. We have also added a 10% premium to the value of Auxier's assets due to the above average condition of the distribution assets, according to our assessment.

VALUATION

Replacement Cost Estimate (Bocock) (see Appendix)	\$3,947,750
Accumulated Depreciation (44.7%) (see Depreciation Worksheet)	<u>-\$1,764,644</u>
Cost-based Valuation	\$2,183,106
10% premium	<u>+\$218,311</u>
Total Cost-based Valuation	\$2,401,417

APPENDIX

Auxier Water Company Replacement Cost Estimate May 2005

Description	Quantity	Unit Price	Cost	Accumulated Total
2" Gate Valve	44	\$400.00	\$17,600	\$17,600
3" Gate Valve	14	\$475.00	\$6,650	\$24,250
4" Gate Valve	48	\$550.00	\$26,400	\$50,650
6" Gate Valve	64	\$600.00	\$38,400	\$89,050
8" Gate Valve	1	\$800.00	\$800	\$89,850
2" Water Meter/Box Assy.	7	\$2,000.00	\$14,000	\$103,850
1" Water Meter/Box Assy.	5	\$1,300.00	\$6,500	\$110,350
1.5" Water Meter	1	\$1,200.00	\$1,200	\$111,550
5/8 x 3/4 Residential	950	\$800.00	\$760,000	\$871,550
2" CL 200 SDR21	45,300	\$7.00	\$317,100	\$1,188,650
3" CL 200 SDR21	29,300	\$8.00	\$234,400	\$1,423,050
4" CL 200 SDR21	72,950	\$10.00	\$729,500	\$2,152,550
6" CL 200 SDR21	67,350	\$15.00	\$1,010,250	\$3,162,800
8" CL 200 SDR21	350	\$20.00	\$7,000	\$3,169,800
4" River Crossing PE	5	\$10,000.00	\$50,000	\$3,219,800
6" River Crossing PE	5	\$12,500.00	\$62,500	\$3,282,300
Railroad Crossing	4	\$20,000.00	\$80,000	\$3,362,300
4" Road Bore 4 lanes	2	\$25,000.00	\$50,000	\$3,412,300
6" Road Bore 4 lanes	4	\$25,000.00	\$100,000	\$3,512,300
2" Road Bore 2 lanes	6	\$7,500.00	\$45,000	\$3,557,300
4" Road Bore 2 lanes	10	\$7,500.00	\$75,000	\$3,632,300
6" Road Bore 2 lanes	17	\$10,000.00	\$170,000	\$3,802,300
Leak Detection Meters	11	\$800.00	\$8,800	\$3,811,100
Fire Hydrants	26	\$2,500.00	\$65,000	\$3,876,100
50,000 gal Storage Tank	1	\$30,000.00	\$30,000	\$3,906,100
Flush Hydrants	4	\$800.00	\$3,200	\$3,909,300
Flush Valve Assy.	22	\$475.00	\$10,450	\$3,919,750
4" Fire Flow Meter Assy.	2	\$10,000.00	\$20,000	\$3,939,750
3" Fire Flow Meter Assy.	1	\$8,000.00	\$8,000	\$3,947,750

Depreciation Worksheet

Utility Plant Account	BALANCE		2004 Accumulated Depreciation	Added in 2005	2005 Accumulated Depreciation
	General Plant	Transmission & Distribution			
Land & Land Rights	2,261				
Structures & Improve.	56,712		28,808		
Water Treatment Equip.	9,040		9,038		
Mains		828,070	315,597	29,959	345,556
Meters & Installations		104,802	67,730	3,273	71,003
Hydrants		8,300	4,156	212	4,368
Office Furn. & Equip.	26,243		24,749		
Transporation Equip.	71,981		65,387		
Power Equip.	5,000		4,999		
Communications	705		451		
Totals	\$171,942	\$941,172	\$520,915		
			\$387,483	\$33,444	\$420,927

Accumulated Depreciation of Transmission and Distribution System

$\$420,927 / \$941,172 = .447$ or 44.7%

Rates Required to Purchase Auxier at \$2,500,000			
Operating Expenses	Auxier		Prestonsburg
Salaries and Wages	\$ 104,655		
Officers Salaries	54,737		
Pensions and Benefits	12,589		
Purchased Water	182,011		\$ 182,011
Materials and Supplies	17,040	(7,040)	10,000
Accounting	10,221		
Contractual	379		
Rent	28,800		
Transportation	23,558	(13,558)	10,000
General Liability Ins.	11,662	(6,583)	5,000
Bad Debt	2,888		2,888
Miscellaneous	2,117	(117)	2,000
Taxes	17,332		
Subtotal	\$ 467,989		\$ 211,899
Depreciation/Capital Improvements	41,790		41,790
Debt	16,126		
Debt on Purchase of Auxier			161,872
Total Expenses	\$ 525,905		\$ 415,561
Rate Calculation			
Number of Annual Bills	11,340		
Average Usage	5,774		
Revenue at Outside City Rates	Rate	Revenue	
First 2,000	\$ 9.85	\$ 9.85	
Next 3,774	4.32	16.30	
Total Average Bill		\$ 26.15	
Total Bill x Number of Annual Bills		296,541	
Surcharge per Bill Required = \$10.50		119,070	
Total Revenue		\$ 415,611	
Debt = \$2,500,000 at 4.64 average coupon rate over 30 years			

\$2,593,000

*City of Prestonsburg
Kentucky Rural Water Finance Corporation*

Sources & Uses

Dated 08/15/2006 | Delivered 08/15/2006

Sources Of Funds

Par Amount of Bonds..... \$2,593,000.00

Total Sources..... \$2,593,000.00

Uses Of Funds

Original Issue Discount (OID)..... 8,117.63

Total Underwriter's Discount 30,777.37

Costs of Issuance..... 38,895.00

Gross Bond Insurance Premium..... 14,500.00

Deposit to Project Construction Fund..... 2,500,000.00

Rounding Amount..... 710.00

Total Uses..... \$2,593,000.00

\$2,593,000

City of Prestonsburg
Kentucky Rural Water Finance Corporation

Net Debt Service Schedule

Year End	Principal	Coupon	Interest	Total P+I	Trustee	Net New D/S
06/30/2007	-	-	53,648.78	53,648.78	450.00	54,098.78
06/30/2008	44,000.00	3.600%	115,554.76	159,554.76	450.00	160,004.76
06/30/2009	46,000.00	3.600%	113,934.76	159,934.76	450.00	160,384.76
06/30/2010	47,000.00	3.600%	112,260.76	159,260.76	450.00	159,710.76
06/30/2011	49,000.00	3.725%	110,502.13	159,502.13	450.00	159,952.13
06/30/2012	51,000.00	3.850%	108,607.75	159,607.75	450.00	160,057.75
06/30/2013	53,000.00	3.850%	106,605.75	159,605.75	450.00	160,055.75
06/30/2014	55,000.00	3.975%	104,492.38	159,492.38	450.00	159,942.38
06/30/2015	57,000.00	4.100%	102,230.76	159,230.76	450.00	159,680.76
06/30/2016	60,000.00	4.100%	99,832.26	159,832.26	450.00	160,282.26
06/30/2017	62,000.00	4.100%	97,331.26	159,331.26	450.00	159,781.26
06/30/2018	65,000.00	4.225%	94,687.13	159,687.13	450.00	160,137.13
06/30/2019	68,000.00	4.300%	91,852.00	159,852.00	450.00	160,302.00
06/30/2020	71,000.00	4.350%	88,845.75	159,845.75	450.00	160,295.75
06/30/2021	74,000.00	4.350%	85,692.00	159,692.00	450.00	160,142.00
06/30/2022	77,000.00	4.475%	82,359.63	159,359.63	450.00	159,809.63
06/30/2023	81,000.00	4.475%	78,824.38	159,824.38	450.00	160,274.38
06/30/2024	85,000.00	4.600%	75,057.00	160,057.00	450.00	160,507.00
06/30/2025	88,000.00	4.600%	71,078.00	159,078.00	450.00	159,528.00
06/30/2026	93,000.00	4.600%	66,915.00	159,915.00	450.00	160,365.00
06/30/2027	97,000.00	4.600%	62,545.00	159,545.00	450.00	159,995.00
06/30/2028	102,000.00	4.600%	57,968.00	159,968.00	450.00	160,418.00
06/30/2029	106,000.00	4.700%	53,131.00	159,131.00	450.00	159,581.00
06/30/2030	112,000.00	4.725%	47,994.00	159,994.00	450.00	160,444.00
06/30/2031	117,000.00	4.750%	42,569.25	159,569.25	450.00	160,019.25
06/30/2032	123,000.00	4.750%	36,869.25	159,869.25	450.00	160,319.25
06/30/2033	129,000.00	4.750%	30,884.25	159,884.25	450.00	160,334.25
06/30/2034	135,000.00	4.750%	24,614.25	159,614.25	450.00	160,064.25
06/30/2035	142,000.00	4.800%	18,000.00	160,000.00	450.00	160,450.00
06/30/2036	148,000.00	4.800%	11,040.00	159,040.00	450.00	159,490.00
06/30/2037	156,000.00	4.800%	3,744.00	159,744.00	450.00	160,194.00
Total	\$2,593,000.00	-	\$2,249,671.24	\$4,842,671.24	\$13,500.00	\$4,856,171.24

STITES & HARBISON PLLC

ATTORNEYS

421 West Main Street
Post Office Box 634
Frankfort, KY 40602-0634
[502] 223-3477
[502] 223-4124 Fax
www.stites.com

January 13, 2006

Kipley J. McNally
2525 Nelson Miller Parkway
Suite 206
Louisville, KY 40223

Bruce F. Clark
(502) 209-1214
(502) 223-4386 FAX
bclark@stites.com

RE: Auxier Water Company

Dear Mr. McNally:

Please be advised that Auxier Water Company has determined to offer its assets and business for sale, and that Auxier is interested in the potential for having the City of Prestonsburg purchase the Auxier operation. Accordingly, we invite the City to commence negotiations with Auxier for the purchase.

In this regard, Auxier has obtained a valuation of the Company from River Hill Capital, LLC. A copy of this appraisal is enclosed. I look forward to hearing from you regarding this possible acquisition by the City of Prestonsburg.

Yours very truly,

STITES & HARBISON, PLLC



Bruce F. Clark

BFC:pjt
cc: Philip L. Ward

RIVER
HILL
CAPITAL,LLC

January 11, 2006

Auxier Water Company, Inc.
392 John Centre Mayo Ave.
Auxier, KY 41602

Attention: Mr. Philip Ward, President

You have asked us to provide our opinion of the approximate, current realistically - attainable value of 100% of the common stock of Auxier Water Company, Inc. (referred to herein as "AWC" or the "Company"). For purposes of rendering this opinion, we have equated the "realistically-attainable value" with the "investment value" as that term is typically defined in publications written by acknowledged experts in the valuation of closely-held securities. Shannon Pratt, Robert Reilly and Robert Schweihs, in their book entitled *Valuing A Business*, pp.30-31, defined investment value as "the specific value of an investment to a particular investor or class of investors based on individual investment requirements; distinguished from market value which is impersonal and detached". There can be many valid reasons or unique conditions that will result in the investment value differing materially from the estimated market value of a company. According to the 2005 Edition of *Business Valuation and Taxes*, p. 15, by Shannon Pratt and David Laro, those reasons or conditions may include:

- (1) the respective economic needs and abilities of the investors,
- (2) differences in risk aversion or tolerance,
- (3) motivation of the parties,

- (4) business strategies and business plans,
- (5) synergies and relationships,
- (6) strengths and weaknesses of the target business,
- (7) form of the organization of the target business.

