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PUBLIC SERVICE COMMISSION

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March 9, 2011

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Case No. 2010-00476

Dear Mr. Derouen:

Attached is exhibit 11 of the application for Water Service Corporation of Kentucky. This exhibit was denied confidential protection. (The copies have "confidential" stamped on them, but this is an internal company watermark. The document is not considered confidential for purposes of this case).

Also attached is a re-submission of the petition for confidentiality filed on February 17th for portions of item 11 of the initial data request. This re-submission is identical to the original filing, except the exhibit attached as "confidential" is a paper copy, not an electronic copy, to comply with the commission's order of March 4th.

A copy of this filing has been delivered to the Attorney General.

If you have any questions about this matter, please contact me.

Very truly yours,

John N. Hughes

Attorney for WSCK

Attachments

WSC of KY

Calculation of Salary and Benefits
12/31/2010 Earning Statements

CONFIDENTIAL

		Total Annualized Salary	FICA 7.65%	FUTA 7,000 @ .8%	SUTA 12,740 @ 6.75%	Total Taxes	Health Insurance[4	Pension at 3%	401(k) at 4%	Other	Total Benefits	Checkstub 12/31/2010	Annual Salary	Title	DOH
Northbrook															
WSC 1		53,554	4,097	56	860	5,013	7,952	1,607	2,142	418	12,119	51,743	51,743	Regulatory Staff Accountant II	8/22/2006
WSC 2		-	-	-	-	-	-	-	-		-		0	Billing Manager - Position eliminated	
WSC 3		46,986	3,594	56	860	4,510	7,952	1,410	1,879	418	11,659	45,397	45,397	Regulatory Staff Accountant	11/17/2008
WSC 4		49,174	3,762	56	860	4,678	7,952	1,475	1,967	418	11,812	47,511	47,511	Regulatory Staff Accountant	10/13/2008
WSC 5		336,375	11,499	56	860	12,415	7,952	10,091	13,455	418	31,916	325,000	325,000	CEO	4/29/2002
WSC 6		58,581	4,481	56	860	5,397	7,952	1,757	2,343	418	12,471	56,600	56,600	Sr. Fixed Asset Accountant	8/18/2008
WSC 7		62,132	4,753	56	860	5,669	7,952	1,864	2,485	418	12,719	60,031	60,031	AP Supervisor	12/19/2006
WSC 8		90,550	6,927	56	860	7,843	7,952	2,716	3,622	418	14,708	87,488	87,488	Manager, Regulatory Accounting	1/3/2006
WSC 9		109,797	8,214	56	860	9,130	7,952	3,294	4,392	418	16,056	106,084	106,084	Director, Governmental Affairs	1/8/2007
WSC 10		131,963	8,535	56	860	9,451	7,952	3,959	5,279	418	17,607	127,500	127,500	Director, Tax & Accounting Operation	5/1/2008
WSC 11		227,700	9,923	56	860	10,839	7,952	6,831	9,108	418	24,309	220,000	220,000	COO	1/16/2006
WSC 12		54,855	4,196	56	860	5,112	7,952	1,646	2,194	418	12,210	53,000	53,000	Corporate Staff Accountant I	11/3/2008
WSC 13		96,031	7,346	56	860	8,262	7,952	2,881	3,841	418	15,092	92,784	92,784	Corporate Accounting Manager	12/26/2006
WSC 14		72,818	5,571	56	860	6,487	7,952	2,185	2,913	418	13,467	70,356	70,356	Billing Manager	7/11/1988
WSC 15		223,871	9,868	56	860	10,784	7,952	6,716	8,955	418	24,041	216,300	216,300	CFO	5/4/2009
WSC 16		60,047	4,594	56	860	5,510	7,952	1,801	2,402	418	12,573	58,016	58,016	Payroll Supervisor	6/18/2007
WSC 17		49,776	3,808	56	860	4,724	7,952	1,493	1,991	418	11,854	48,092	48,092	Regulatory Staff Accountant	11/10/2008
WSC 18		63,963	4,893	56	860	5,809	7,952	1,919	2,559	418	12,847	61,800	61,800	Regulatory Staff Accountant II	10/3/2005
WSC 19		120,464	8,368	56	860	9,284	7,952	3,614	4,819	418	16,802	116,390	116,390	IT Manager	1/28/2008
WSC 20		66,069	5,054	56	860	5,970	7,952	1,982	2,643	418	12,995	63,835	63,835	Senior Corporate Accountant	7/22/2008
WSC 21		64,787	4,956	56	860	5,872	7,952	1,944	2,591	418	12,905	62,596	62,596	Sr. Regulatory Accountant	4/5/2006
WSC 22		98,739	7,554	56	860	8,469	7,952	2,962	3,950	418	15,282	95,400	95,400	Financial Planning & Analysis Manage	10/1/2009
WSC 23		71,087	5,438	56	860	6,354	7,952	2,133	2,843	418	13,346	68,683	68,683	Executive Assistant	4/23/2007
