



**KENVIRONS, INC.**  
452 Versailles Road  
FRANKFORT, KENTUCKY 40601

**(502) 695-4357**

*2007-00087*

**LETTER OF TRANSMITTAL**

TO Public Service Commission  
211 Sower Blvd.  
Frankfort, Kentucky 40602

DATE	3/6/07	JOB NO.	2004031
ATTENTION	BOB ROBARDS		
RE	E. Casey County Water District		
	Contract 15 - Water System Ext.		

WE ARE SENDING YOU  Attached  Under separate cover via \_\_\_\_\_ the following items:

- Shop drawings   
  Prints   
  Plans   
  Samples   
  Specifications  
 Copy of letter   
 Change Order   
 Preliminary Engineering Report

COPIES	DATE	NO.	DESCRIPTION
1			Preliminary Engineering Report

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MAR 6 2007  
PUBLIC SERVICE  
COMMISSION

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REMARKS \_\_\_\_\_  
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*If enclosures are not as noted, kindly notify us at once.*



KENVIRONS

*Case No. 2007-00087*

**PRELIMINARY ENGINEERING REPORT**

*for*

**EAST CASEY COUNTY WATER DISTRICT**

**RECEIVED**

**MAR 6 2007**

**PUBLIC SERVICE  
COMMISSION**

**CONTRACT 15  
WATER SYSTEM EXTENSIONS**

**PROJECT NO. 2004031**

**MAY 2005**

**Kenvirons, Inc.**

*Civil & Environmental Engineering and Laboratory Services*

**PRELIMINARY ENGINEERING REPORT  
EAST CASEY COUNTY WATER DISTRICT  
CONTRACT 15- WATER SYSTEM EXTENSION  
MAY, 2005**

I. Introduction

The East Casey County Water District, herein referred to as ECCWD, serves virtually all of Casey County with the exception of the City of Liberty. The purpose of this project is to provide water service to sparsely populated, rural areas of Casey County which have been unserved by previous projects. These residents currently depend on wells, springs and cisterns for their water supplies. These supplies are not reliable or safe due to the mineral and fecal coliform levels. These supplies simply dry up during the hot, dry summer months and freeze up during the coldest winter period. Overall, the residents to be served by the proposed project are in need of a safe, dependable source of drinking water.

The entire project will serve approximately 250 new customers. Almost all of these residents have expressed an urgent desire to receive water service. In response to continued demand, the ECCWD has expressed their intention to serve everyone who has requested water as expeditiously as funds are available.

The City of Liberty provides treated water to the East Casey County Water District and has sufficient capacity to provide the additional potable water necessary for this project. The existing storage and distribution system of the ECCWD contains adequate capacity to accommodate the new line extensions.

The three member Board of Directors of the ECCWD meets monthly to make decisions relating to the every day operations of the water utility. At meetings, residents of the unserved areas have petitioned the Water District to explore every means possible to help them obtain safe, dependable, potable drinking water. It is the goal of the Commissioner's and the Governor of Kentucky for every resident of Casey County to have access to safe dependable water; therefore, the Commissioners are actively pursuing every financial means possible to accomplish this goal.

II. Project Planning Area

- A. The areas to be served by the proposed project are scattered throughout Casey County and primarily consist of roads near the ends of previous projects – areas which were not feasible to serve in the past. The terrain in these areas generally consists of mostly rocky, hilly pasture lands. The project which lies entirely within the boundaries of the East Casey Water District, will be designed to follow existing roadways within the project area. Exhibit I, a general highway map of Casey County, offers a highlight of the areas to be served by the proposed project.

- B. The proposed project is located in the foothills of the Appalachian Mountains; an area extensively drilled for oil and gas in the 1960's albeit with little success. In the present, the quarry of limestone rock, timber harvesting, gate manufacturing and farming are the major occupations of the area. The proposed project is intended to serve residents living in some of the rural-most areas of Casey County. The sections of topographical map labeled as Exhibit II, indicates the location of the project elements.
  
- C. The population of the proposed project area tends to be long-time residents who most likely grew up in the area. Young couples tend to marry and raise families on small parcels of land carved from the family old home place. Due to these historical tendencies, limited future growth is anticipated.

### III. Existing Facilities

The water distribution system of the East Casey County Water District consists of a network of 10-inch, 8-inch, 6-inch, 4-inch and 3-inch water lines, ten water storage tanks and seven pump stations which serve to fill the water storage tanks insuring adequate pressures throughout the system.

The East Casey County Water District was established in 1982 with 265 rural water customers and one maintenance person with billing operations conducted through the office of the Casey County Judge Executive. In 1988, the system began efforts to expand service to additional customers; therefore becoming a viable entity. The District now provides water to over 2,800 customers and employs a full-time manager, two clerks and two maintenance workers. In 2004, Contract 14 – Water System Extension Project began construction and will ultimately provide service to the remaining densely populated areas of Casey County.

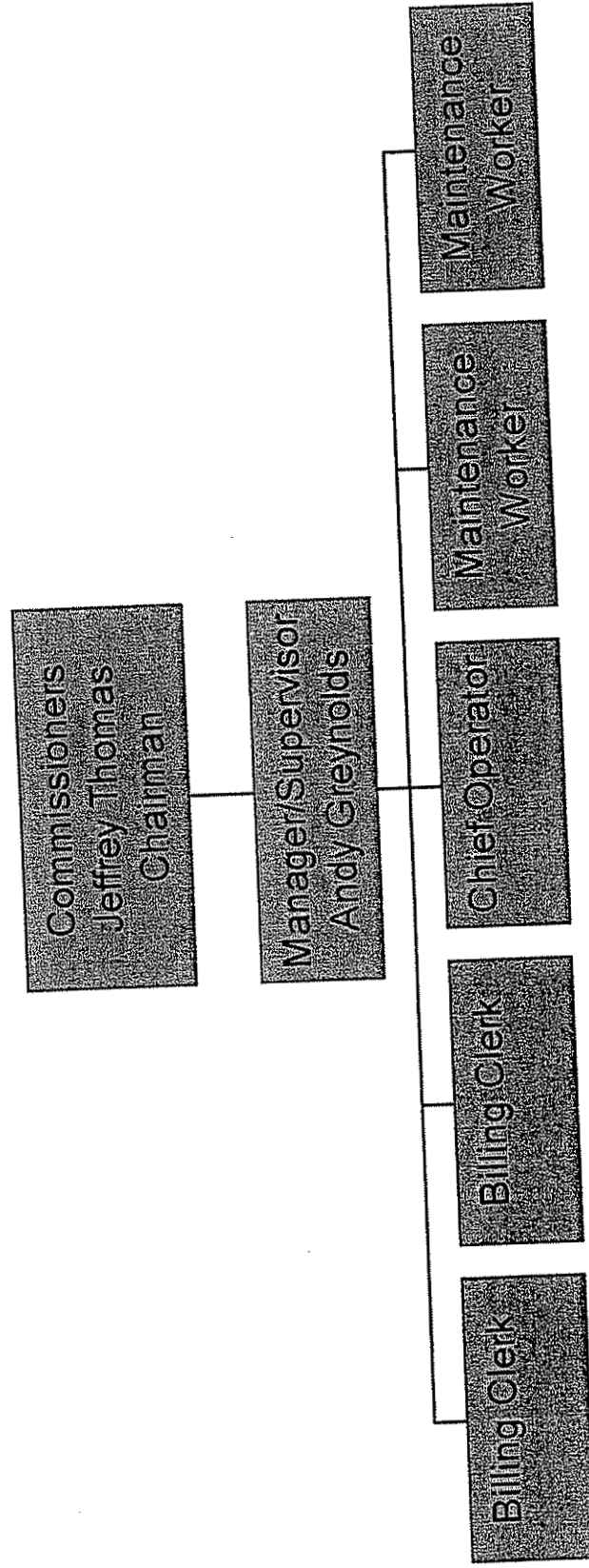
Remaining projects will mostly likely consist of trying to reach less populated, rural areas which may be expensive due to hydraulic difficulties.