In the case of AWC, a privately-owned water utility that holds an exclusive license to provide drinking water in a water district that was established and is regulated by the Kentucky Public Service Commission, we believe there is a relatively small number of prospective buyers that would be interested in acquiring AWC, that could obtain regulatory approval and that could realize the maximum economic benefits from an acquisition of AWC. The two targeted buyers to which the investment value of AWC is the most relevant measure of value, in our opinion, are those water systems owned and operated by the adjacent cities of Prestonsburg and Paintsville, Kentucky. These city systems now provide wholesale water to AWC's distribution system and/or own and operate sanitary sewer systems that service many of AWC's customers. (We understand that these systems rely on AWC to provide information on the connection of its customers, the size of service or the water usage by those customers, so that they know how much to charge for waste water discharged into their sewers.) In addition, we believe there are other investor-owned water systems that operate in Eastern Kentucky who have, or could obtain, PSC approval to operate AWC and that might benefit as owners for one or more of the reasons or conditions listed above.

In making our determination of value, we relied on: (i) the Company's internally-prepared income statements and balance sheet for the nine months ended September 30, 2005 and an estimate of full year results using information provided by AWC management and its accountant, (ii) the *Annual Report* of AWC as filed with the Public Service Commission of the

Auxier Water Compar Inc.

January 11, 2006

Page 3

Commonwealth of Kentucky for the year ended December 31, 2004, (iii) a copy of the *Water Contract*, dated February 11, 1998 between AWC and the Prestonsburg City Utility Commission ("PCUC"), (iv) a copy of the *Water Line Acquisition and Joint Development Agreement* dated February 11, 1998, between AWC and PCUC, (v) a copy of a study *Preliminary System Replacement Cost 2005* dated May 27, 2005, prepared by Bocook Engineering, Inc. Paintsville, Ky., and (vi) other supplementary operating or financial information provided by AWC or its legal counsel during meetings or phone calls that took place between October 31, 2005 and December 15, 2005. While we believe the information provided us to be reliable, we have not made an independent verification of its accuracy or completeness.

River Hill Capital has no present or prospective interest in the stock or assets that are subject to this opinion and has no bias toward any of the parties involved. The analysis and preparation of our opinion was performed by Gerald R. Martin. A copy of his professional resume is attached as Exhibit C.

To estimate the current realistically-attainable or investment value of AWC we considered two approaches: the discounted present value of projected free cash flows and the estimated current replacement value of the Company's assets (primarily the water system).

In order to estimate the value of AWC stock using the discounted present value of the projected free cash flow, we first assumed that the two municipally-owned water and sewer systems that currently provide wholesale water and/or sewer services to neighboring water districts and to AWC's customers are the most likely strategic buyers. We believe that the municipal water and sewer utilities of either Prestonsburg or Paintsville, Kentucky could benefit in several ways from owning AWC. We understand that either one could increase the income it now realizes from the charges it makes for sewer services currently provided to AWC customers

and either one could realize substantial savings in personnel and administrative overhead because both already have employees on their payrolls who perform many of the services, billing and managerial tasks that AWC now pays an outside company to perform. Both are believed to have the financial resources or borrowing capacity to raise the funds needed to acquire AWC, to expand the system or to make system improvements that would allow AWC to grow more rapidly and deliver water more efficiently. Furthermore, we understand that AWC has not raised its rates since 1988, other than to pass through the approximate 2% per year increase in the cost of wholesale water as charged by Prestonsburg during the last several years. Management of AWC believes that it is reasonable to assume that if a municipal water system became the owner and was not subject to regulation by the Kentucky Public Service Commission; AWC would be able to implement a minimum annual rate increase of 4% per year. We consider this increase to be reasonable in light of: (i) the lack of any rate increases in some 17 years, (ii) the expected increases in the costs of purchasing water and the power needed to provide elevated service to many of its customers, (iii) the normal inflationary increases in the cost of labor and supplies used by AWC that the Company's owners have absorbed rather than passed through, (iv) the growth in population, tourism and water usage expected from the recent completion of a new state penitentiary, a new thoroughbred racetrack (that may offer other types of gambling in the near future), and the 1,500 acre Jenny Wiley State Resort Park (all of three of which are located within AWC's service area), (v) other commercial and residential developments that are planned or anticipated in Auxier because of the completion of city sewers and (vi) the need to provide a more reasonable rate of return on the additional invested capital and new rate base to an owner willing to acquire and operate AWC. We have also assumed that the 4% annual rate increases

would allow AWC to use 1% of the annual water sales to fund a new "Water System Replacement Reserve" that would be in addition to projected annual capital expenditures.

The financial model we developed to project future free cash flow and to calculate discounted present value of the investment to an assumed strategic buyer is attached as Exhibit A. The historic financial information and many of the assumptions used in this model were provided by, or developed in cooperation with, the President of AWC and the Company's legal and accounting advisors. A discount factor of 9% was applied to projected free cash flows to arrive at the present value of those flows which provided the indicated price which an investor might pay to acquire AWC. To establish this rate, we looked at the latest available rates of return reported by nine U.S., investor-owned water companies. The weighted average rate of return on equity of this group for 2004 was reported to be 8.52% and the five year weighted average return on equity was 9.18%. Therefore, we believe that a 9.0% rate offers a reasonable return on investment for acquiring a water utility like AWC that has both a legal and natural monopoly to offer water services in its district and in which it owns and operates the only distribution system. This return rate is supported by what we believe would be the assumed cost of raising long term capital by a prospective buyer that could issue tax-free municipal bonds to finance the purchase of AWC, plus an additional amount to provide a fair return on capital and for the risk and uncertainty of such an investment. Using quotes from a Louisville brokerage firm, we find that the average current yield on 20-year term, insured, municipal bonds issued by several Kentucky counties is approximately 4.5%. We added an additional 4.5% (to arrive at the 9% total discount factor) in order to provide a reasonable return on invested capital and for the risk and uncertainty of the investment. These assumptions, and several others we relied upon, are detailed in the footnotes to Exhibit A. This approach provided an indicated current enterprise value of

Auxier Water Compar Inc.

January 11, 2006

Page 6

\$3,611,000 and a value for 100% of the equity ownership of \$3,323,000, after subtracting \$288,000 to repay the \$194,000 net deficit in working capital and the \$94,000 of long term liabilities reported at September 30, 2005.

We also reviewed an analysis of AWC's system replacement cost done by Bocoock Engineering at the request of AWC. This report (attached as Exhibit B) concluded that on May 27, 2005, the replacement cost of assets was \$4,347,750. Since this was an appraisal of substantially all the tangible assets (ignoring exclusive operating rights and the value of contracts) of the Company not the stock, we then deducted the deficit in net working capital (\$194,000) and the total long-term liabilities (\$94,000) to arrive at an indicated value of approximately \$4.0 million using this approach.

Although the net replacement cost of the Company's distribution system suggests a higher value, we believe an investor would make an offer based primarily on the potential rate of return the investment could be expected to provide it. Therefore, we have placed the greatest weight on the discounted present value of projected free cash flow approach. It is our opinion that the current realistically-attainable or investment value of a 100% holding of the common stock of AWC as of this date is approximately \$3,300,000.

We appreciate this opportunity to be of service to you and will be pleased to provide whatever amplification of our opinion you may require.

Sincerely,

RIVER HILL CAPITAL, LLC



Gerald R. Martin
Vice President

EXHIBIT A

AUXIER WATER CO.
 Proforma Cash Flow Projection and Estimated Present Value of Free Cash Flow

1. Water Revenue	Assumption	2004	2005	2006	2007	2008	2009	2010	Terminal
		Actual	Estimated(4)	Profl.	Profl.	Profl.	Profl.	Profl.	Value (9)
1a. Water purchased (000 gal.)	Footnote (1)	75,321	75,500	77,010	78,550	80,121	81,724	83,358	
1b. Water sold (000 gal.)	Line 1a. X 1c.	65,133	69,460	70,849	72,266	73,712	75,186	76,689	
1c. Metered water ratio	Footnote (3)	0.865	0.92	0.92	0.92	0.92	0.92	0.92	
1e. Ave. \$ per gal. sold	Footnote (2)	\$ 0.0071	\$ 0.0071	\$ 0.0074	\$ 0.0077	\$ 0.0080	\$ 0.0083	\$ 0.0086	
1d. Water sales (\$ 000)	Line 1b. X 1e.	\$ 464	\$ 493	\$ 523	\$ 555	\$ 589	\$ 624	\$ 662	
2. Utility Operating Expenses (\$000)									
2a. Cost of purchased water	Increase 3% yr. '06 to '10 (1)	182	185	194	204	215	225	237	
2b. Ave. cost per gal. of water	Increase 3% yr. '06 to '10 (5)	\$ 0.0024	\$ 0.0025	\$ 0.0025	\$ 0.0026	\$ 0.0027	\$ 0.0028	\$ 0.0028	
2c. Materials & supplies	Increase 3% yr. '06 to '10 (5)	17	13	13	14	14	15	15	
2d. Insurance	Increase 3% yr. '06 to '10 (5)	12	10	10	11	11	11	12	
2e. Other oper. exp.	Est. at \$100k in '06 increasing 3% yr. '07 to '10 (4) (5)	240	245	100	103	106	109	113	
2.f. Total Operating Exp.		\$ 451	\$ 453	\$ 318	\$ 332	\$ 346	\$ 361	\$ 376	
3. Gross Profit (\$000)	Line 1d. less line 2 f.	\$ 13	\$ 40	\$ 205	\$ 223	\$ 243	\$ 264	\$ 286	
4. Net Int. Exp. (\$000)	Assumes debt payoff in 2006	\$ 10	\$ 6						
5. Depreciation Exp. (\$000)	Assume no change from 2005	\$ 42	\$ 36	\$ 36	\$ 36	\$ 36	\$ 36	\$ 36	
6. Taxes - Other than Income	if purchased by a non-taxable entity in 2006	\$ 17	\$ 7						
7. Earnings (loss) before taxes	Line 3. less lines 4, 5 and 6	\$ (56)	\$ (9)	\$ 169	\$ 187	\$ 207	\$ 228	\$ 250	
8. Capital Expenditures									
8a. Misc. capital expenditures	Increase 6% yr. '06 to '10 (3)	\$ 26	\$ 14	\$ 15	\$ 16	\$ 17	\$ 18	\$ 19	
8b. Water system replace. reserve	Equal to 1.0% of Water Sales (1)	\$ -	\$ -	\$ 5	\$ 6	\$ 6	\$ 6	\$ 7	
9. Increase in Working Capital	increase 3% yr. '06 to '10	\$ -	\$ 4	\$ 4	\$ 4	\$ 4	\$ 5	\$ 5	
10. Free Cash Flow (\$000)	Line 7 + line 5 - lines 8a, 8b & 9	\$ (40)	\$ 9	\$ 181	\$ 198	\$ 216	\$ 236	\$ 256	4,274
11. Discount Factor	Footnotes (6) and (7).	9%		0.917	0.842	0.772	0.708	0.650	0.650
12. Discounted Present Value of Free Cash Flow (\$000) at 12/31/05 (2)		\$ -	\$ 166	\$ 167	\$ 167	\$ 167	\$ 167	\$ 167	\$ 2,778
13. Cumulative Discounted Present Value of Free Cash Flow (\$000)		\$ -	\$ 166	\$ 332	\$ 499	\$ 666	\$ 833	\$ 1,000	\$ 3,611
14. Net Working Capital Deficit and Long Term Liabilities (\$000)(8)									\$ (288)
15. Indicated Value of Equity Net of Debt at 12/31/05 (\$000) (9)									\$ 3,323