WSC 24		51,747	3,959	56	860	4,875	7,952	1,552	2,070	418	11,992	49,997	49,997	Tax Specialist	6/8/1998
WSC 25		35,233	2,695	56	860	3,611	7,952	1,057	1,409	418	10,836	34,042	34,042	AP Clerk	10/7/2005
WSC 26		49,819	3,811	56	860	4,727	7,952	1,495	1,993	418	11,857	48,134	48,134	AP Clerk	11/8/1999
WSC 27		46,587	3,564	56	860	4,480	7,952	1,398	1,863	418	11,631	45,011	45,011	AP Clerk	3/10/2003
WSC 28		55,286	4,229	56	860	5,145	7,952	1,659	2,211	418	12,240	53,416	53,416	Billing Specialist	12/18/2000
WSC 29		62,002	4,743	56	860	5,659	7,952	1,860	2,480	418	12,710	59,906	59,906	Sr. Regulatory Accountant	4/10/2007
WSC 30		69,078	5,284	56	860	6,200	7,952	2,072	2,763	418	13,205	66,742	66,742	Network Administrator	9/12/2005
WSC 31		227,292	9,917	56	860	10,833	7,952	6,819	9,092	418	24,280	219,606	219,606	VP, General Counsel	1/2/2007
WSC 32		92,427	7,071	56	860	7,987	7,952	2,773	3,697	418	14,840	89,301	89,301	Manager, Regulatory Accounting	8/2/2002
WSC 33		46,824	3,582	56	860	4,498	7,952	1,405	1,873	418	11,648	45,241	45,241	Regulatory Staff Accountant I	6/26/2006
WSC 34		53,889	4,123	56	860	5,038	7,952	1,617	2,156	418	12,142	52,067	52,067	HR Generalist	8/18/2008
WSC 35		68,018	5,203	56	860	6,119	7,952	2,041	2,721	418	13,131	65,718	65,718	Operations Administration Manger	6/27/2007
WSC 36		41,413	3,168	56	860	4,084	7,952	1,242	1,657	418	11,269	40,013	40,013	AP Clerk	1/12/2006
WSC 37		53,998	4,131	56	860	5,047	7,952	1,620	2,160	418	12,150	52,172	52,172	Payroll / HR Administrator	5/23/1986
WSC 38		45,368	3,471	56	860	4,387	7,952	1,361	1,815	418	11,546	43,834	43,834	Desktop Support Analyst II	12/4/2006
WSC 39		16,946	1,296	56	860	2,212	-	-	-		-	16,373	16,373	AP Clerk	12/21/2007
WSC 40		36,380	2,783	56	860	3,699	7,952	1,091	1,455	418	10,917	35,150	35,150	Operations Administrator	7/23/2008
WSC 41		30,404	2,326	56	860	3,242	7,952	912	1,216	418	10,498	29,376	29,376	Regulatory Assistant	9/26/2007
WSC 42		34,915	2,671	56	860	3,587	7,952	1,047	1,397	418	10,814	33,734	33,734	Receptionist	5/12/2003
WSC 43		-	-	-	-	-	-	-				-	0	Position Eliminated	
WSC 44		73,687	5,637	56	860	6,553	7,952	2,211	2,947	418	13,528	71,195	71,195	Compliance and Safety Coordinator	8/13/2007
WSC 45		45,586	3,487	56	860	4,403	7,952	1,368	1,823	418	11,561	44,045	44,045	Desktop Support Analyst II	10/15/2007
WSC 46		38,234	2,925	56	860	3,841	7,952	1,147	1,529	418	11,046	36,941	36,941	AP Clerk	9/15/2008
WSC 47		71,312	5,455	56	860	6,371	7,952	2,139	2,852	418	13,362	68,900	68,900	Sr. Financial Analyst	10/23/2007
WSC 48		59,806	4,575	56	860	5,491	7,952	1,794	2,392	418	12,556	57,783	57,783	Capital Projects Analyst	2/4/2009
WSC 49		186,300	9,323	56	860	10,239	7,952	5,589	7,452	418	21,411	180,000	180,000	VP, Corporate Development	1/18/2006
WSC 50		155,250	8,873	56	860	9,789	7,952	4,658	6,210	418	19,238	150,000	150,000	Executive Director, Regulatory Affairs	12/31/2009
WSC 52		80,179	6,134	56	860	7,050	7,952	2,405	3,207	418	13,982	77,467	77,467	Corporate Services Manager	9/16/2007
WSC 53		47,361	3,623	56	860	4,539	7,952	1,421	1,894	418	11,685	45,760	45,760	Benefits Administrator	9/16/2009
WSC 54		45,395	3,473	56	860	4,389	7,952	1,362	1,816	418	11,548	43,860	43,860	Regulatory Staff Accountant I	11/16/2009
WSC 55		82,800	6,334	56	860	7,250	7,952	2,484	3,312	418	14,166	80,000	80,000	Process & Performance Manager	3/22/2010
WSC 56		82,800	6,334	56	860	7,250	7,952	2,484	3,312	418	14,166	80,000	80,000	HR Manager	4/7/2010
WSC 57		-	-			-		-				-	0	Mail Clerk - Position Eliminated	
WSC 58		82,800	6,334	56	860	7,250	7,952	2,484	3,312	418	14,166	80,000	80,000	**Regulatory Staff Accountant II**	**11/8/2006**
WSC 59		160,425	12,273	56	860	13,188	7,952	4,813	6,417	418	19,600	155,000	155,000	**Controller**	**4/13/2010**
Total Northbrook Salary		#########	300,240	3,080	48,158	######	######	######	180,877	22,990	768,933	4,385,390	4,385,390		
** ERC to WSC of KY	2.63%	119,216	7,886	81	1,265	9,232	11,279	3,563 #	4,751	604	20,197	115,185	# 115,185		