Water supply for the East Casey County Water District is provided via 40-year contracts with the City of Liberty and the City of Russell Springs. Both suppliers have adequate capacity and are positioned to supply the East Casey County Water District with additional water as system expansion requires.

The schematic illustrated on the following page, offers a representation of the organization of the East Casey County Water District.

# East Casey County Water District Organizational Chart

## East Casey County Water District



#### A. Condition

Since the oldest portion of the East Casey County Water District distribution system is less than 20 years old, the system is in good operating condition and few major capital expenses are anticipated in the near future. The system is presently operating within the State Division of Water and Federal Safe Drinking Water Standards.

#### B. Rates

Rates for the East Casey County Water District have been included as Table I.

### IV. Health Concerns

In the past, the Lake Cumberland District Health Department has conducted sampling and analysis of water wells and cisterns throughout the various project areas for previous projects. Since this project is in effect an extension of previous projects, it is assumed that the residential wells and cisterns are as highly contaminated as the wells and cisterns in the adjacent project areas.

Since the East Casey County Water District has experienced tremendous growth in the last decade and management of the system has dramatically improved, most residents of the county now want to become a part of this safe, dependable, water supply.

### V. Alternatives

The alternative to extending a public water supply to the proposed project area is to allow the residents to continue struggling with whatever means that is currently available. The "no action" alternative is not considered in the interest of public health.

### VI. Proposed Project

The proposed project intends to extend approximately 320,000 L.F. of 3 and 4-inch PVC waterlines to 250 customers along various roads in Casey County. In certain areas, the project may require the installation of small pneumatic pump stations to insure a minimum dynamic pressure of at least 30 pounds per square inch at each individual customer meter.

Once constructed, the proposed project will create a demand of at least one and one half gallons per minute for each new customer. This demand and at least one day storage will be provided by the existing network of water storage tanks.

Approval of plans and specifications for the proposed project will be obtained from the Kentucky Division of Water prior to construction.

Table III shows the estimated quantities to construct the proposed project and indicates that the estimated construction cost will be \$2,279,060.00.

## VII. Conclusion and Recommendations

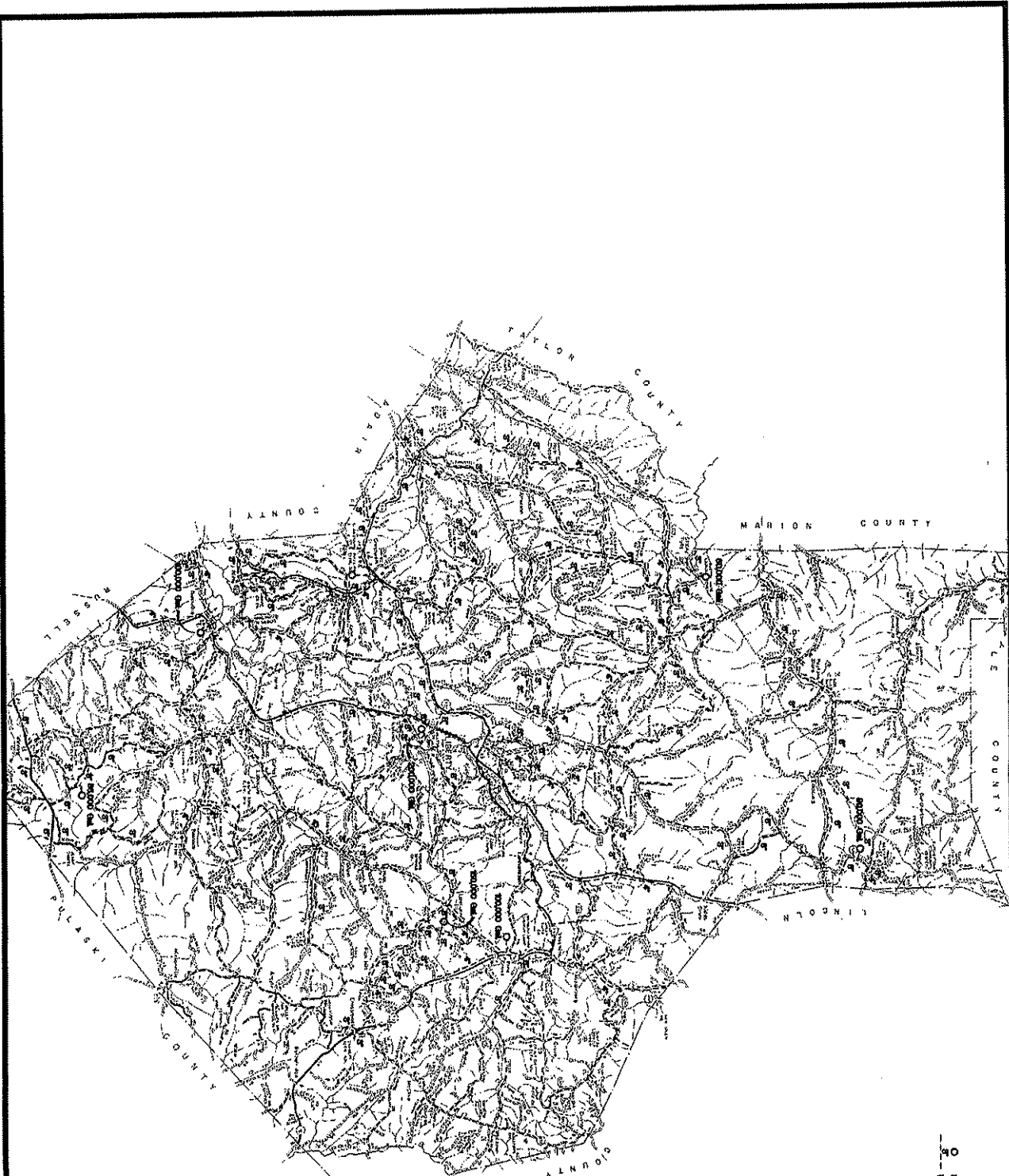
The final conclusions and recommendation of this report is based upon the following:

- \* Residents in Casey County have a history of contaminated water sources.
- \* The Commissioners of the East Casey County Water District have set a goal of serving every resident of Casey County with water.
- \* Governor Paul Patton of the Commonwealth of Kentucky has set a goal of insuring a safe potable supply of water to every resident in Kentucky by the year 2020.
- \* Residents have submitted numerous requests and petitions for water.
- \* Grant funds are available to allow for affordable rates.

Based upon the information available, it is recommended that the East Casey Water District proceed forward with design and construction of the proposed project which will serve approximately 250 new customers.

**EXHIBIT I**





LEGEND  
 O Existing Water Storage Tank  
 - Existing Water Line



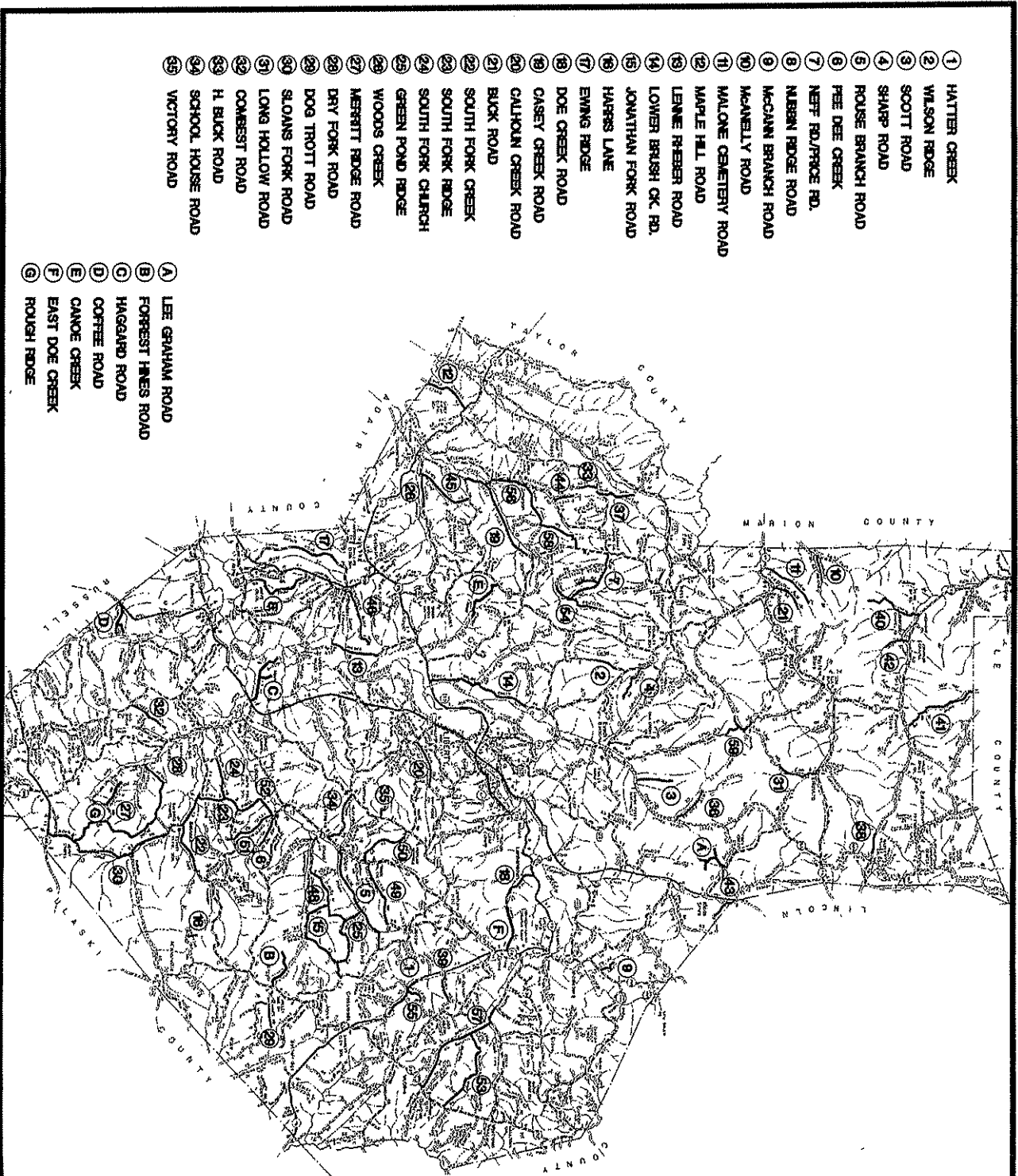
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2004031  
 SHEET NO.  
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**KENVIRONS, INC.**  
 FRANKFORT, KENTUCKY

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 CHECKED BY: JRP  
 CHECKED BY: JWS  
 DATE: 6-26-05  
 SCALE: NTS  
 REV:

**EAST CASEY COUNTY WATER DISTRICT  
 WATER SYSTEM EXTENSIONS  
 CASEY COUNTY, KENTUCKY**



- 1 HATTER CREEK
- 2 WILSON RIDGE
- 3 SCOTT ROAD
- 4 SHARP ROAD
- 5 ROUSE BRANCH ROAD
- 6 FEE DEE CREEK
- 7 NETT RD./PRICE RD.
- 8 NIBBEN RIDGE ROAD
- 9 MCCANN BRANCH ROAD
- 10 MANNELLY ROAD
- 11 MALONE CEMETERY ROAD
- 12 MAPLE HILL ROAD
- 13 LENNE FRIEBER ROAD
- 14 LOWER BRUSH CK. RD.
- 15 JONATHAN FORK ROAD
- 16 HARRIS LANE
- 17 EWING RIDGE
- 18 DOE CREEK ROAD
- 19 CASEY CREEK ROAD
- 20 CALHOUN CREEK ROAD
- 21 BLACK ROAD
- 22 SOUTH FORK CREEK
- 23 SOUTH FORK RIDGE
- 24 SOUTH FORK CHURCH
- 25 GREEN POND RIDGE
- 26 WOODS CREEK
- 27 MERRITT RIDGE ROAD
- 28 DRY FORK ROAD
- 29 DOG TROT ROAD
- 30 SLOANS FORK ROAD
- 31 LONG HOLLOW ROAD
- 32 COMBEST ROAD
- 33 H. BUCK ROAD
- 34 SCHOOL HOUSE ROAD
- 35 VICTORY ROAD

- A LEE GRAHAM ROAD
- B FOREST HINES ROAD
- C HAGGARD ROAD
- D COFFEE ROAD
- E CANOE CREEK
- F EAST DOE CREEK
- G ROUGH RIDGE

- 36 BLUE BANK ROAD
- 37 DUG HILL
- 38 BURNT CABIN KNOS
- 39 BLACK RIDGE ROAD
- 40 PENN BRANCH ROAD
- 41 LANORS BRANCH ROAD
- 42 JOHNSON CHAPEL ROAD
- 43 NORRIS ROAD
- 44 SAM TUCKER ROAD
- 45 HAYES HOLLOW ROAD
- 46 APOSTOLIC RIDGE ROAD
- 47 LOWER GREEN POND
- 48 CLEAR BRANCH
- 49 TRACE FORK
- 50 RAYBORN HILL ROAD
- 51 HALON YOUNG ROAD
- 52 HARRICANE RIDGE
- 53 GRIFFIN RIDGE ROAD
- 54 JOE PATTERSON ROAD
- 55 SHOP HILL
- 56 CARMAN CREEK ROAD
- 57 CEDAR HILL ROAD
- 58 DOGWOOD GAP



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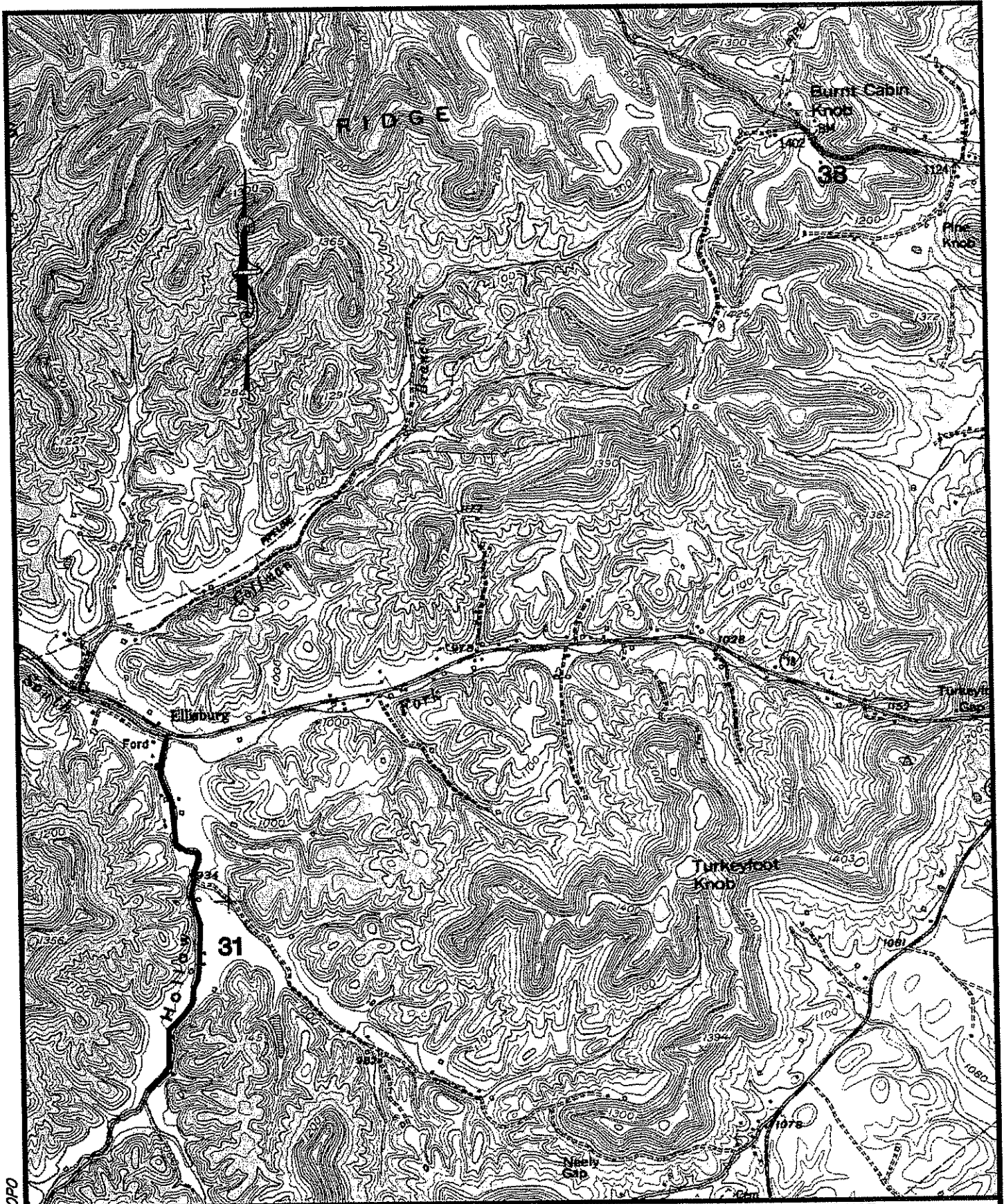


**KENVIRONS, INC.**  
FRANKFORT, KENTUCKY

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**EAST CASEY COUNTY WATER DISTRICT  
WATER SYSTEM EXTENSIONS  
CASEY COUNTY, KENTUCKY**