AUXIER WATER CO.
Proforma Cash Flow Projection and Estimated Present Value of Free Cash Flow

FOOTNOTES AND ASSUMPTIONS

- (1) Annual water purchased in 2005 is estimated based on results for the first 11 months of 2005. Projections assume water purchases (gallons) in '06 to '10 will increase 2% per year, based on expected growth in demand from residential and commercial customers, and the cost per gallon will increase 3% per year, which is consistent with the 2% to 3% annual increases charged by AWC's wholesale water supplier the last few years.
- (2) Assumes that purchaser would increase water rates 3% per year to cover rising expenses and provide a more reasonable return on increased rate base and an additional 1% per year to fund a reserve for water main and system replacements, bringing the projected total annual increase to 4%.
- (3) Actual water losses, operating exp. and capital expend. in 2004 and 2005 were abnormally high due to two extraordinary events. In 2004 the city of Paintsville installed new sewers in Auxier and a contractor damaged several AWC water lines while laying new pipe resulting in water losses. Also, heavy rains in May 2004 caused substantial erosion and several AWC lines were washed out or damaged causing major water loss and substantial increases in repairs exp. in '04 and '05. Results in 2005 assume a water loss of 8% (a .92 metered water ratio), which reflects AWC's typical ratio over many years. Capital expend. are also expected to return to a more normal level in 2005 and are assumed to increase 6% per year from 2006 to 2010.
- (4) Estimated 2005 results assume approximately the same amount of water purchased as 2004, an improved metered water sold ratio (.92), and operating expenses were estimated based on the actual amounts paid through the 9 months ended 9/30/05.
- (5) Other operating expenses in 2006 under new ownership of another water utility with operations in the same area as AWC were estimated at \$100k by management of AWC. Materials & supplies, Insur. and Other operating expenses are projected to increase at 3% per year from 2007 to '10, the approx. rate of inflation.
- (6) Discounted to net present value at the assumed required return rate of 9% based on the approximate 5 year ave. rate of return reported by nine U.S., publicly-held, investor-owned water companies at year end 2003. Those are: American Water Works, Philadelphia Suburban, Cal. Water Service, American States Water, SJW Corp., Middlesex Water, Conn. Water Service, Southwest Water and Consumers Water.
- (7) Assumed long term growth rate in free cash flow after 2010 in perpetuity of: 3%
- (8) Assumes that AWC pays off all liabilities, net of current assets, at closing of the transaction from the proceeds of the sale of AWC stock or assets.
- (9) Terminal Value estimated at end of 5 years assuming a required return rate of 9% less an 3% assumed long term growth rate equals a discount rate of 6% which provides a terminal value multiple = $1/.06 = 16.6$



B. Bocook Engineering, Inc.

Consulting Engineers

312 Tenth Street • Paintsville, Ky. 41240

(606) 789-5961 • Fax: (606) 789-7671

May 27, 2005

Mr. Philip Ward
Auxier Water Company
392 John CC Mayo Ave
Auxier, Kentucky 41602

Re: Preliminary System Replacement Cost 2005

Dear Phil:

At your request, we have conducted a Replacement Cost Analysis for Auxier Water Company. This is a preliminary analysis covering major physical items and engineering costs. Some items not covered in this analysis include, but are not limited to:

1. Cost of easements
2. Governmental, Highway or Railroad permit fees
3. Office facilities
4. Mobile Equipment
5. Operating materials on hand such as pipe, valves, meters
6. Value of Customer Base

Enclosed is a map of the existing Auxier Water Company pipeline system upon which the analysis is based, as well as a spreadsheet listing quantities and unit costs used in the evaluation.

Results of the assessment indicate that at this time the replacement cost of the Auxier Water Company to be \$4,347,750.

Sincerely,

Dewey L. Bocook, Jr., P.E., P.L.S.

Xc: File

1759/Word/Preliminary System Replacement Estimate 2005

Auxier Water Company
Replacement Cost Estimate
 May 2005

WO# 1759

Description	Quantity	Unit Price	Cost	Accumulated Total
2" Gate Valve	44	\$ 400.00	\$ 17,600	\$ 17,600
3" Gate Valve	14	\$ 475.00	\$ 6,650	\$ 24,250
4" Gate Valve	48	\$ 550.00	\$ 26,400	\$ 50,650
6" Gate Valve	64	\$ 600.00	\$ 38,400	\$ 89,050
8" Gate Valve	1	\$ 800.00	\$ 800	\$ 89,850
2" Water Meter/Box Assy	7	\$ 2,000.00	\$ 14,000	\$ 103,850
1" Water Meter/Box Assy	5	\$ 1,300.00	\$ 6,500	\$ 110,350
1.5 Water Meter	1	\$ 1,200.00	\$ 1,200	\$ 111,550
5/8x3/4 Residential	950	\$ 800.00	\$ 760,000	\$ 871,550
2" CL 200 SDR21	45,300	\$ 7.00	\$ 317,100	\$ 1,188,650
3" CL 200 SDR21	29,300	\$ 8.00	\$ 234,400	\$ 1,423,050
4" CL 200 SDR21	72,950	\$ 10.00	\$ 729,500	\$ 2,152,550
6" CL 200 SDR21	67,350	\$ 15.00	\$ 1,010,250	\$ 3,162,800
8" CL 200 SDR21	350	\$ 20.00	\$ 7,000	\$ 3,169,800
4" River Crossing PE	5	\$ 10,000.00	\$ 50,000	\$ 3,219,800
6" River Crossing PE	5	\$ 12,500.00	\$ 62,500	\$ 3,282,300
Railrod Crossing	4	\$ 20,000.00	\$ 80,000	\$ 3,362,300
4" Road Bore 4 lanes	2	\$ 25,000.00	\$ 50,000	\$ 3,412,300
6" Road Bore 4 lanes	4	\$ 25,000.00	\$ 100,000	\$ 3,512,300
2" Road Bore 2 lanes	6	\$ 7,500.00	\$ 45,000	\$ 3,557,300
4" Road Bore 2 lanes	10	\$ 7,500.00	\$ 75,000	\$ 3,632,300
6" Road Bore 2 lanes	17	\$ 10,000.00	\$ 170,000	\$ 3,802,300
Leak Detection Meters	11	\$ 800.00	\$ 8,800	\$ 3,811,100
Fire Hydrants	26	\$ 2,500.00	\$ 65,000	\$ 3,876,100
50,000 gal Storage Tk	1	\$ 30,000.00	\$ 30,000	\$ 3,906,100
Flush Hydrants	4	\$ 800.00	\$ 3,200	\$ 3,909,300
Flush Valve Assy	22	\$ 475.00	\$ 10,450	\$ 3,919,750
4" Fire Flow Meter Assy	2	\$ 10,000.00	\$ 20,000	\$ 3,939,750
3" Fire Flow Meter Assy	1	\$ 8,000.00	\$ 8,000	\$ 3,947,750
Engineering Cost	1	\$ 400,000.00	\$ 400,000	\$ 4,347,750

EXHIBIT C

GERALD R. MARTIN

Vice President
River Hill Capital, LLC
2904 Eastpoint Parkway
Louisville, Kentucky 40223-4186
(502) 326-4922
E-mail: gerald@riverhillcapital.com

Home Address:
516 Briar Hill Road
Louisville, KY 40206
(502) 893-0892

River Hill Capital, LLC was organized in June 1996 to develop, establish or expand strategic and managerial relationships with a select group of privately-held or smaller publicly-held companies. The principals of River Hill provide financial or operational advisory services and may invest in or otherwise acquire equity ownership in these promising companies. In June 1996, Mr. Martin co-founded River Hill Capital and by December 1996 assumed full-time responsibilities with River Hill.

Until December 1996, Mr. Martin was a stockholder and registered principal of J.J.B. Hilliard, W.L. Lyons, Inc. He worked exclusively in the Investment Banking Department after joining the firm in 1973 and was co-manager of that department for ten years. Hilliard Lyons is a member of the New York Stock Exchange.

From 1979 to November 1996, Mr. Martin was Senior Vice President of Investment Banking. This department was responsible for mergers and acquisitions, private placements of securities, public offerings of securities, securities valuation and financial consulting services for public, private and closely-held companies, government organizations and individuals.

Mr. Martin had primary responsibility for many of Hilliard Lyons' engagements as exclusive agent, co-agent or financial advisor in approximately 50 merger or acquisition transactions involving purchase prices ranging from \$2 million to \$800 million.

Mr. Martin has had experience as a financial consultant or advisor to several local government agencies and non-profit organizations. This includes two engagements completed on behalf of the Mayor's office of the City of Louisville: in 1984 a study of the financial results and long-range plan of the Louisville Water Company and in 1987 a comprehensive study of the financial operations and outlook for Louisville's municipal transit system (TARC).

In December 1996, he completed fifteen years of volunteer service as Vice Chairman of the Board of Commissioners of the Housing Authority of Louisville. He was the first President of Louisville Housing Services, Inc., a non-profit corporation that finances and develops home ownership for low income families, provides funding for a program that grants scholarships to students in public housing and provides free job skills training to public housing residents.

GERALD R. MARTIN

Mr. Martin received his BS degree in Business from the University of Dayton in 1968. He graduated from U.S. Navy Officer's Candidate School, Newport, RI, and was commissioned a Reserve Officer in 1969. After serving for two years as a Combat Information Center Officer aboard an aircraft carrier operating with the U.S. Seventh Fleet in the Pacific and Vietnam, he received his MBA degree from Wright State University, Dayton, Ohio in 1972. Prior to joining Hilliard Lyons, Mr. Martin was Corporate Trust and Trust Operations Officer at the First National Bank, Dayton, Ohio.

In December 2003, Mr. Martin was appointed by the Mayor of Metro Louisville to the Board of Directors of the Louisville Water Company, a 150 year old, city-owned water utility with over \$100 million in annual revenue. Mr. Martin is a Director of the Begley Company (d.b.a. Concord Custom Cleaners), Lexington, Kentucky, a privately-owned, 130-store dry cleaning and laundry chain purchased from Rite Aid in a leveraged buyout.

Mr. Martin has been, since 1997, financial advisor to the CEO and ESOP trustees of Omni Visions, Inc. and a member of the Board's Compensation Committee. Omni Visions, Inc. is based in Nashville, Tennessee and is one of the largest for-profit providers of therapeutic foster care services in Tennessee and North Carolina. Mr. Martin has been financial advisor to, and was the first outside member of the Board of Directors of, Summit Energy Services, Inc., Louisville. Summit provides energy management services to Fortune 500 clients throughout the United States and has experienced very rapid and profitable growth as energy costs have increased.

Professional memberships include the CFA (Chartered Financial Analysts) Society of Louisville and he is a Fellow of the Financial Analysts Federation. A native of Detroit, he was born in 1946, is married and has two children.



Bocook Engineering Inc.