** Totals are locatd on wp b - salary.

Utilities, Inc. and Subsidiary Companies
Consolidated Financial Statements
For the Years Ended
December 31, 2009 and 2008

Utilities, Inc. and Subsidiary Companies
Index
For the Years Ended December 31, 2009 and 2008

PRICEWATERHOUSECOOPERS

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Chicago, IL 60606
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Report of Independent Auditors

To the Board of Directors and
Shareholder of Utilities, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, common shareholder's equity, capitalization, and cash flows present fairly, in all material respects, the financial position of Utilities, Inc. and its subsidiaries (the Company) at December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 1, 2010

Utilities, Inc. and Subsidiary Companies
Consolidated Statements of Operations
For the Years Ended December 31, 2009 and 2008

	2009	2008
Utility operations		
Operating Revenues:		
Water	$ 58,084,937	$ 55,283,683
Wastewater	53,186,100	51,119,225
Miscellaneous	2,727,751	2,575,592
Non-Regulated Services	1,697,799	2,142,712
Total Operating Revenues	115,696,587	111,121,212
Operating Expenses:		
Operation and maintenance	75,079,116	79,863,803
Depreciation and amortization	15,360,829	13,332,698
Taxes-		
Property and other general taxes	9,837,704	8,984,352
Income taxes	487,875	(1,012,145)
Total Operating Expenses	100,765,524	101,168,708
Income after Operating Expenses	14,931,063	9,952,504
Other (Income) Deductions:		
Interest expense	13,589,423	13,904,909
Interest income	(31,449)	(16,580)
Allowance for funds used during construction-equity	(267,291)	(1,230,723)
Allowance for funds used during construction-borrowed	(292,364)	(1,393,980)
Total Other (Income) Deductions	12,998,319	11,263,626
Income from Utility Operations	1,932,744	(1,311,122)
Gain (Loss) on disposition of utility system	5,390,807	1,247,196
Less: Income taxes applicable to disposition of utilty systems	1,830,627	571,479
Gain on disposition of utility systems, net	3,560,180	675,717
Net Income/ (Loss)	$ 5,492,924	$ (635,405)

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

Utilities, Inc. and Subsidiary Companies
Consolidated Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Property, Plant and Equipment, at cost:		
Plant in service-		
Water	$ 393,821,745	$ 382,449,849
Wastewater	381,120,897	387,347,961
Other	43,328,456	43,194,730
	818,271,098	812,992,540
Less -		
Accumulated depreciation	115,854,805	109,731,012
Plant acquisition adjustments, net	23,739,768	24,440,805
	678,676,525	678,820,723
Plant under construction	9,598,945	31,185,990
Total Plant, net	$ 688,275,470	$ 710,006,713
Current Assets:		
Cash and Cash Equivalents	$ 920,552	$ 1,547,862
Restricted cash	857,519	2,921,090
Receivables (including unbilled revenue of $6,278,405 and $6,566,175, respectively)		
Customers, less allowance for uncollectible accounts of $1,199,609 and $340,552,respectively	14,643,924	18,392,530
Other	382,246	25,706
Prepayments and other assets	2,465,308	2,701,114
Total Current Assets	19,269,549	25,588,302
Deferred Charges and Other Assets:		
Goodwill	17,839,508	20,147,347
Deferred charges, being amortized	3,336,253	2,846,275
Regulatory assets	9,968,422	9,976,747
Total Deferred Charges and Other Assets:	31,144,183	32,970,369
Total Assets	$ 738,689,202	$ 768,565,384

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

Utilities, Inc. and Subsidiary Companies
Consolidated Balance Sheets
December 31, 2009 and 2008

	2009	2008
Capitalization and Liabilities		
Capitalization (see statements):		
Common shareholders' equity	$ 164.229.938	$ 157.737.014
Long-term debt, excluding current maturities	180.000.000	180.000.000
	344.229.938	337.737.014
Contributions in Aid of Construction	317.315.641	321.468.485
Advances in Aid of Construction	3.674.007	1.105.323
Total Contribution and Advances	320.989.648	322.573.808
Current Liabilities		
Notes payable to banks	17.000.000	49.775.000
Accounts payable	13.057.609	15.435.594
Customer deposits	1.801.778	2.389.069
Accrued taxes	2.035.161	2.471.510
Accrued interest	5.763.116	6.449.035
Payable to developers	199.389	188.632
Deferred revenue	63.123	93.170
Total Current Liabilities	39.920.176	76.802.010
Deferred Credits and Other:		
Deferred income taxes	31.619.507	29.401.832
Deferred investment tax credits	946.299	1.002.800
Other	983.634	1.047.920
Total Deferred Credits and Other:	33.549.440	31.452.552
Total Capitalization and Liabilities	$ 738.689.202	$ 768.565.384