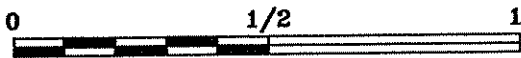
**EXHIBIT II**



**ELLISBURG, KY. QUADRANGLE**

EAST CASEY WATER DISTRICT  
 MULTI-AREA - WATER SYSTEM EXPANSION  
 CASEY COUNTY, KENTUCKY

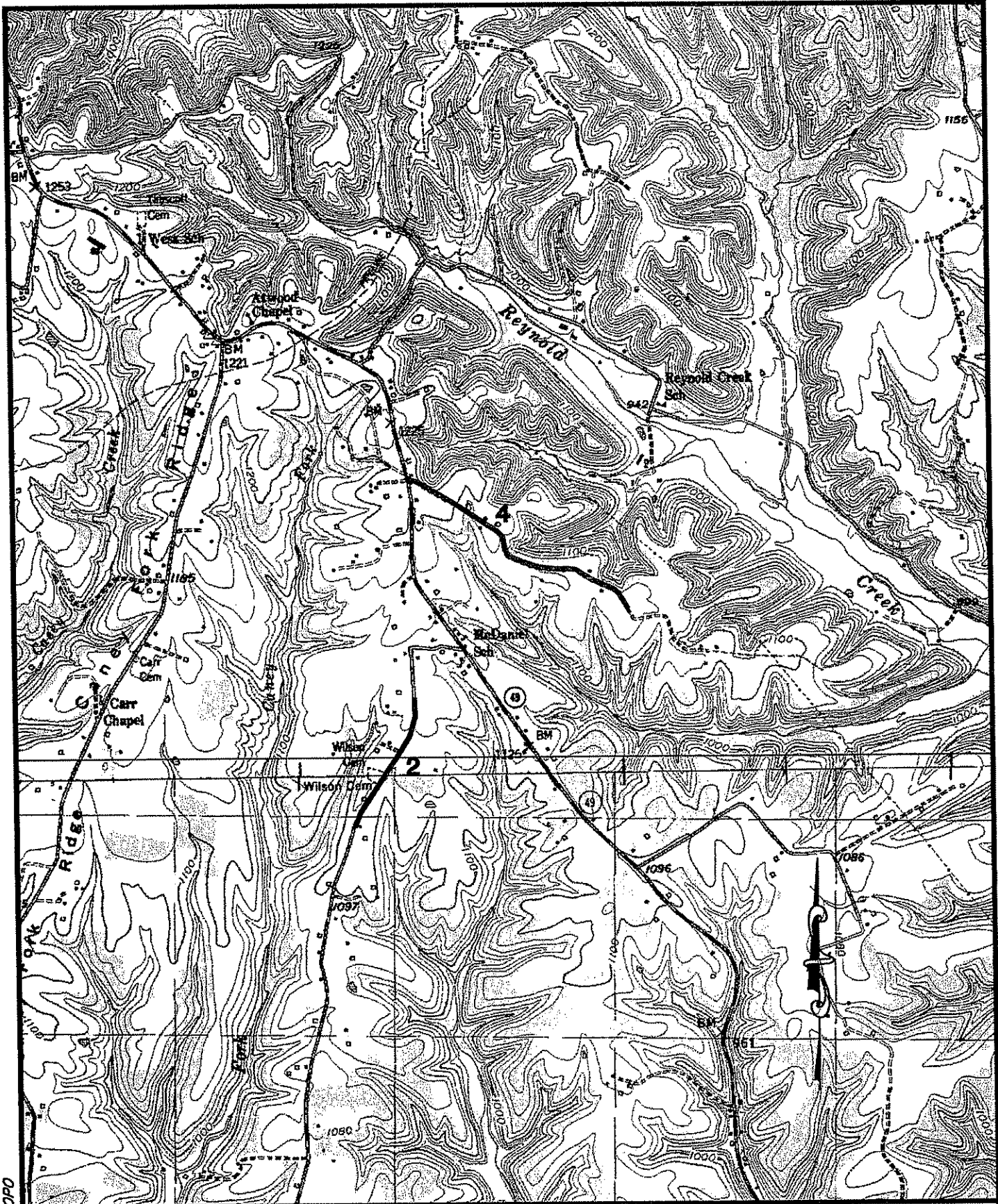
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452 VERSAILLES ROAD, FRANKFORT, KENTUCKY  
 (502) 695-4357

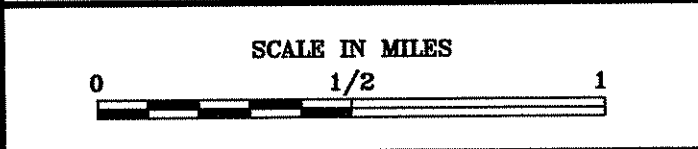
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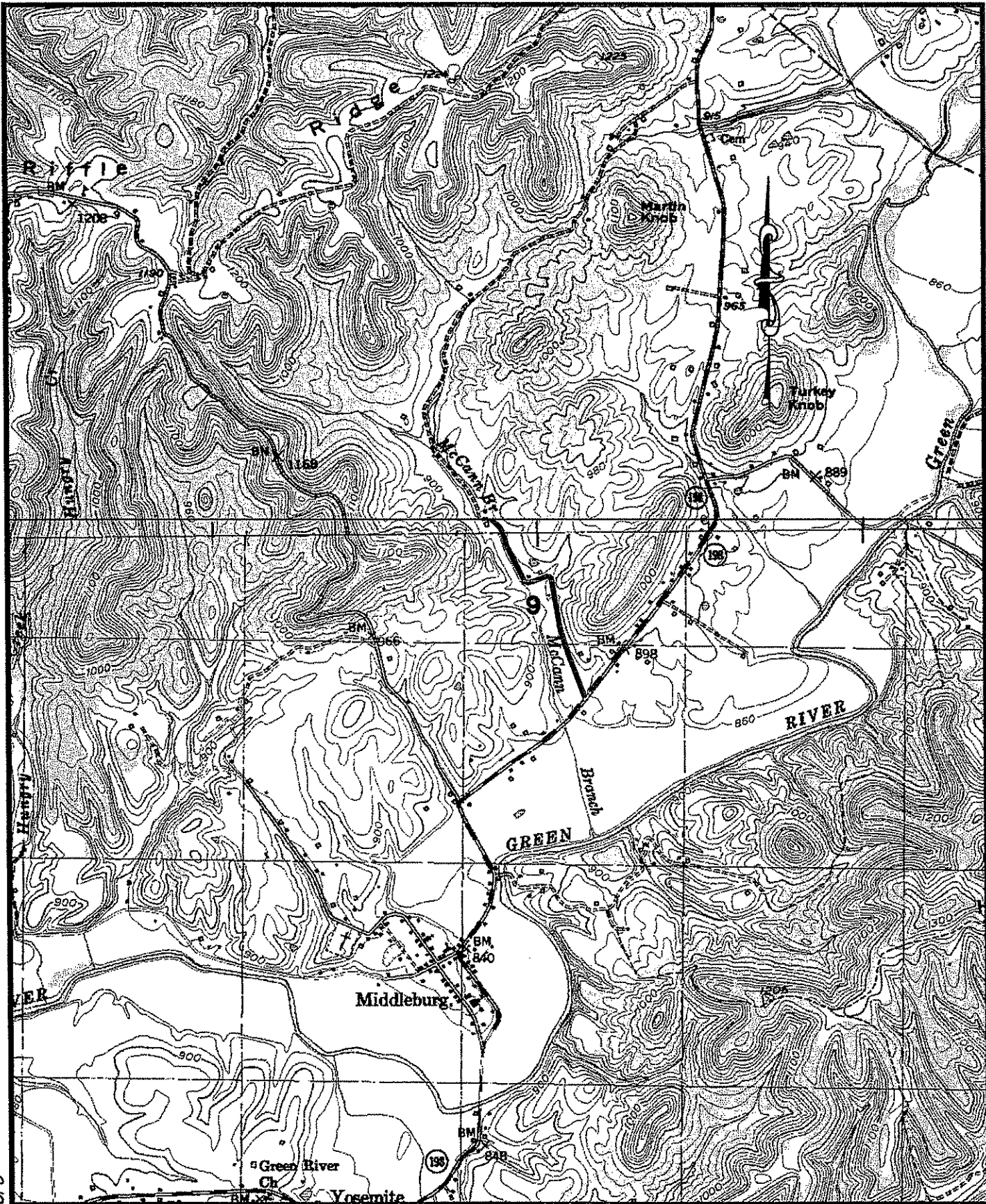
**ELLISBURG & LIBERTY, KY. QUADRANGLES**