Consulting Engineers

312 Tenth Street • Paintsville, Ky. 41240

(606) 789-5961 • Fax: (606) 789-7671

May 27, 2005

Mr. Philip Ward
Auxier Water Company
392 John CC Mayo Ave
Auxier, Kentucky 41602

Re: Preliminary System Replacement Cost 2005

Dear Phil:

At your request, we have conducted a Replacement Cost Analysis for Auxier Water Company. This is a preliminary analysis covering major physical items and engineering costs. Some items not covered in this analysis include, but are not limited to:

1. Cost of easements
2. Governmental, Highway or Railroad permit fees
3. Office facilities
4. Mobile Equipment
5. Operating materials on hand such as pipe, valves, meters
6. Value of Customer Base

Enclosed is a map of the existing Auxier Water Company pipeline system upon which the analysis is based, as well as a spreadsheet listing quantities and unit costs used in the evaluation.

Results of the assessment indicate that at this time the replacement cost of the Auxier Water Company to be \$4,347,750.

Sincerely,

Dewey L. Bocook, Jr., P.E., P.L.S.

Xc: File

1759/Word/Preliminary System Replacement Estimate 2005

Auxier Water Company
Replacement Cost Estimate
May 2005

WO# 1759

Description	Quantity	Unit Price	Cost	Accumulated Total
2" Gate Valve	44	\$ 400.00	\$ 17,600	\$ 17,600
3" Gate Valve	14	\$ 475.00	\$ 6,650	\$ 24,250
4" Gate Valve	48	\$ 550.00	\$ 26,400	\$ 50,650
6" Gate Valve	64	\$ 600.00	\$ 38,400	\$ 89,050
8" Gate Valve	1	\$ 800.00	\$ 800	\$ 89,850
2" Water Meter/Box Assy	7	\$ 2,000.00	\$ 14,000	\$ 103,850
1" Water Meter/Box Assy	5	\$ 1,300.00	\$ 6,500	\$ 110,350
1.5 Water Meter	1	\$ 1,200.00	\$ 1,200	\$ 111,550
5/8x3/4 Residential	950	\$ 800.00	\$ 760,000	\$ 871,550
2" CL 200 SDR21	45,300	\$ 7.00	\$ 317,100	\$ 1,188,650
3" CL 200 SDR21	29,300	\$ 8.00	\$ 234,400	\$ 1,423,050
4" CL 200 SDR21	72,950	\$ 10.00	\$ 729,500	\$ 2,152,550
6" CL 200 SDR21	67,350	\$ 15.00	\$ 1,010,250	\$ 3,162,800
8" CL 200 SDR21	350	\$ 20.00	\$ 7,000	\$ 3,169,800
4" River Crossing PE	5	\$ 10,000.00	\$ 50,000	\$ 3,219,800
6" River Crossing PE	5	\$ 12,500.00	\$ 62,500	\$ 3,282,300
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4" Road Bore 4 lanes	2	\$ 25,000.00	\$ 50,000	\$ 3,412,300
6" Road Bore 4 lanes	4	\$ 25,000.00	\$ 100,000	\$ 3,512,300
2" Road Bore 2 lanes	6	\$ 7,500.00	\$ 45,000	\$ 3,557,300
4" Road Bore 2 lanes	10	\$ 7,500.00	\$ 75,000	\$ 3,632,300
6" Road Bore 2 lanes	17	\$ 10,000.00	\$ 170,000	\$ 3,802,300
Leak Detection Meters	11	\$ 800.00	\$ 8,800	\$ 3,811,100
Fire Hydrants	26	\$ 2,500.00	\$ 65,000	\$ 3,876,100
50,000 gal Storage Tk	1	\$ 30,000.00	\$ 30,000	\$ 3,906,100
Flush Hydrants	4	\$ 800.00	\$ 3,200	\$ 3,909,300
Flush Valve Assy	22	\$ 475.00	\$ 10,450	\$ 3,919,750
4" Fire Flow Meter Assy	2	\$ 10,000.00	\$ 20,000	\$ 3,939,750
3" Fire Flow Meter Assy	1	\$ 8,000.00	\$ 8,000	\$ 3,947,750
Engineering Cost	1	\$ 400,000.00	\$ 400,000	\$ 4,347,750

FORM APPROVED
OMB NO. 0375-0042

USDA-FmHA
Form FmHA 1924-18
(Rev. 2/87)

PARTIAL PAYMENT ESTIMATE

CONTRACT NO. _____

PARTIAL PAYMENT ESTIMATE NO. _____

(4) FOUR (FINAL)

PAGE 1 OF 2

OWNER:

PRESTONSBURG UTILITIES COMMISSION

CONTRACTOR:

LAUREL CONSTRUCTION CO., INC.

PERIOD OF ESTIMATE

FROM 5-28-04 TO 9-28-04

CONTRACT CHANGE ORDER SUMMARY

ESTIMATE

No.	FmHA Approval Date	Amount			
		Additions	Deductions		
				1. Original Contract	347,000.00
				2. Change Orders	0.00
				3. Revised Contract (1 + 2)	347,000.00
				4. Work Completed *	347,000.00
				5. Stored Materials *	0.00
				6. Subtotal (4 + 5)	347,000.00
				7. Retainage *	0.00
				8. Previous Payments	324,843.00
				9. Amount Due (6-7-8)	22,157.00 ✓
TOTALS					
NET CHANGE					

- 1. Original Contract 347,000.00
 - 2. Change Orders 0.00
 - 3. Revised Contract (1 + 2) 347,000.00
 - 4. Work Completed * 347,000.00
 - 5. Stored Materials * 0.00
 - 6. Subtotal (4 + 5) 347,000.00
 - 7. Retainage * 0.00
 - 8. Previous Payments 324,843.00
 - 9. Amount Due (6-7-8) 22,157.00 ✓
- * Detailed breakdown attached

CONTRACT TIME

Original (days) _____
 Paused _____
 Remaining _____

On Schedule

Yes
 No

Starting Date _____
 Projected Completion _____

*DB 179 5,000.00 5,000.00
 CR 223*

CONTRACTOR'S CERTIFICATION:

The undersigned Contractor certifies that to the best of their knowledge, information and belief the work covered by this payment estimate has been completed in accordance with the contract documents, that all amounts have been paid by the contractor for work for which previous payment estimates was issued and payments received from the owner, and that current payment shown herein is now due.

Contractor LAUREL CONSTRUCTION CO., INC.

By *[Signature]*

Date September 24, 2004

ARCHITECT OR ENGINEER'S CERTIFICATION

The undersigned certifies that the work has been carefully inspected and to the best of their knowledge and belief the quantities shown in this estimate are correct and the work has been performed in accordance with the contract documents.

Architect or Engineer KEMIRONS, INC.

By *[Signature]*

Date 10/13/04

APPROVED BY OWNER

Owner PRESTONSBURG UTILITIES COMMISSION

By *[Signature]*

Date 09/24/04

ACCEPTED BY FmHA:

The review and acceptance of this estimate by FmHA does not attest to the correctness of the quantities shown or that the work has been performed in accordance with the contract documents.

By _____

Date _____

KENVRONS, INC.
FRANKFORT, KENTUCKY

Project: KY 321 Waterline and Pump Station Project
Project No.: 2002021

Owner: Prestonsburg City's Utilities Commission
Contractor: Rorlie Klu Ins and Sers, Inc.

Estimate No. **7 - FINAL**
Completion Date: March 1, 2007

For Period: January 20 2007 thru March 1, 2007
Percent Complete: 100.00%

No. 31
Contractor Meeting Schedule: Yes

CONTRACT ESTIMATE

Item No	Description	Contract Quantity	Unit	Unit Price	Amount	Previous Estimate	Current Estimate	Total to Date	Total Amount
1		12,272	LF	\$27.00	\$331,333.20	12,271.6	0.0	12,271.6	\$331,333.20
2		175	LF	200.00	35,000.00	175	0	175	\$35,000.00
3	Open Cut & Case for 12-In Pipe (18-In Casing)	200	LF	80.00	16,000.00	200	0	200	\$16,000.00
4	Hospital Valve Station w/Appurtenances	1	LS	4,000.00	4,000.00	1	0	1	\$4,000.00
5	12-In Gate Valve	3	EA	1,500.00	4,500.00	3	0	3	\$4,500.00
6	12-In	2	EA	3,000.00	6,000.00	2	0	2	\$6,000.00
7	Fire Hydrant	3	EA	2,500.00	7,500.00	3	0	3	\$7,500.00
8	450 GPM Booster Pump Station	1	LS	88,520.00	88,520.00	40%	60%	100%	\$88,520.00
9	Pavement Replacement	1,631	LF	20.00	32,620.00	1,631	0	1,631	\$32,620.00
	CO No. 1-1 Add New Items								
10	24-In CME Drain Pipe	40	LF	20.00	800.00	40	0	40	\$800.00
11	Concrete Cap Under KDOT Drains and Road Cuts	9	CY	130.00	1,170.00	9	0	9	\$1,170.00

SUMMARY OF ALL ESTIMATES

Est. No. 1	\$194,913.69	Est. No. 4	\$42,618.90	Est. No. 7	
Est. No. 2	\$168,012.90	Est. No. 5	\$8,314.40	Est. No. 8	
Est. No. 3	\$32,364.79	Est. No. 6	\$22,708.80	Est. No. 9	
				Est. No. 10	
				Est. No. 11	
				Est. No. 12	

\$62,526.57 FINAL

PROJECT SUMMARY
Work Completed to Date: \$531,494.05

Stored Materials: \$0.00
Retainage=5%
Total Due to Contractor to Date: \$53,494.05

Less Previous Payments: \$468,537.48
Amount Due from This Estimate: \$62,526.57

APPROVED BY RESIDENT INSPECTOR:
KENVRONS, INC. By: *[Signature]*

Date: 5-2-07

ENGINEER'S CERTIFICATION:

The undersigned certifies that the work has been carefully inspected and to the best of their knowledge and belief, the quantities shown in this estimate are correct and the work has been performed in accordance with the contract documents.
KENVRONS, INC. By: *[Signature]*

Date: 08/26/07

APPROVED BY OWNER:
PRESTONSBURG UTILITIES By: *[Signature]*

Date: 9/2/07

DE 223 24680.92
DR 160 2045.85

\$226.57

EXECUTIVE SUMMARY		Reviewer:	John Covington
KENTUCKY INFRASTRUCTURE AUTHORITY		Date:	12/8/07
FUND B, INFRASTRUCTURE REVOLVING FUND		KIA Loan Number:	807-10
BORROWER:	PRESTONSBURG CITY'S UTILITIES COMMISSION		
	Floyd County		
BRIEF DESCRIPTION:	Prestonsburg City's Utilities Commission requesting a Fund B loan to finance the purchase of the Auxler Water System.		
PROJECT FINANCING:	PROJECT BUDGET		
KIA Fund B	\$ 2,700,000	Auxler Water System Purchase	\$ 2,700,000
TOTAL	\$ 2,700,000	TOTAL	2,700,000
REPAYMENT		Est. Annual	
	Rate	0.7%	Payment
	Term	20 years	1st Payment
			\$150,306
			6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	N/A	
	Bond Counsel	Peck, Shafer, & Williams	
PROJECT SCHEDULE	Contract Signed	9/24/2007	
	Submitted to PSC	11/20/2007	
OTHER DEBT	See Attached		
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached		
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>
	Current	6,149	\$19.22/\$34.29 (for 4,000 gallons)
	Proposed	7,019	\$19.22/\$34.29 (for 4,000 gallons)
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.		
CASHFLOW	Cash Available for		Income after Debt
	Debt Service	Debt Service	Service
			Coverage Ratio
Audited 2003	284,985	697,888	(412,903) 0.41
Audited 2004	558,660	525,025	33,635 1.06
Audited 2005	625,585	832,977	(207,392) 0.75
Audited 2006	245,049	545,438	(300,389) 0.45
Projected 2007	609,613	485,323	124,290 1.26
Projected 2008	889,237	686,370	202,867 1.30
Projected 2009	1,040,932	619,048	421,884 1.68
Projected 2010	1,213,299	611,599	601,700 1.98

Reviewer: John E. Covington, III
 Date: December 6, 2007
 Loan Number: B07-10

**KENTUCKY INFRASTRUCTURE AUTHORITY
 INFRASTRUCTURE REVOLVING FUND (FUND "B")
 CITY OF PRESTONSBURG, FLOYD COUNTY
 PROJECT REVIEW
 WX21071216**

I. PROJECT DESCRIPTION

Prestonsburg City's Utilities Commission requesting a Fund B loan to finance the purchase of the Auxier Water System.