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

Utilities, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Shareholder' Equity
For the Years Ended December 31, 2009 and 2008

	Common Shares					Total
	Shares	Amount	Paid-In Capital	Retained Earnings	Total	Comprehensive Income (Loss)
Balance at December 31, 2007	1,000	$ 100	$ 98,111,656	$ 60,260,663	$ 158,372,419	
Net Loss				(635,405)		(635,405)
Total Comprehensive Loss - 2008						$ (635,405)
Balance at December 31, 2008	1,000	$ 100	$ 98,111,656	$ 59,625,258	$ 157,737,014	
Net Income				5,492,924		5,492,924
Capital Contribution from parent			1,000,000			
Total Comprehensive Income - 2009						$ 5,492,924
Balance at December 31, 2009	1,000	$ 100	$ 99,111,656	$ 65,118,182	$ 164,229,938	

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

Utilities, Inc. and Subsidiary Companies
Consolidated Statements of Capitalization
At December 31, 2009 and 2008

	2009	2008
Common Shareholders' Equity:		
Common shares, $.10 par value; authorized and issued 1,000 shares	$ 100	$ 100
Paid-in capital	99,111,656	98,111,656
Retained earnings	65,118,182	59,625,258
Total Common Shareholders' Equity:	164,229,938	157,737,014
Long -Term Debt:		
Collateral trust notes-		
6.58%, $9,000,000 due in annual installments beginning in 2017 through 2035	180,000,000	180,000,000
Total Long -Term Debt:	180,000,000	180,000,000
Less: Current maturities	-	-
Total Long -Term Debt, net	180,000,000	180,000,000
Capitalization, exclusive of short-term financing	$ 344,229,938	$ 337,737,014

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

Utilities, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities:		
Net income	$ 5,492,924	$ (635,405)
Net non-cash charges (credits) to net income:		
Depreciation and amortization	15,360,829	13,332,698
Deferred income taxes and investment tax credits, net	2,161,175	24,712
Amortization of deferred charges and regulatory assets	2,792,753	3,757,441
Amortization of debt and acquisition charges	770,802	200,762
Allowance for funds used during construction-Equity	(267,291)	(1,230,723)
Gain on disposition of assets	(5,390,807)	(1,247,196)
Other, net	450,766	191,525
Change in assets and liabilities		
Receivables	3,205,881	(1,062,094)
Prepayments	(513,034)	475,837
Deferred charges being amortized	(1,413,369)	(562,810)
Regulatory assets	(2,628,913)	(3,763,027)
Accounts payable and accrued liabilities	(2,382,211)	(7,523,721)
Accrued taxes and interest	(1,122,268)	111,344
Customer deposits	(595,391)	(912,965)
Deferred revenue	(30,047)	(74,058)
Deferred credits	(64,286)	(143,287)
Net Cash Provided by Operating Activities	15,827,513	939,033
Cash Flows From Investing Activities:		
Construction expenditures	(25,893,443)	(46,027,064)
Acquisition expenditures	(879,628)	-
Restricted cash change	2,063,571	(1,750,444)
Proceeds from disposition of assets	30,504,692	3,894,635
Net Cash Provided By Investing Activities	5,795,192	(43,882,873)
Cash Flows From Financing Activities:		
Contributions in aid of construction, net	9,926,654	9,446,756
Payable to developers	10,757	(435,067)
Capital contribution	1,000,000	-
Debt and acquisition charges	(412,426)	(823,389)
Increase (Decrease) in short term borrowing, net	(32,775,000)	34,275,000
Net Cash Used In Financing Activities	(22,250,015)	42,463,300
Net Decrease in Cash	(627,310)	(480,540)
Cash at Beginning of Period	1,547,862	2,028,402
Cash at End of Period	$ 920,552	$ 1,547,862
Supplemental cash flow information:		
Interest paid (net of amounts capitalized)	$ 13,192,128	$ 12,120,110
Income taxes paid	$ 311,916	$ 17,551
Non-cash property, plant and equipment contributions	$ 6,778,092	$ 5,748,272

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

1. Summary of Significant Accounting Policies

Nature of Business
Utilities, Inc. (the "Company"), is a holding company which, at December 31, 2009, owned and operated approximately 500 water and wastewater utility systems through 93 subsidiary operating companies. The primary areas served include Florida, North Carolina, South Carolina, Louisiana, Nevada and Illinois. The utility subsidiaries are subject to regulation by the applicable state regulatory commissions. The Company is a wholly-owned subsidiary of Hydro Star Holdings Company.

The Company also owns certain unregulated land application facilities, providing services on a fee basis and a solid waste-collection billing and management service operation providing services on a contractual basis. These services are provided to third parties as well as to our regulated utility operations.

Principles of Consolidation
Common expenses of Utilities, Inc. and Water Service Corporation, an affiliated service company, are charged at cost to all affiliated operating companies. In the consolidated financial statements, all significant intercompany transactions have been eliminated, except for the inter-company profit related to transactions between our unregulated land application operations and our regulated utility operations. These amounts have not been eliminated as it is probable that, through the rate-making process, future revenue approximately equal to the sales price will result from the regulated affiliates' use of the product or service.