**EAST CASEY WATER DISTRICT  
MULTI-AREA - WATER SYSTEM EXPANSION  
CASEY COUNTY, KENTUCKY**




**KENVIRONS, INC.**  
452 VERSAILLES ROAD, FRANKFORT, KENTUCKY  
(502) 685-4357

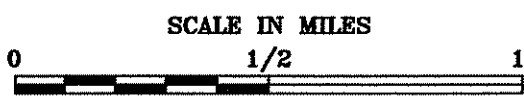




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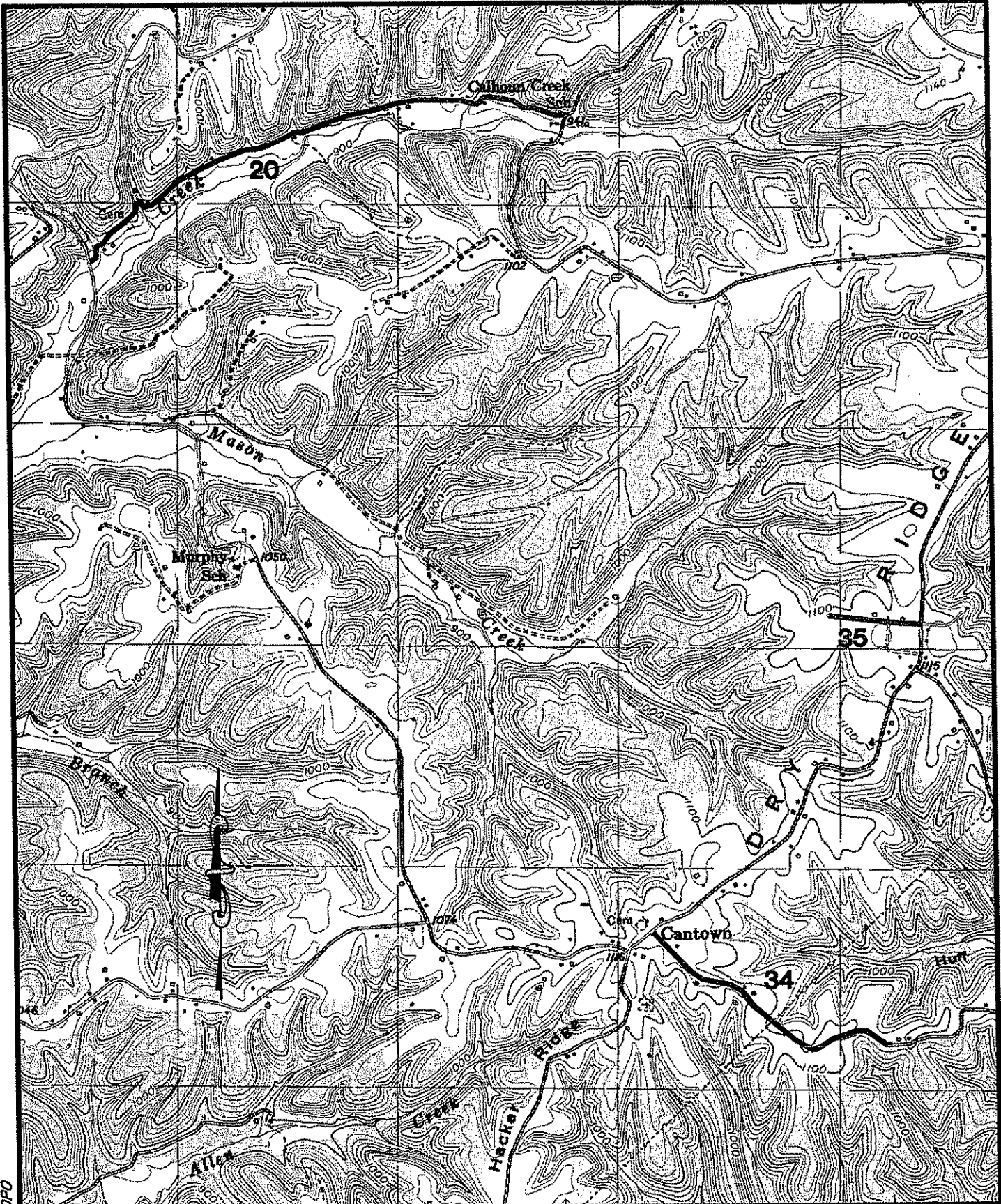
**HUSTONVILLE & YOSEMITE, KY. QUADRANGLES**