II. PROJECT BUDGET

Auxier Water System Purchase	2,700,000
Total	<u>2,700,000</u>

III. PROJECT FUNDING

KIA Fund B	2,700,000
Total	<u>2,700,000</u>

KIA Debt Service

Fund B Loan	2,700,000
Interest Rate	0.7%
Loan Term	20

Estimated Annual Debt Service	72,453
Administrative Fee (0.2%)	<u>5,400</u>
Total Estimated Annual Debt Service	150,306

IV. PROJECT SCHEDULE

The purchase contract was signed September 24, 2007

The purchase was submitted to PSC for approval on November 20, 2007

V. DEMOGRAPHICS/RATE STRUCTURE

CUSTOMERS

	Auxler	PCUC	Total
Residential Customers	870	6,149	7,019
Commercial Customers	84	763	847
Total	954	6,912	7,866

RATE STRUCTURE

Auxler

First 1,000 Gallons (Minimum Bill)	\$12.21 per 1,000 Gallons
Next 1,000 Gallons	\$7.36 per 1,000 Gallons
Next 6,000 Gallons	\$6.51 per 1,000 Gallons
Next 6,000 Gallons	\$5.51 per 1,000 Gallons
Over 14,000 Gallons	\$4.61 per 1,000 Gallons

PCUC (In City)

First 1,000 Gallons (Minimum Bill)	\$7.25 per 1,000 Gallons
Next 99,000 Gallons	\$3.99 per 1,000 Gallons
Over 100,000 Gallons	\$3.53 per 1,000 Gallons

PCUC (Outside City)

First 1,000 Gallons (Minimum Bill)	\$10.50 per 1,000 Gallons
Next 99,000 Gallons	\$5.49 per 1,000 Gallons
Over 100,000 Gallons	\$4.19 per 1,000 Gallons

Bill for 4,000 Gallons

Auxler	\$34.29
PCUC (In City)	\$19.22
PCUC (Outside City)	\$26.97

Date of Last Rate Increase

Auxler	3/30/06
PCUC	4/1/07

CURRENT SYSTEM

Prestonsburg City Utilities Commission owns and operates its own water treatment plant. Auxier Water System is currently a wholesale customer of Prestonsburg City

Utilities Commission. This acquisition will not increase demand upon the system and the system has adequate capacity for the current demand. Prestonsburg City Utilities Commission provides water for approximately 28,000 people representing over 50 percent of the population of Floyd County.

DEMOGRAPHICS

Prestonsburg is the county seat of Floyd County and is located in Eastern Kentucky. According to the 2000 census the city had a population of 3,612. The city's median age was 40.7 compared to 35.9 for Kentucky and 35.3 for the United States. There were 1,563 occupied housing units of which 92.9% were owner occupied with an average household size of 2.09. The city's median household income was \$20,810 compared to \$33,872 for Kentucky and \$41,994 for the United States.

VI. FINANCIAL ANALYSIS (See Exhibit 1)

Financial information for the utility was obtained from the audited financial statements of the Prestonsburg City's Utilities Commission for the years ended June 30, 2003, 2004, 2005 and 2006, and the application. Prestonsburg City's Utilities Commission provides water, wastewater and gas services. The Commission is pledging all revenues as security for the loan.

The system's balance sheet for the years reviewed has acceptable current ratios, low debt to equity ratios and acceptable revenues in receivables. The system has significant amounts of cash, unrestricted investments and unrestricted assets. The balance sheet will support the additional debt from this loan.

Between 2003 and 2006 the system only had one year with a positive cashflow. The projections indicate that results of operations should improve significantly as a result of a rate increase in 2007 and the acquisition of the Auxier Water Company. The proforma below shows the impact on water operations resulting from the acquisition. This analysis shows that the combined water operations will generate \$1,436,884 in cash to meet debt service requirements of \$686,370. This generates a debt coverage ratio of 2.09.

	PCUC	Auxier	Total
Water Revenues			
Water Revenues	3,004,860	390,000	3,394,860
Interest Revenues	81,640	-	81,640
Total Water Revenues	3,086,500	390,000	3,476,500
Expenses			
Administrative & Operating Expense	2,895,418	110,641	3,006,059
Deduct Non Cash Expenses:			
Interest	(64,250)	-	(64,250)

Depreciation	(805,723)	(75,000)	(880,723)
COI - Bonds	(3,250)	-	(3,250)
Total Expenses	2,022,195	35,641	2,057,836
Net Income Cash	1,064,305	354,359	1,418,664
Investment Income	16,650	1,570	18,220
Cash Available for Debt Service	1,080,955	355,929	1,436,884
Debt Service			
Existing Debt			536,064
New KIA Fund B Loan			150,306
Total Debt Service			686,370
Income After Debt Service			750,514
Debt Coverage Ratio			2.09

VII. DEBT OBLIGATIONS

Issue	Maturity	Balance
Bonds Payable		
USDA/RD (1998)	1/1/38	173,500
USDA/RD (1999)	1/1/27	255,500
USDA/RD (2001)	1/1/41	1,065,000
USDA/RD (91-23)	1/1/44	732,500
USDA/RD (91-25)	1/1/44	148,500
Notes Payable		
KIA - (B291-11)	6/1/14	921,256
KIA - (B98-01)	6/1/19	407,436
KIA - (A98-03)	12/1/20	698,385
KIA - (B99-01)	12/1/20	592,386
Damillier-Chrysler	9/19/08	29,437
Community Trust	9/2/08	25,980
Leases Payable		
KADD2003_045B	4/20/10	230,000
Leasing One Corp.	4/06/05	36,487
Leasing One Corp.		67,967

VIII. OTHER STATE OF FEDERAL FUNDING IN PAST FIVE YEARS

To Be Provided.

IX. CONTACTS

Applicant

Name: Prestonsburg City's Utilities Commission
Address: 2560 South Lake Drive
Prestonsburg, Kentucky 41653

County: Floyd
Contact: David Ellis, Superintendent
Phone: (606) 886-6871

Applicant Contact

Name: Public Finance Group, LLC
Address: 120 Scott Perry Drive
Paintsville, Kentucky 41240

Contact: Andrew Dorton
Phone: (606) 789-7499

X. RECOMMENDATIONS

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

**PRESTONSBURG CITY UTILITIES COMMISSION
CASHFLOW ANALYSIS**

	Audited 2003	Audited 2004	Audited 2005	Audited 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010
Revenues								
Water	2,203,457	2,394,002	2,423,774	2,509,134	2,951,997	3,394,860	3,598,552	3,814,465
Gas	1,204,984	1,438,311	1,593,477	1,587,528	1,714,530	1,851,693	1,999,828	2,159,814
Sewer	811,741	759,784	779,827	786,407	872,912	968,932	1,075,515	1,193,821
Other	126,523	134,413	193,733	183,659	211,208	242,889	279,322	321,221
Total Revenues	4,346,705	4,726,510	4,990,811	5,066,728	5,750,647	6,458,374	6,953,217	7,489,321
Expenses								
Administrative & Operating Expense	4,172,421	4,257,390	4,396,209	4,991,541	5,291,033	5,719,136	6,062,285	6,426,022
Depreciation	1,299,520	1,341,235	1,431,545	1,544,560	1,637,234	1,735,468	1,839,596	1,949,971
Total Expenses	5,471,941	5,598,625	5,827,754	6,536,101	6,928,267	7,454,604	7,901,880	8,375,993
Net Income Cash	(1,125,236)	(872,115)	(836,943)	(1,469,373)	(1,177,620)	(996,230)	(948,664)	(886,672)
Non-Operating Revenues and Expenses								
Nonoperating Revenue (Expenses)	110,701	89,540	30,983	169,862	150,000	150,000	150,000	150,000
Total Non-Operating Rev & Exp	110,701	89,540	30,983	169,862	150,000	150,000	150,000	150,000
Add Non-Cash Expenses								
Depreciation	1,299,520	1,341,235	1,431,545	1,544,560	1,637,234	1,735,468	1,839,596	1,949,971
Cash Available for Debt Service	284,985	558,660	625,585	245,049	609,613	889,237	1,040,932	1,213,299
Debt Service								
Existing Debt	697,888	525,025	832,977	545,438	485,323	536,064	468,742	461,293
New KIA Fund B Loan	697,888	525,025	832,977	545,438	485,323	686,370	619,048	611,599
Total Debt Service	(412,903)	33,635	(207,392)	(900,389)	124,290	202,867	421,884	601,700
Income After Debt Service	0.41	1.06	0.75	0.45	1.26	1.30	1.68	1.98
Debt Coverage Ratio								

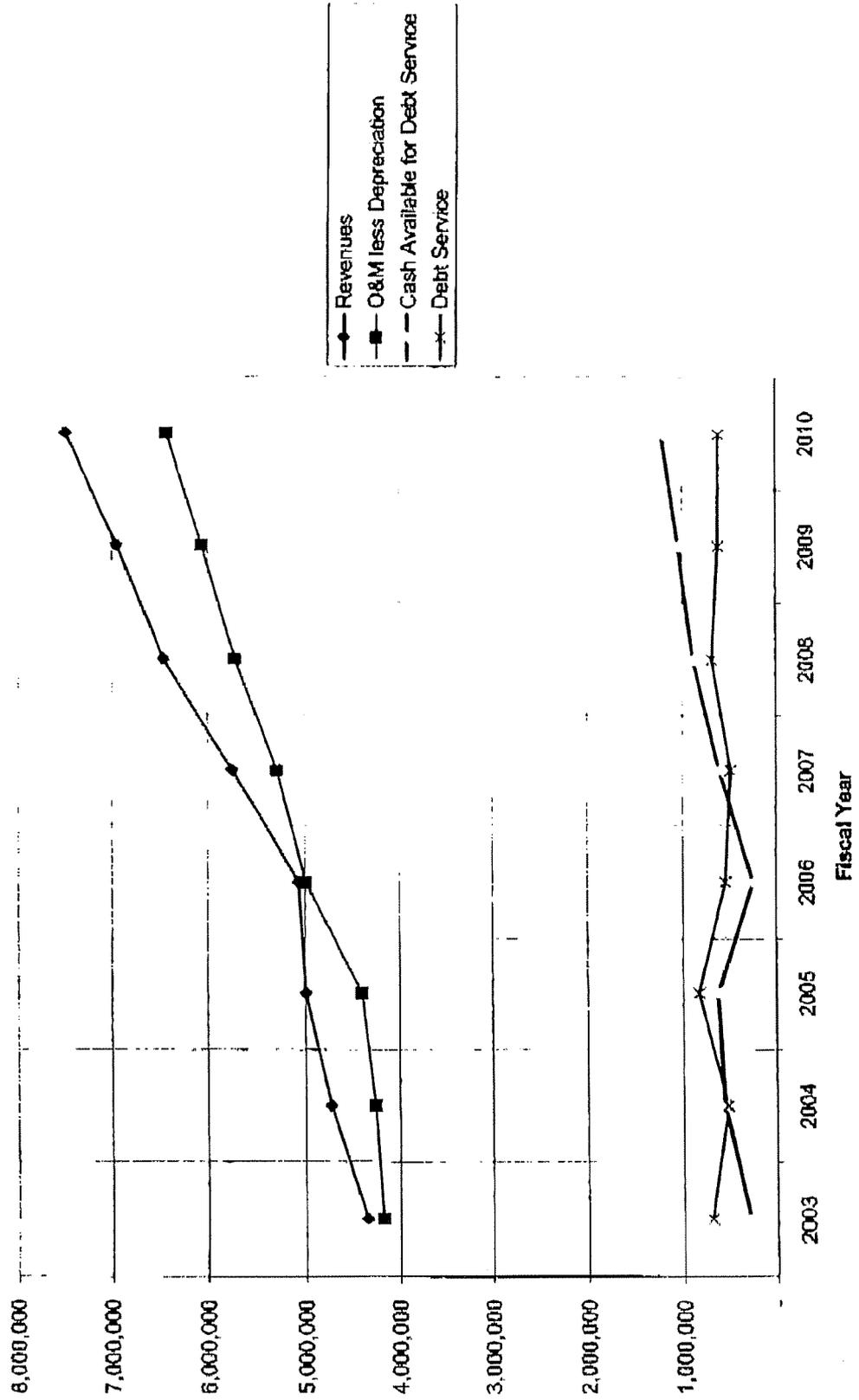
**AUXIER WATER COMPANY
CASHFLOW ANALYSIS**