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

Income Taxes
Utilities, Inc. has been included in the Federal income tax return of Hydro Star LLC. Under a tax sharing arrangement, subsidiaries of Hydro Star LLC contribute to the consolidated tax liability based on their share of taxable income (loss) for each period. In the accompanying financial statements, income tax expense and the corresponding taxes payable have been determined on a separate return basis.

Investment tax credits are deferred and are being amortized over the book lives of the related properties.

Deferred tax liabilities and assets are recorded for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, measured at the currently enacted statutory income tax rate. As a result of rate-making practices, certain temporary differences have not been recognized as deferred income tax expense for rate-making purposes. In such situations, when such timing differences reverse and become currently payable and it is probable that the higher income taxes will be recoverable through rates charged customers, a net regulatory asset has been established to recognize this expected regulatory treatment.

Deferred income taxes are recorded for differences that result from accelerated depreciation, contributions in aid of construction for certain contributions received from 1986 to 1996, and 2001 going forward, investment tax credits, certain deferred charges and certain other differences in the recognition of income and expense for tax and financial reporting purposes.

Cash Equivalents
All highly liquid investments with a maturity of ninety days or less when purchased are considered to be cash equivalents.

Restricted Cash
In certain jurisdictions, cash is restricted for use during capital improvements of specific systems. During 2008 the company received approximately $3.5 million of cash from Colonial Pinnacle Nord-Du-Lac LAC Development to pay for construction of water and wastewater infrastructure in Covington, Louisiana. The Company spent approximately $1.0 million and $2.2 million related to this project in 2009 and 2008, respectively.

Customer Deposits
In certain jurisdictions customers are required to make a deposit equal to their estimated one month bill. These deposits earn interest and are returned to the customer either when the customer demonstrates good payment history or when the customer no longer requires service.

Regulation, Regulatory Assets and Other Deferred Charges
The regulated utilities are subject to traditional cost-based rate regulation, under which rate tariffs are developed with the approval of the respective regulatory commissions. These rate tariffs are generally set to provide the utility the opportunity to recover its allowable operating expenses, including depreciation and taxes, and a return on the debt and equity capital invested.

As a regulated entity, the Company is subject to certain requirements that may differ from the way other companies may record financial transactions. The economic effects of regulation can result in a regulated utility deferring costs or revenues that have been, or are expected to be, allowed in the rate setting process in future periods. Accordingly, the regulated entities record assets and liabilities resulting from the ratemaking process that would not be recorded under GAAP for enterprises in general. Regulatory assets represent probable future revenue associated with the recovery of certain costs from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. Certain maintenance charges, including tank painting costs, are recorded in deferred charges and amortized over the approximate life of deferral.

Revenues
Residential water and wastewater charges are billed monthly, bimonthly or quarterly on a usage or availability charge basis. Revenues for such services are recognized when provided and include an estimate for unbilled revenue. Certain availability charges (for customers who own lots where water and wastewater service is available, but do not have a dwelling built and are not taking service) are billed in advance, and the portion of such billings applicable to periods subsequent to December 31st is included in deferred revenue. Other typical customer charges are recognized as earned and included in Miscellaneous Revenues. Revenues from external customers related to solid waste-collection billing, maintenance and repair, and management service operation are recorded as services are rendered and are included in Non Regulated Revenues in the Consolidated Statement of Operations.

The Company provides a reserve against its accounts receivables for accounts that the Company believes may not be collectible.

Fair Value Measurements
The Company adopted the guidance for fair value measurements as of January 1, 2008. The adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

Goodwill and Acquisitions
Acquisitions have been accounted for using the purchase method and, accordingly, the operating results of the acquired businesses have been included in the consolidated financial statements from their dates of acquisition. The assets and liabilities of these businesses are recorded in the financial statements at their estimated fair values as of the acquisition dates. Based on the nature of the regulatory environment in which certain of the acquired entities operate, fair values of rate-regulated assets and liabilities generally have been considered to approximate net original cost. The excess of consideration paid in excess of the fair value of the net assets acquired is recorded as goodwill.

Goodwill is not amortized, but is subject to an assessment for impairment at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. The Company performed this assessment at year end 2009 using a discounted cash flow model. The Company calculated the present value of the projected net income over a 10 year time period and calculated a terminal year valuation to come up with an overall enterprise value. The enterprise value is then compared to the book equity of the Company and if the enterprise value is lower an additional step must be computed to determine the new carrying value of goodwill. Based on our assessment we have concluded that goodwill has not been impaired.

The gross amount of goodwill, accumulated impairment losses and carrying amount of goodwill were as follows:

	2009	2008
Balance as of January 1		
Goodwill	$ 20,147,347	$ 20,147,347
Accumulated Impairment Losses	-	-
Goodwill related to sales of system	(2,307,839)	-
Balance as of December 31		
Goodwill	17,839,508	20,147,347
Accumulated Impairment Losses	-	-
	$ 17,839,508	$ 20,147,347

Property, Plant & Equipment
All costs necessary to ready the particular asset for its intended use are capitalized. Costs include material, labor and indirect costs including an allowance for funds used during construction. Upon retirement, the cost of regulated property is charged to accumulated depreciation. See "Goodwill and Acquisitions" and "Plant Acquisition Adjustment" for accounting for property, plant and equipment acquired through business purchases.