**EAST CASEY WATER DISTRICT  
MULTI-AREA - WATER SYSTEM EXPANSION  
CASEY COUNTY, KENTUCKY**



**KENVIRONS, INC.**

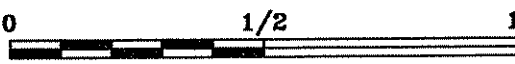
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**LIBERTY, KY. QUADRANGLE**

EAST CASEY WATER DISTRICT  
 MULTI-AREA - WATER SYSTEM EXPANSION  
 CASEY COUNTY, KENTUCKY

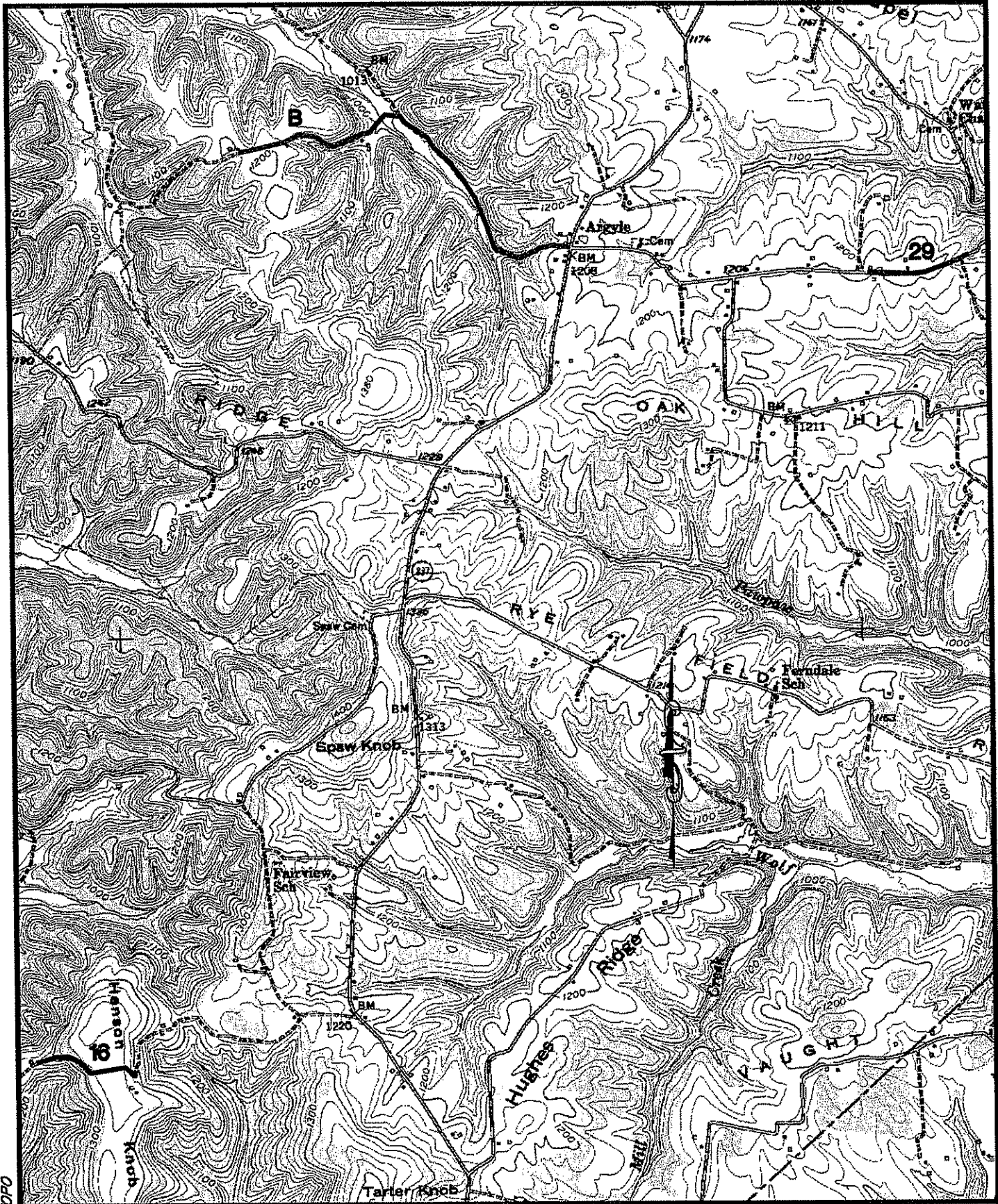
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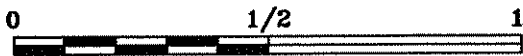
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**MINTONVILLE, KY. QUADRANGLE**