	PSC 2003	PSC 2004	PSC 2005	PSC 2006
Revenues				
Revenues	477,421	453,460	486,543	491,009
Total Revenues	477,421	453,460	486,543	491,009
Expenses				
Administrative & Operating Expense	456,604	468,009	481,334	425,293
Depreciation	41,885	41,790	36,379	35,844
Total Expenses	498,489	509,799	517,713	461,137
Net Income Cash	(21,068)	(46,339)	(31,170)	29,872
Non-Operating Revenues and Expenses				
Nonoperating Revenue (Expenses)	105	127	108	197
Total Non-Operating Rev & Exp	105	127	108	197
Add Non-Cash Expenses				
Depreciation	41,885	41,790	36,379	35,844
Cash Available for Debt Service	20,922	(4,422)	5,317	4,782

**PRESTONSBURG CITY UTILITIES COMMISSION
BALANCE SHEETS**

ASSETS	2003	2004	2005	2006
Current Assets				
Cash	45,364	179,451	457,179	992,461
Cash - Restricted	340,012	502,319	-	-
Accounts Receivable	615,648	583,477	681,267	622,957
Due from Other Funds	317,166	347,099	393,031	437,369
Inventory	184,572	124,562	87,223	99,928
Other	1,100	71,543	167,429	8,155
Total Current Assets	1,511,862	1,808,451	1,786,123	2,161,860
Noncurrent Assets				
Investments	951,894	-	1,755,869	1,779,741
Investments Restricted	2,757,913	3,668,790	1,922,966	1,220,259
Total Restricted Assets	3,709,807	3,668,790	3,678,835	3,000,000
Capital Assets				
Land and Improvements	486,267	486,267	247,113	317,609
Buildings	537,092	537,092	577,673	581,114
Office and Other Equipment	404,210	418,015	431,995	529,241
Water Plant and Equipment	17,009,931	17,716,471	18,954,768	19,281,302
Sewer Plant and Equipment	12,738,776	13,031,164	14,000,843	14,000,574
Gas Distribution System	721,799	744,012	764,710	771,867
Motor Vehicles	1,151,473	1,213,112	1,281,575	1,170,727
	33,049,548	34,146,133	36,258,475	36,632,434
Less: Accumulated Depreciation	(11,956,576)	(13,258,176)	(14,646,455)	(15,899,514)
Capital Assets, Net	21,092,972	20,887,957	21,612,020	20,732,920
Total Assets	26,314,641	26,367,198	27,076,978	25,894,780
LIABILITIES				
Current Liabilities				
Accounts Payable	255,877	223,137	180,343	451,289
Customer Meter Deposits	260,709	247,075	255,170	247,737
Current Maturities of Long Term Debt	365,886	325,056	341,460	376,563
Line of Credit	-	200,000	-	-
Construction Contracts Payable	57,123	449,566	143,871	9,500
Unearned Revenue	55,900	55,900	15,100	15,100
Accrued Expenses	84,774	83,887	104,014	116,825
Total Current Liabilities	1,080,269	1,584,621	1,039,958	1,217,014
Noncurrent Liabilities				
Bonds, Notes and Leases Payable	5,055,866	4,806,069	5,328,217	5,007,771
Total Noncurrent Liabilities	5,055,866	4,806,069	5,328,217	5,007,771
Total Liabilities	6,136,135	6,390,690	6,368,175	6,224,785
Net Assets				
Invested in Capital Assets, Net of Related Debt	15,671,220	15,758,832	15,941,343	15,348,586
Unrestricted	4,507,266	4,217,676	4,766,460	4,321,409
Total Net Assets	20,178,506	19,976,508	20,707,803	19,669,995
Total Liabilities and Net Assets	26,314,641	26,367,198	27,076,978	25,894,780
Balance Sheet Analysis				
Current Ratio	1.40	1.14	1.72	1.78
Debt to Equity	0.30	0.32	0.31	0.32
Percent of Operating Revenue in Receivables	14.16%	12.34%	13.65%	12.30%

Prestonsburg Utilities Commission CashFlow



Prestonsburg City's Utilities Commission

Water and Sewer Rate/Fee Restructuring

WATER – Effective for Usage Beginning April 01, 2007

	<u>Inside City</u>		<u>Outside City</u>
0 – 1,000 Gallons	\$ 7.25	Minimum Bill	\$ 10.50
Next 99,000 Gallons	3.99 / 1,000		5.49 / 1,000
Over 100,000 Gallons	3.53 / 1,000		4.19 / 1,000

Fees:

Service Tap: \$ 450.00 Base
\$ 600.00 if road or stream must be crossed

SEWER – Effective for Usage Beginning April 01, 2007

	<u>Inside City</u>	<u>Outside City</u>	<u>Allen/Dwale</u>
0 – 1,000 Gallons (Min. Bill)	\$ 10.05	\$ 12.25	\$ 24.36
Over 1,000 Gallons	4.25 / 1,000	5.15 / 1,000	2.86 / 1,000

Fees:

Service Tap: \$ 400.00 Base
\$ 400.00 + labor and materials if additional work required

GAS – Effective for Usage Beginning May 01, 2007

	<u>Inside City</u>	<u>Outside City</u>
0 – 1 MCF	\$ 11.90	\$ 14.49
Over 1 MCF	11.28	12.06

Fees:

Service Tap: \$ 300.00 Base
\$ 450.00 if road or stream must be crossed

Prestonsburg City's Utilities Commission

Water and Sewer Rate/Fee Restructuring

WATER -- Effective for Usage Beginning April 01, 2008

	<u>Inside City</u>	<u>Outside City</u>
0 – 1,000 Gallons	\$ 7.25 (+ C.O.L. 12/31/2007)	\$ 10.50
Next 99,000 Gallons	5.25 / 1,000	6.75 / 1,000
Over 100,000 Gallons	4.75 / 1,000	5.55 / 1,000

Fees:

Service Tap: \$ 450.00 Base
\$ 600.00 if road or stream must be crossed

Proforma of Auxier's Customer Demand Utilizing PCUC 04-01-08 Rates

	Customers	Count	Usage (000's)	Minimum (1,000 GL) \$10.50	Next 99,000 Gallons \$6.75 per 1,000 Gallons	Over 99,000 Gallons \$5.55 per 1,000 Gallons	Total for Month	Per Auxier Books
Jan-07	Residential	905	3,732	\$9,502.50	\$19,082.25			
	Commercial	62	540	\$651.00	\$3,226.50			
	Hospital	1	1,293	\$10.50	\$0.00	\$7,170.60	\$39,643.35	\$37,563.83
Feb-07	Residential	911	3,520	\$9,565.50	\$17,610.75			
	Commercial	59	375	\$619.50	\$2,133.00			
	Hospital	1	1,146	\$10.50	\$0.00	\$6,354.75	\$36,294.00	\$33,289.60
Mar-07	Residential	909	3,432	\$9,544.50	\$17,030.25			
	Commercial	61	472	\$640.50	\$2,774.25			
	Hospital	1	1,731	\$10.50	\$0.00	\$9,601.50	\$39,601.50	\$37,210.18
Apr-07	Residential	914	3,781	\$9,597.00	\$19,352.25			
	Commercial	60	1,051	\$630.00	\$6,689.25			
	Hospital	1	1,887	\$10.50	\$0.00	\$10,467.30	\$46,746.30	\$42,586.70
May-07	Residential	922	4,797	\$9,681.00	\$26,156.25			
	Commercial	57	840	\$598.50	\$5,285.25			
	Hospital	1	2,034	\$10.50	\$0.00	\$11,283.15	\$53,014.65	\$47,595.41
Jun-07	Residential	939	4,028	\$9,859.50	\$20,850.75			
	Commercial	60	723	\$630.00	\$4,475.25			
	Hospital	1	2,312	\$10.50	\$0.00	\$12,826.05	\$48,652.05	\$44,213.66
Jul-07	Residential	936	5,069	\$9,828.00	\$27,897.75			
	Commercial	57	698	\$598.50	\$4,326.75			
	Hospital	1	1,948	\$10.50	\$0.00	\$10,805.85	\$53,467.35	\$47,809.00
Aug-07	Residential	931	4,455	\$9,775.50	\$23,787.00			
	Commercial	57	949	\$598.50	\$6,021.00			
	Hospital	1	1,993	\$10.50	\$0.00	\$11,055.60	\$51,248.10	\$46,407.01
Sep-07	Residential	935	4,401	\$9,817.50	\$23,395.50			
	Commercial	57	1,062	\$598.50	\$6,783.75			
	Hospital	1	2,022	\$10.50	\$0.00	\$11,216.55	\$51,822.30	\$45,358.36
Oct-07	Residential	929	4,032	\$9,754.50	\$20,945.25			
	Commercial	55	750	\$577.50	\$4,691.25			
	Hospital	1	2,251	\$10.50	\$0.00	\$12,487.50	\$48,466.50	\$43,187.34
Nov-07	Residential	926	3,533	\$9,723.00	\$17,597.25			
	Commercial	56	564	\$588.00	\$3,429.00			
	Hospital	1	1,702	\$10.50	\$0.00	\$9,440.55	\$40,788.30	\$37,611.97
Dec-07	Residential	928	3,160	\$9,744.00	\$15,066.00			
	Commercial	55	416	\$577.50	\$2,436.75			
	Hospital	1	1,393	\$10.50	\$0.00	\$7,725.60	\$35,560.35	\$34,446.85
Total for 2007							\$545,304.75	\$497,279.91

Prestonsburg City's Utilities Commission

Water, Wastewater, and Gas Rates

WATER

	<u>Inside City</u>			<u>Outside City</u>		
		<u>4/1/07</u>	<u>3/1/08</u>		<u>4/1/07</u>	<u>3/1/08</u>
0 – 1,000 Gallons	\$ 7.25		COL	\$ 10.50		COL
Up to 100,000 Gallons	5.25	3.99	5.25	6.75	5.49	6.75
Over 100,000 Gallons	4.75	3.53	4.75	5.55	4.19	5.55