The company implemented a new accounting general ledger software during the fourth quarter of 2007 and a new customer billing software in the second quarter of 2008. A majority of the costs, including consultants, in house personnel, and the cost of the software, associated with the implementation of these new systems have been capitalized to Property, Plant and Equipment - Other. The company believes that these costs will be recoverable through the rate making process.

Contributions in Aid of Construction (CIAC) represents the amount of property contributed to the Company. In most jurisdictions, CIAC also includes tap-on fees received as new regulated customers are added. Such amounts are generally amortized over the same period that the related property is depreciated. CIAC is generally deducted from property, plant and equipment in the rate making process. Accumulated amortization of CIAC is included in balance sheet as a component of accumulated depreciation.

Advances in Aid of Construction (AIAC) are facilities or cash advances for which a future liability or repayment obligation exists. AIAC represents funds expended on behalf of the Company by a developer. These funds are generally repaid if, and when individual customers are added. For some of these advances, the requirement to repay a developer expires after a specified period of time based on the terms of the related agreement or statute. In these instances the related AIAC is treated as a contribution after the obligation to repay the developer expires and reclassified as CIAC.

Expenditures for maintenance and repairs are expensed as incurred in accordance with the applicable Uniform System of Accounts.

Property in service is generally depreciated using the straight-line method over the estimated useful lives of the related property. The composite or group method is used in which a single depreciation rate is applied to the gross investment in a particular property class. This method pools similar assets and depreciates each group as a whole. Depreciable lives are reviewed and approved by the applicable regulatory commissions. The resulting depreciation expense is included within the recoverable cost of service included in rates charged to customers. Depreciation rates range from 1.5% to 5.0%, with a composite rate of approximately 2.0%.

Long-lived assets are reviewed for potential impairments whenever events or changes in circumstances indicate the carrying amount may not be recoverable. To the extent rate base is permanently disallowed by a regulatory agency and does not provide a benefit to the rate payers the Company will impair its assets by removing the asset from the balance sheet and recognizing a charge in the Consolidated Statement of Operations.

Plant Acquisition Adjustments
For certain acquisitions, the fair value of acquired rate-regulated net assets are recorded in the financial statements at amounts that include the effects of the regulatory treatment accorded plant acquisition adjustments (the amount by which the original cost of assets acquired, less accumulated depreciation, contributions in aid of construction and advances in aid of construction, is greater or lesser than the total consideration paid). As a result, and in accordance with prescribed regulatory accounting practices, plant acquisition adjustments have been recorded as a component of Total Plant, net, and are being amortized over the average life of the plant in service to which they relate.

Allowance for Funds Used During Construction
The cost of debt and equity funds used to finance construction (AFUDC) is capitalized as a cost element of property, with an offsetting credit to other income. The inclusion of AFUDC in plant enables the fair return on, and the recovery of, these capitalized costs by inclusion in rate base and depreciation. The AFUDC rate approximated 8.5% during 2009 and 2008. AFUDC is a non-cash income item.

Acquisitions and Sales
Legal and professional fees and executive time incurred in connection with acquisitions of new water and wastewater systems are capitalized into the cost of specific acquisitions when permitted for regulatory purposes. Costs incurred related to disposition activities are written off to Gain on Disposition of Utility Systems in the period in which the cost was incurred.

Reservation of Capacity Fees
Fees are received from potential customers to reserve system capacity for a period of time. Such capacity fees are deferred and amortized over the period that such capacity is required to be kept available and included in miscellaneous revenues in the Consolidated Statements of Operations. Once the customer has connected to the system the remaining unamortized capacity fee is recognized as income in the year the customer connects regardless of the time frame that capacity has been reserved for. The unamortized balance is included in Other Deferred Credits.

Impact of Prior Year Items on 2009
During the year-ended December 31, 2009, Utilities, Inc. identified several errors that related to the year ended December 31, 2008 and prior years. The adjustments related to prior periods but recorded in the current period increased 2009 pre-tax income and net income by $234,000 and $145,000, respectively. The impact of these items on the financial statements, whether taken individually or in the aggregate, is not considered material to any period.

2. Deferred Charges and Regulatory Assets

	2009	2008
Deferred charges include the following:		
Debt acquisition expense	$ 1,475,526	$ 1,833,901
Maintenance and testing	1,521,422	994,196
Other	339,305	18,178
Total deferred charges	$ 3,336,253	$ 2,846,275
Regulatory assets include the following:		
Income tax related	$ 3,427,263	$ 3,376,789
Regulatory expenses, primarily rate cases	6,541,159	6,599,958
Total regulatory assets	$ 9,968,422	$ 9,976,747

The regulatory asset for deferred income taxes will be adjusted as the amounts reverse and are included in tax expense for regulatory purposes. Other regulatory assets and deferred charges are being amortized to expense generally over periods from 3 to 12 years, corresponding to the period of rate recovery.

3. Long-term Debt and Other Credit Arrangements

In July 2006 a new Master Note Purchase Agreement in the amount of $400 million issuable in series was signed. The initial issuance of $180 million 6.58% notes was received in July 2006 (the "new facility"). The new facility is subject to principal payments in the amount of $9 million beginning in 2017 through 2036. Interest is payable semi-annually in January and July, with the first interest payment due January 2007.

The common stock and indebtedness of subsidiary companies have been pledged as collateral for the long-term debt.

In the normal course of business the Company utilizes a short-term revolving bank facility to finance the cash flow needs of the business. We have a credit facility with banks totaling $55 million and $80 million of which we have $17 million and $49.8 million in loans outstanding as of December 31, 2009 and 2008, respectively. These amounts were recorded as a current liability in the Consolidated Balance Sheet. The current credit facility has a renewal date of November 10, 2011. The interest rate on these borrowings is based on Prime Rate or LIBOR plus 250 basis points, at the option of the Company. The Company currently has borrowings based on both Prime

Rate and LIBOR. The company incurred costs of approximately $375,000 to secure this bank credit facility that are being amortized to the income statement over the life of the note agreement.

The Company's debt obligations are subject to covenants, which consist of a Debt to Capitalization Ratio test and a Minimum Interest Coverage Ratio test calculated at the end of each of its fiscal quarters. During 2009, the Company was in compliance with these covenants.

Management believes that that the existing facility, together with operating cash flows, is sufficient to support the Company's cash requirements for 2010. As noted above, the Company must comply with a number of debt covenants. Management expects to be in compliance with all debt covenants during 2010.

The Company also has letters of credit against its bank credit facility in the amount of $6.6 million as of December 31, 2009 and 2008.

4. Fair Value of Financial Instruments

The carrying amounts of current assets and current liabilities reported in the balance sheet approximate their fair values. The fair value of the long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration.

The carrying amounts and fair value of long-term debt at December 31, 2009 and 2008 are as follows:

	Carrying Value	Fair Value
December 31, 2009	$ 180,000,000	$ 161,329,188
December 31, 2008	180,000,000	136,502,893

5. Employee Benefit Plans

For the year ended December 31, 2009 and 2008, a Money Purchase Pension Plan is available to all employees meeting certain minimum eligibility requirements. The plan is a defined contribution plan, to which the Company contributes an amount based on a percentage of an eligible employee's salary. The contributions are invested as directed by the participants who, upon retirement, will receive the amount accumulated in their individual investment accounts, subject to the provisions of the plan. Contributions are expensed as incurred and were approximately $608,000 and $585,000, in 2009 and 2008, respectively.

For the year ended December 31, 2009 and 2008, a non-matching 401(k) plan is also available to all employees meeting certain minimum eligibility requirements. Under this plan an employee may defer from 1% to 100% of their salary up to the maximum allowed by ERISA. The Company may also make an annual contribution to this plan. The annual contribution is determined by the Board of Directors and is discretionary. Contributions are expensed as incurred and were approximately $788,000 and $746,000 in 2009 and 2008, respectively.

As of January 1, 2010 the Company merged the Money Purchase Pension Plan into the 401(K) Plan. The 401(K) plan is adding a matching component in which the Company will match 50% of an employee deferral up to 6%. The plan also provides for a discretionary profit sharing contribution as determined by the Board of Directors.

6. Contingencies and Legal Proceedings

In the normal course of business, the Company may enter into agreements with developers related to the construction or acquisition of property. These agreements may require payments to developers that are contingent upon the number of customers added to the systems of the various operating companies. These payments to developers are recognized in the balance sheet as a liability as new customers are added. The total potential payments as of December 31, 2009 and 2008 were approximately $1.5 million. Payments owed to developers and accrued were $199,389 and $188,632 at December 31, 2009 and 2008, respectively. Future payments are expected to be made using funds from connection charges collected from additional customers.

The Company is subject to normal legal proceedings and claims arising out of the ordinary course of its business. Management believes resolution of lawsuits will not have a material adverse effect on results of operations or financial condition.

Naturally occurring elements are present in all ground water sources. In the West one of those elements is arsenic. Recently the federal limit on arsenic was lowered from 50 ppb to 10 ppb. Since the reduction one section of Spring Creek Utility Company (SCU), like many other water utilities in Nevada, has been operating under a waiver granted by the Nevada Department of Environmental Protection, this waiver expired on January 23, 2009. SCU is currently negotiating an Administrative Order to bring this section into compliance. At this time since the Administrative Order is still being negotiated SCU does not have an estimate of what the cost may be or the timeline for compliance.

7. Acquisitions and Dispositions

The Company maintains an active acquisition and divestment program.

During 2009, assets or systems were sold with a combined net book value of $24 million for proceeds of $30.5 million. The ongoing operating revenue and expense impact associated with these sold systems was not material. The proceeds were used to pay down the debt of the Company.

There were no material acquisitions during 2009.