Fees:

Service Tap: \$ 450.00 Base
 \$ 600.00 if road or stream must be crossed

SEWER

	<u>Inside City</u>	<u>Outside City</u>	<u>Allen/Dwale</u>
0 – 1,000 Gallons	\$ 10.05	\$ 12.25	\$ 24.36
Over 1,000 Gallons	4.25	5.15	2.86

Fees:

Service Tap: \$ 400.00 Base
 \$ 400.00 + labor and materials if additional work required

GAS

	<u>Inside City</u>	<u>Outside City</u>
0 -1 MCF	\$ 11.48 11.90	\$ 13.98 14.49
Over 1 MCF	10.88 11.28	11.64 12.06

WATER
 ADDITIONAL \$ 1,287,487 ± ANNUALLY

SEWER
 ADDITIONAL \$ 427,447 ± ANNUALLY

\$ 1,714,934 TOTAL



CURRENT BILLING CHARGES BY RATE TABLE

TABLE	BILLS	USAGE	CHARGES	F/C	TAX-1	TAX-2	TAX-3	TAX-4	TAX-5	E/F	TOTALS
W0	21	66413.0	.00	.00	.00	.00	.00	.00	.00	.00	.00
W1	1379	6257.0	19874.68 ²	.00	.00	239.83	.00	.00	.00	.00	20114.51
W2	142	825.0	2538.95	.00	.00	37.22	.00	.00	.00	.00	2576.17
W3	1	76.0	223.46	.00	.00	.00	.00	.00	.00	.00	223.46
W4	707	3562.0	16786.69	.00	.00	102.00	.00	.00	.00	.00	16888.69
W5	2909	14756.0	69993.93	.00	.00	299.58	.00	.00	.00	.00	70293.51
W6	959	5024.0	24203.39	.00	.00	57.25	.00	.00	.00	.00	24260.64
W7	289	1484.0	7160.85	.00	.00	2.02	.00	.00	.00	.00	7162.87
<i>W9</i>	1	3572.0	8973.62	.00	.00	.00	.00	.00	.00	.00	8973.62
WB	40	720.0	2366.75	.00	.00	101.19	.00	.00	.00	.00	2467.94
WC	9	106.0	533.23	.00	.00	23.24	.00	.00	.00	.00	556.47
WD	27	2127.0	6211.86	.00	.00	115.92	.00	.00	.00	.00	6327.78
WE	4	1321.0	3214.22 ✓	.00	.00	61.70	.00	.00	.00	.00	3275.92
WF	3	523.0	1334.84 ✓	.00	.00	.00	.00	.00	.00	.00	1334.84
WJ	7	858.0	2402.16 ✓	.00	.00	144.12	.00	.00	.00	.00	2546.28
WK	2	2693.0	6550.96 ✓	.00	.00	96.52	.00	.00	.00	.00	6647.48
WN	3	24.0	130.53	.00	.00	5.22	.00	.00	.00	.00	135.75
WP	5	198.0	1240.23	.00	.00	64.22	.00	.00	.00	.00	1304.45
<i>W9</i>	1	6535.0	21655.00	.00	.00	.00	.00	.00	.00	.00	21655.00
WU	15	261.0	1395.44	.00	.00	40.61	.00	.00	.00	.00	1436.05
TV	1	104.0	319.98 ✓	.00	.00	.00	.00	.00	.00	.00	319.98
WV	14	1291.0	5577.21	.00	.00	260.64	.00	.00	.00	.00	5837.85
WX	1	150.0	579.71	.00	.00	34.78	.00	.00	.00	.00	614.49
Wa	13	50.0	257.21	.00	.00	.00	.00	.00	.00	.00	257.21
We	6	740.0	2999.78	.00	.00	32.01	.00	.00	.00	.00	3031.79
Wf	1	21.0	266.31	.00	.00	15.98	.00	.00	.00	.00	282.29
Wg	6	232.0	1046.58	.00	.00	50.54	.00	.00	.00	.00	1097.12
-Wi	4	1630.0	3911.28	.00	.00	.00	.00	.00	.00	.00	3911.28
-Wj	12	38.0	161.16	.00	.00	.00	.00	.00	.00	.00	161.16
-Wk	6	4894.0	12077.78 ✓	.00	.00	.00	.00	.00	.00	.00	12077.78
-Wl	2	25.0	90.94	.00	.00	.00	.00	.00	.00	.00	90.94
-Wm	1	11.0	39.13	.00	.00	.00	.00	.00	.00	.00	39.13
-Wn	1	96.0	342.74	.00	.00	.00	.00	.00	.00	.00	342.74
-Wo	1	247.0	688.11	.00	.00	.00	.00	.00	.00	.00	688.11
<i>Wp</i>	1		214.57	.00	.00	.00	.00	.00	.00	.00	214.57
<i>Wq</i>	1	3244.0	7998.12	.00	.00	.00	.00	.00	.00	.00	7998.12
<i>Wu</i>	1	999.0	2341.68 ✓	.00	.00	.00	.00	.00	.00	.00	2341.68

SVCTOT	6596	131107.0	235703.08	.00	.00	1784.59	.00	.00	.00	.00	237487.67

City of Prestonsburg
 City usage 16,104
 Out city usage 29,793

CURRENT BILLING CHARGES BY RATE TABLE

TABLE	BILLS	USAGE	CHARGES	F/C	TAX-1	TAX-2	TAX-3	TAX-4	TAX-5	E/F	TOTALS
X0	5	72.0	.00	.00	.00	.00	.00	.00	.00	.00	.00
X1	1330	5827.0	20958.66	.00	.00	275.37	.00	.00	.00	.00	21234.03
X2	110	675.0	2199.78	.00	.00	28.49	.00	.00	.00	.00	2228.27
X4	258	1278.0	5480.44	.00	.00	56.01	.00	.00	.00	.00	5536.45
X5	98	463.0	1967.52	.00	.00	8.39	.00	.00	.00	.00	1975.91
X6	10	41.0	188.30	.00	.00	1.36	.00	.00	.00	.00	189.66
X8	55	244.0	1075.88	.00	.00	1.54	.00	.00	.00	.00	1077.42
XB	40	822.0	2776.08	.00	.00	103.76	.00	.00	.00	.00	2879.84
XC	8	145.0	542.52	.00	.00	30.72	.00	.00	.00	.00	573.24
XD	25	1863.0	5927.49	.00	.00	114.01	.00	.00	.00	.00	6041.50
XE	6	3438.0	9504.54	.00	.00	71.03	.00	.00	.00	.00	9575.57
XF	3	523.0	1451.34	.00	.00	.00	.00	.00	.00	.00	1451.34
XJ	7	858.0	2496.75	.00	.00	149.80	.00	.00	.00	.00	2646.55
XK	1	652.0	1802.13	.00	.00	108.13	.00	.00	.00	.00	1910.26
XN	1	9.0	35.22	.00	.00	2.11	.00	.00	.00	.00	37.33
XP	2	25.0	249.24	.00	.00	7.48	.00	.00	.00	.00	256.72
XU	2	11.0	70.44	.00	.00	.00	.00	.00	.00	.00	70.44
XV	1	104.0	289.65	.00	.00	.00	.00	.00	.00	.00	289.65
XW	2	42.0	249.24	.00	.00	7.48	.00	.00	.00	.00	256.72
XX	1	21.0	184.22	.00	.00	11.05	.00	.00	.00	.00	195.27
Ya	1	1752.0	12527.49	.00	.00	63.69	.00	.00	.00	.00	12591.18
Yb	1	66.0	255.45	.00	.00	12.59	.00	.00	.00	.00	268.04
Yc	3	113.0	498.33	.00	.00	14.49	.00	.00	.00	.00	512.82

SVCTOT	2382	19044.0	70730.71	.00	.00	1067.50	.00	.00	.00	.00	71798.21

a ✓
 b ✓
 Yc ✓

Min city usage 11,907
 Out city usage 2134
 Allen Duale 1931

CURRENT BILLING CHARGES BY RATE TABLE

TABLE	BILLS	USAGE	CHARGES	F/C		TAX-1	TAX-2	TAX-3	TAX-4	TAX-5	E/F	TOTALS
Y1	1	4.0	94.82	.00	.00	.00	.00	.00	.00	.00	.00	94.82
Y4	70	432.0	1772.42	.00	.00	38.05	.00	.00	.00	.00	.00	1810.47
Y5	10	10 ¹⁰ 1651.0	5001.00	.00	.00	2.04	.00	.00	.00	.00	.00	5003.04
YN	1	122.0	368.98	.00	.00	.00	.00	.00	.00	.00	.00	368.98
YP	1	218.0	655.06	.00	.00	.00	.00	.00	.00	.00	.00	655.06

SVCTOT	83	2427.0	7892.28	.00	.00	40.09	.00	.00	.00	.00	.00	7932.37

Usage 2427

BILLING REGISTER - SUMMARY REPORT

CURRENT BILLING CHARGES BY RATE TABLE

TABLE	BILLS	USAGE	CHARGES	F/C		TAX-1	TAX-2	TAX-3	TAX-4	TAX-5	E/F	TOTALS
G0	10	21.0	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
G1	989	3196.0	40261.88	.00	.00	936.21	.00	.00	.00	.00	.00	41198.09
G2	204	533.0	7929.30	.00	.00	285.53	.00	.00	.00	.00	.00	8214.83
-----												=====
SVCTOT	1203	3750.0	48191.18	.00	.00	1221.74	.00	.00	.00	.00	.00	49412.92

same rate

Prestonsburg City's Utilities Commission

Cash Flow July 01, 2006 through February 28, 2007

Beginning Operating Cash 7/01/06	\$ 31,637.93
Cash Inflow for the 8-month period	3,563,761.54
Garbage (Pass through to City and County)	<u>(694,903.06)</u>
Net Operating Cash Inflow	2,900,496.41
Cash Operating Expenses	(2,457,977.82)
Payroll Costs	<u>(830,751.68)</u>
Net Operating Cash Position	\$(388,233.09)
Debt Service for 8-month period	(304,378.09)
Ending Operating Cash 2/28/07	<u>51,448.09</u>
Cash Shortfall for the 8-month period	<u>\$(641,163.09)</u>