8. Asset Retirement Obligation

Potential retirement obligations relating to water and wastewater properties have been identified. However, the Company has determined that it does not have any legal obligations to retire assets that would result in material costs to the Company. In addition, Utilities, Inc. plans on using assets indefinitely and the settlement date or range of potential settlement dates cannot be reasonably estimated. Therefore the Company has not recognized a liability for these potential retirement obligations in the balance sheet.

9. Income Taxes

Income tax expense includes a provision for deferred taxes to reflect the tax effect of temporary differences between when certain costs are recorded for financial reporting purposes and when they are included on the income tax return.

Accumulated deferred income taxes include approximately $3.4 million at December 31, 2009 and 2008, respectively, with corresponding amounts recorded as regulatory assets. This reflects the probable future regulatory treatment afforded certain temporary differences such as the tax effect of investment tax credits, the equity component of AFUDC and other regulatory actions.

Income tax expense (benefit) is displayed in Operating Expenses for the income taxes primarily associated with regulated revenues and expenses considered in the ratemaking process, including interest expense, and in Gains on Disposition of Utility Systems presented on the Consolidated Statement of Operations.

A reconciliation of the statutory Federal income tax rate to the effective Federal and state income tax rate for 2009 and 2008 follows:

	2009	2008
Statutory Federal income tax rate	34.0%	34.0%
Equity component of AFUDC, not subject to taxation	(1.2)%	38.9%
Amortization of investment tax credits	(0.4)%	3.3%
Amortization of Excess Book Value	(1.5)%	10.8%
State income taxes, net of Federal tax benefit	6.3%	(15.0)%
Release of tax reserve	(2.2)%	-
Other, primarily valuation allowance on state NOL and non-deductible meals and entertainment	(5.4)%	(31.0)%
Effective Federal and state income tax rate	29.6%	41.0%

A summary of the components of the Federal and state income tax expense for 2009 and 2008 follows:

	2009	2008
Federal Income Tax Expense Related to Operations:		
Current	$ 2,276,576	$ (1,811,783)
Deferred	(2,442,712)	664,923
Deferred investment tax credits	(34,197)	(35,529)
Total	(200,333)	(1,182,389)
Federal Income Tax Expense Related to Disposition of Utility Systems:		
Current	1,699,847	818,106
Deferred	(251,445)	(318,086)
Total	1,448,402	500,020
Total Federal Income Tax Expense	1,248,069	(682,369)
State Income Tax Expense Related to Operations:		
Current	654,148	65,494
Deferred	34,060	104,750
Total	688,208	170,244
State Income Tax Expense Related to Disposition of Utility Systems:		
Current	391,255	74,456
Deferred	(9,030)	(2,997)
Total	382,225	71,459
Total State Income Tax Expense	1,070,433	241,703
Total Income Tax Expense	$ 2,318,502	$ (440,666)

As of December 31, the deferred income taxes and liabilities consisted of the following:

	2009	2008
Deferred Income Tax Assets		
Federal and State NOL's	$ 2,189,119	$ 6,972,520
Valuation Allowance in State NOL's	(1,576,678)	(1,658,010)
Alternative Minimum Tax	689,023	891,547
Other	1,077,906	745,112
	2,379,370	6,951,169
Deferred Income Tax Liabilities		
Plant related differences	23,941,320	26,186,717
Other	10,057,557	10,166,284
	33,998,877	36,353,001
Total Net Deferred Income Tax Liability	$ (31,619,507)	$ (29,401,832)

A deferred income tax asset for the effect of net operating losses has been recorded, which will more likely than not be realized through future operations and the reversal of temporary differences. The Federal NOL's will begin to expire 2024. The state NOL's vary in different amounts over different periods. Alternative Minimum Tax credit can be carried forward indefinitely.

Effective January 1, 2009, the Company has adopted the guidance for accounting for uncertainty in income taxes. This guidance prescribes a comprehensive model for how to recognize, measure, present, and disclose uncertain tax positions taken or expected to be taken on an income tax return. The Company has evaluated its tax positions and concluded that it does not have any material uncertain tax positions. Therefore the adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

10. Value Creation Share Plan

The Utilities, Inc. Board approved a Value Creation Shares Plan, (the "Plan") on May 1, 2006. Under the Plan, each value creation share entitles the participant, subject to vesting restrictions, to the difference between the award value and the fair market value of a share upon a liquidity event. A liquidity event is defined as any sale transaction of the Company, including, without limitation, a public offering. The Company will pay the participant in cash an amount equal to (i) the aggregate number of the participant's vested value creation shares (including value creation shares that vest due to the liquidity event), multiplied by (ii) the difference between the award value and the fair market value of a share on the liquidity event. The holder of any value creation shares will have no rights as a shareholder with respect to those value creation shares, and the award value of each value creation share awarded under this agreement is $1.40.

The following table summarizes the awards granted, outstanding, and authorized:

	2009	2008
Awards granted	1,760,200	1,197,264
Awards outstanding	5,098,012	4,786,051
Awards forfeited	(1,448,239)	(169,311)
Awards authorized	10,000,000	10,000,000

As of December 31, 2009, the Company has not recognized any compensation expense for any awards granted under this plan as the occurrence of a liquidity event cannot be reasonably estimated and is not considered probable until occurrence.