Income Statement

	1 Month Ended January 31, 2007		7 Months Ended January 31, 2007	
Income				
Interest	\$249.26	0.0%	\$72,689.33	2.4%
Revenue	505,270.58	99.1%	2,864,386.03	95.8%
Water	(1,889.19)	-0.4%	0.00	0.0%
Reconnection Fees	0.00	0.0%	45.00	0.0%
Sewer taps	4,200.00	0.8%	16,200.00	0.5%
Gas Taps	0.00	0.0%	900.00	0.0%
Water Taps	2,100.00	0.4%	20,400.00	0.7%
Rent	0.00	0.0%	1,800.00	0.1%
Miscellaneous Sales	0.00	0.0%	12,334.71	0.4%
TOTAL Income	509,930.65	100.0%	2,988,755.07	100.0%
NET INCOME	509,930.65	100.0%	2,988,755.07	100.0%
Expenses				
Interest Expense	388.99	0.1%	13,419.11	0.4%
Bank Service Charge	609.69	0.1%	3,664.87	0.1%
Interest-USDA/RD-#91-12 Cow Cr	3,903.75	0.8%	3,903.75	0.1%
Int.-USDA/RD#91-23/25 Water Intake	19,822.50	3.9%	19,822.50	0.7%
Interest-USDA/RD#91-15 Buffalo	6,068.12	1.2%	6,068.12	0.2%
Interest-USDA/RD#93-21 Mt. Top	23,962.50	4.7%	23,962.50	0.8%
Cost of Goods Consumed	383.62	0.1%	2,102.02	0.1%
Payroll Expense	110,888.22	21.7%	571,042.80	19.1%
Payroll - Garage/Shop	3,606.40	0.7%	18,059.20	0.6%
Payroll - Administrative	30,416.22	6.0%	145,607.02	4.9%
Payroll - Clerical	16,210.90	3.2%	81,024.00	2.7%
Maint. - Materials	23,393.17	4.6%	266,171.94	8.9%
Gas Purchases	188,112.19	36.9%	606,857.09	20.3%
Retirement	21,251.96	4.2%	103,700.27	3.5%
Supplies	3,342.39	0.7%	99,511.71	3.3%
Vehicle and Equipment Maintenance	8,504.19	1.7%	37,735.27	1.3%
Power	7,527.16	1.5%	207,203.11	6.9%
Water Purchases	0.00	0.0%	15,231.85	0.5%
Telephone	2,523.59	0.5%	16,526.71	0.6%
Postage	193.31	0.0%	1,072.98	0.0%
Health Benefits	28,694.63	5.6%	198,386.65	6.6%
Office Expense	6,256.54	1.2%	21,353.92	0.7%
Freight	414.35	0.1%	1,848.85	0.1%
Insurance	0.00	0.0%	68,551.41	2.3%
Engineering	2,267.75	0.4%	11,274.10	0.4%
Lab & Testing	1,738.25	0.3%	13,371.43	0.4%
Gasoline/Diesel Fuel	4,993.58	1.0%	51,582.82	1.7%
Rents & Leases	4,752.24	0.9%	22,296.17	0.7%
Advertising	891.00	0.2%	1,485.05	0.0%
Travel	0.00	0.0%	346.55	0.0%
Permits/Licenses	73.50	0.0%	1,503.48	0.1%

Income Statement

	1 Month Ended January 31, 2007		7 Months Ended January 31, 2007	
Payroll Taxes	12,499.15	2.5%	61,401.81	2.1%
Professional Services	228.00	0.0%	26,879.96	0.9%
Depreciation	130,119.00	25.5%	910,427.00	30.5%
Random Drug Testing Costs	200.00	0.0%	251.76	0.0%
Workers' Compensation Insurance	0.00	0.0%	43,987.00	1.5%
Commissioners	180.00	0.0%	1,260.00	0.0%
Buildings & Grounds Expenses	4,963.35	1.0%	48,197.82	1.6%
Dues & Subscriptions	250.00	0.0%	2,194.04	0.1%
Training Expenses	1,156.93	0.2%	10,186.66	0.3%
Sewer Sludge Removal	1,532.27	0.3%	7,148.13	0.2%
Cost of Monthly Billing	4,022.43	0.8%	29,375.42	1.0%
Clothing	0.00	0.0%	534.70	0.0%
Employee Benefits	85.00	0.0%	3,036.25	0.1%
Other Costs	43.33	0.0%	7,756.38	0.3%
Refunds & Credit Memos	(18.71)	0.0%	2,785.89	0.1%
Natural Gas Tax	516.91	0.1%	2,199.09	0.1%
Easements & Recording Fees	18.00	0.0%	(279.00)	0.0%
Tools	1,731.64	0.3%	8,273.67	0.3%
Inventory Adjustments	0.00	0.0%	(264.46)	0.0%
Cash Short/Over	28.51	0.0%	69.80	0.0%
TOTAL Expenses	678,746.52	133.1%	3,800,109.17	127.1%
			2,889,692.97	
OPERATING PROFIT	(168,815.87)	-33.1%	(811,354.10)	-27.1%
			99,072.90	
			DEPR 15-07-07 2,899,974.08	
			< 190,901.18 >	
Other Income & Expenses				
Project Income-Federal	135,456.00	26.6%	1,084,307.31	36.3%
Project Income-State	31,393.89	6.2%	386,559.44	12.9%
Late Charges - Water	10,517.70	2.1%	65,325.72	2.2%
Miscel. Income	16,772.23	3.3%	38,565.24	1.3%
Int. Exp., KIA Loan B291-11	0.00	0.0%	(14,279.46)	-0.5%
Int. Exp., KIA Loan No. B98-01	0.00	0.0%	(3,055.78)	-0.1%
Int. Exp., KIA Loan No. A98-03	0.00	0.0%	(6,983.86)	-0.2%
Interest Exp. KIA #B99-01	0.00	0.0%	(3,554.31)	-0.1%
TOTAL Other Income & Expenses	194,139.82	38.1%	1,546,884.30	51.8%
PROFIT BEFORE TAXES	25,323.95	5.0%	735,530.20	24.6%
NET PROFIT	\$25,323.95	5.0%	\$735,530.20	24.6%

Out City

4428 min = 54,268.00

17292 next 99,000 = 90,783.00

141,051.00

22,220,000 gal

In City

1622 min = 12,016.00

7902 next 99,000 = 31,608.00

1247 over 100,000 = 4,426.85

46,010.85

~~\$350,000/4200~~

10,771, IN

0-1000	8.00
Next 99	4.00
Over 100	3.55
<u>Out</u>	
0-1000	11.00
99	5.25
Over 100	4.15

Out City

4428 min = 51,744.00

17242 up to 100,000 = 121,690.00

\$181,434.00

22,220,000

In City

1622 min = 11,751.50

7902 up to 100,000 = 47,412.00

1247 over 100,000 = 6172.65

105 21111.15

~~\$984,220/4200~~

10,771,000

IN	7.25
Next 99,000	6.00
Over 100	4.95
<u>Out</u>	
0-1000	10.50
Next 99	7.50
Over 100	6.45

50

PRESTONSBURG, PRATER CREEK AND DAVID WATER RATES

3rd Floor
Circuit
100
100
100

	INSIDE CORP			OUTSIDE CORP		
0-2,000 GALLONS	\$6.67	6.78	6.88	10.10	10.20	10.31
NEXT 98,000	2.83	2.93	3.03	4.37	4.47	4.58
OVER 100,000	2.38	2.49	2.59	2.93	3.03	3.14

PCUC GAS RATES

	INSIDE CORP	OUTSIDE CORP
0-1 MCF	\$11.48 (MINIMUM)	\$13.98 (MINIMUM)
OVER 1 MCF	10.88	11.64

SEWER RATES

	INSIDE CORP	OUTSIDE CORP	ALLEN/DWALE
0-2,000 GALLONS	\$8.42 (MINIMUM)	11.79 (MINIMUM)	24.36 (MINIMUM)
OVER 2,000	2.86	3.09	2.86

TRASH RATES

IN CITY	COUNTY
T1= \$11.85	T5= \$12.00
T2= 8.00	T6= 10.00
T3= 13.85	
T4 =HIGHLAND HGTS	
T7= 15.85 (2 ROLL CARTS)	
T8= 10.00 (SC/1 ROLL CART)	
TA= 15.00 (COMMERCIAL)	
TB= 27.00 (COMMERCIAL)	
TC= LARGER RATES (COMM) @ \$1.80/MULTIPLE	
TD= 30.00 (COMMERCIAL)	

CURRENT BILLING CHARGES BY RATE TABLE

TABLE	BILLS	USAGE	CHARGES	F/C	TAX-1	TAX-2	TAX-3	TAX-4	TAX-5	E/F	TOTALS
W0	20	53409.0	.00	.00	.00	.00	.00	.00	.00	.00	.00
W1	1383	5030.0	19381.53	.00	.00	222.98	.00	.00	.00	.00	19604.51
W2	145	690.0	2516.12	.00	.00	35.74	.00	.00	.00	.00	2551.86
W3	1	46.0	138.49	.00	.00	.00	.00	.00	.00	.00	138.49
W4	702	2840.0	16115.84	.00	.00	85.16	.00	.00	.00	.00	16201.00
W5	2911	12253.0	70123.75	.00	.00	215.32	.00	.00	.00	.00	70339.07
W6	962	3976.0	23181.08	.00	.00	57.08	.00	.00	.00	.00	23238.16
W7	289	1249.0	7297.89	.00	.00	2.23	.00	.00	.00	.00	7300.12
W9	1	4327.0	10849.64	.00	.00	.00	.00	.00	.00	.00	10849.64
WB	39	643.0	2289.50	.00	.00	91.71	.00	.00	.00	.00	2381.21
WC	9	109.0	514.49	.00	.00	25.10	.00	.00	.00	.00	539.59
WD	227	1465.0	4987.06	.00	.00	128.41	.00	.00	.00	.00	5115.47
WE	4	827.0	2313.78	.00	.00	54.41	.00	.00	.00	.00	2368.19
WF	3	475.0	1232.63	.00	.00	.00	.00	.00	.00	.00	1232.63
WG	7	604.0	1699.17	.00	.00	101.95	.00	.00	.00	.00	1801.12
WK	2	745.0	1881.42	.00	.00	43.27	.00	.00	.00	.00	1924.69
WN	3	24.0	143.19	.00	.00	5.72	.00	.00	.00	.00	148.91
WP	5	142.0	1095.31	.00	.00	55.26	.00	.00	.00	.00	1150.57
WS	1	5292.0	21655.00	.00	.00	.00	.00	.00	.00	.00	21655.00
WU	15	281.0	1567.94	.00	.00	51.50	.00	.00	.00	.00	1619.44
V	1	37.0	322.71	.00	.00	.00	.00	.00	.00	.00	322.71
W	14	912.0	4507.56	.00	.00	223.51	.00	.00	.00	.00	4731.07
WX	1	104.0	449.25	.00	.00	26.96	.00	.00	.00	.00	476.21
Wa	13	47.0	288.85	.00	.00	.00	.00	.00	.00	.00	288.85
We	6	241.0	1602.61	.00	.00	32.82	.00	.00	.00	.00	1635.43
Wf	1	16.0	270.73	.00	.00	16.24	.00	.00	.00	.00	286.97
Wg	6	135.0	718.28	.00	.00	35.59	.00	.00	.00	.00	753.87
Wi	4	1805.0	4316.18	.00	.00	.00	.00	.00	.00	.00	4316.18
Wj	12	33.0	146.92	.00	.00	.00	.00	.00	.00	.00	146.92
Wk	6	3563.0	9043.22	.00	.00	.00	.00	.00	.00	.00	9043.22
Wl	2	29.0	105.18	.00	.00	.00	.00	.00	.00	.00	105.18
Wm	1	13.0	46.05	.00	.00	.00	.00	.00	.00	.00	46.05
Wn	1	99.0	353.42	.00	.00	.00	.00	.00	.00	.00	353.42
Wo	1	22.0	139.47	.00	.00	.00	.00	.00	.00	.00	139.47
Wp	1		214.57	.00	.00	.00	.00	.00	.00	.00	214.57
Wq	1	3127.0	7713.81	.00	.00	.00	.00	.00	.00	.00	7713.81
Wu	1		120.91	.00	.00	.00	.00	.00	.00	.00	120.91

SVCTOT	6601	104710.0	219343.55	.00	.00	1510.96	.00	.00	.00	.00	220854.51

out city charges
1,373.28

in city charges
31,397.81

DOES NOT INCLUDE
 4 = City of Martin
 5 = PWSM
 7 = Southern Water
 8 = Sandy Valley
 imp = water
 or taxes