EAST CASEY WATER DISTRICT  
 MULTI-AREA - WATER SYSTEM EXPANSION  
 CASEY COUNTY, KENTUCKY

SCALE IN MILES

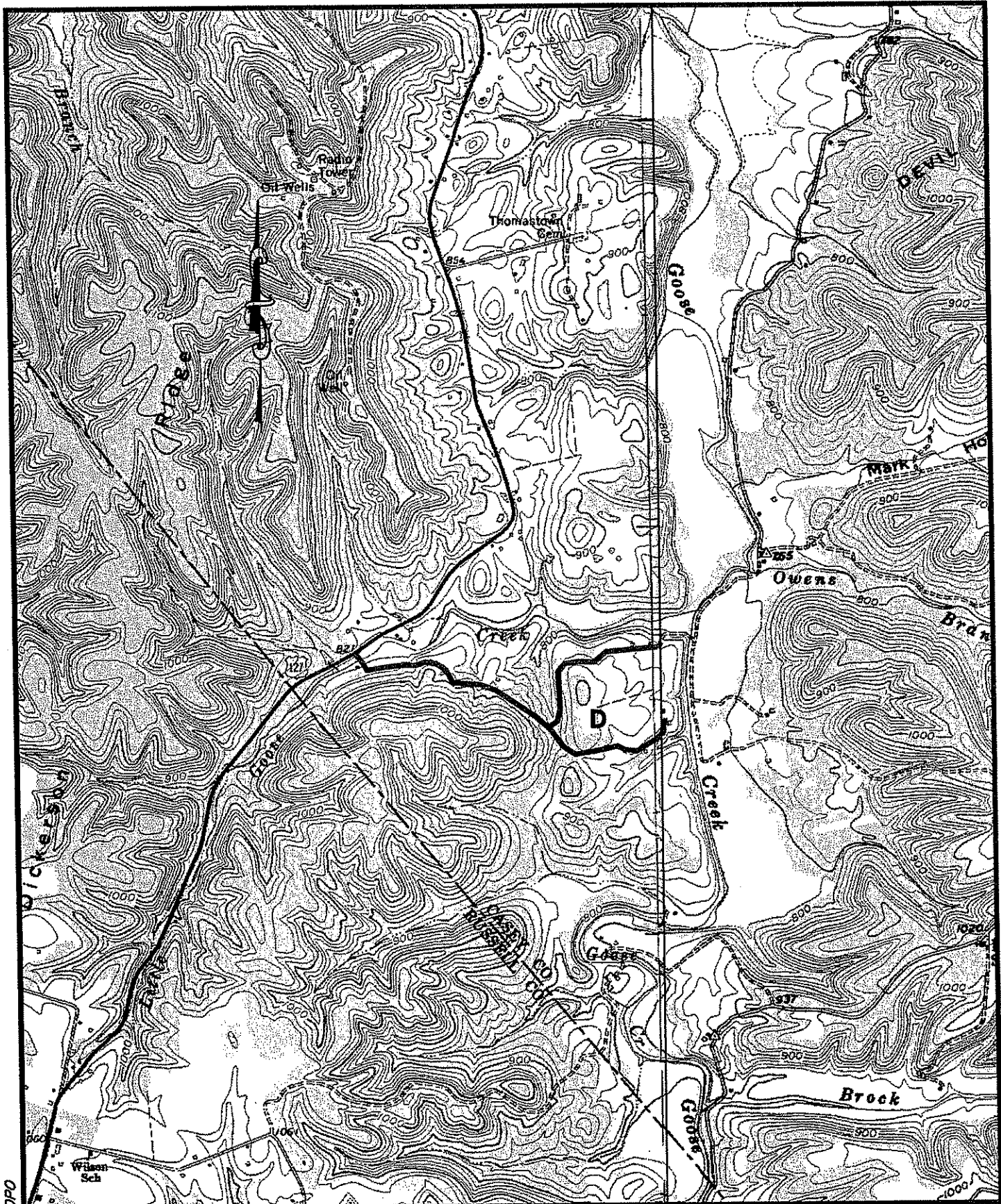


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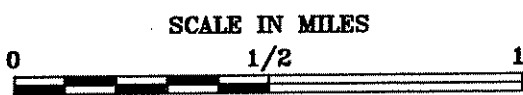




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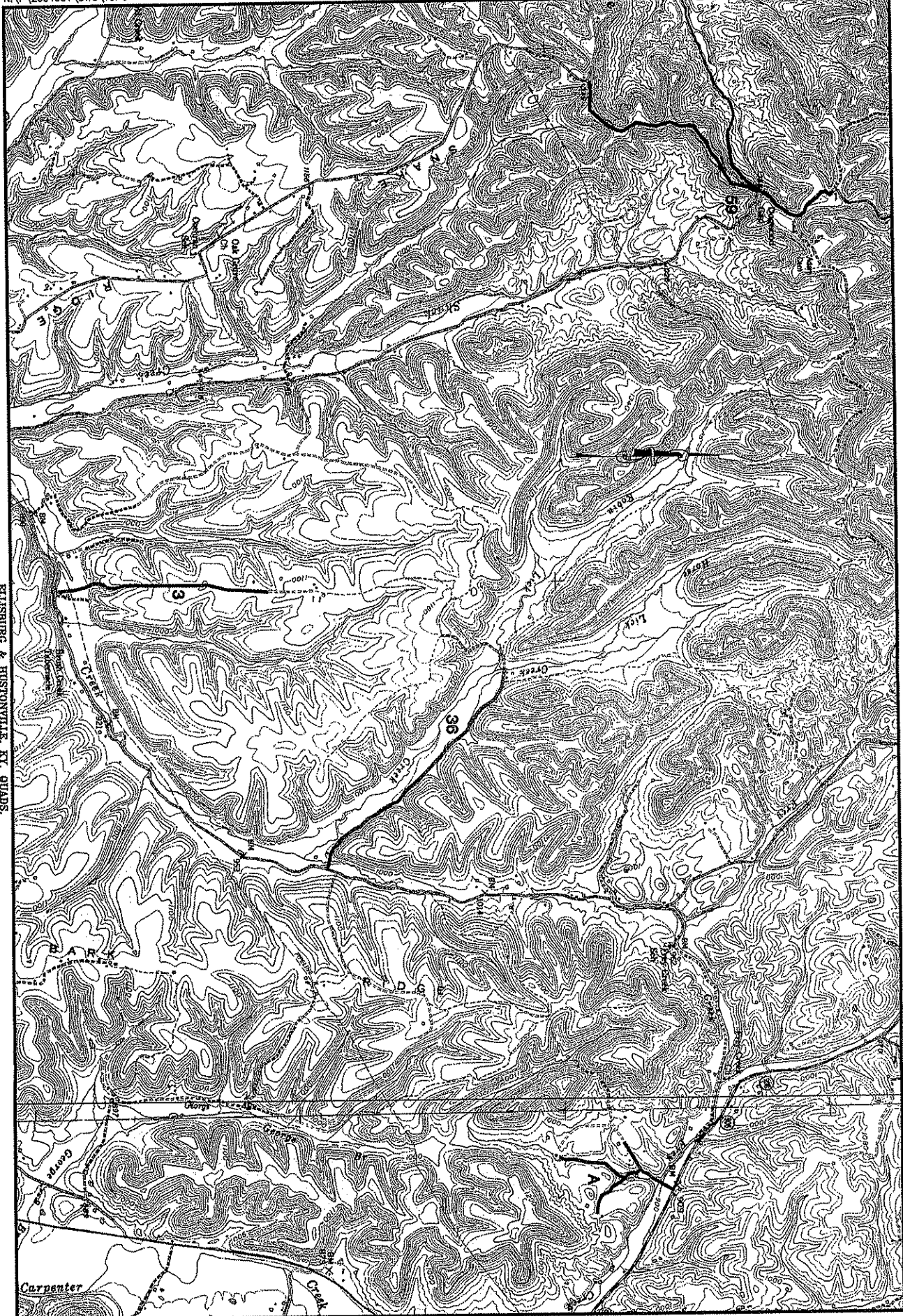
**DUNNVILLE & PHIL, KY. QUADRANGLES**

EAST CASEY WATER DISTRICT  
 MULTI-AREA - WATER SYSTEM EXPANSION  
 CASEY COUNTY, KENTUCKY



**KENVIRONS, INC.**

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HARRISBURG & HUSTONVILLE KY. GRADES

Carpenter Creek

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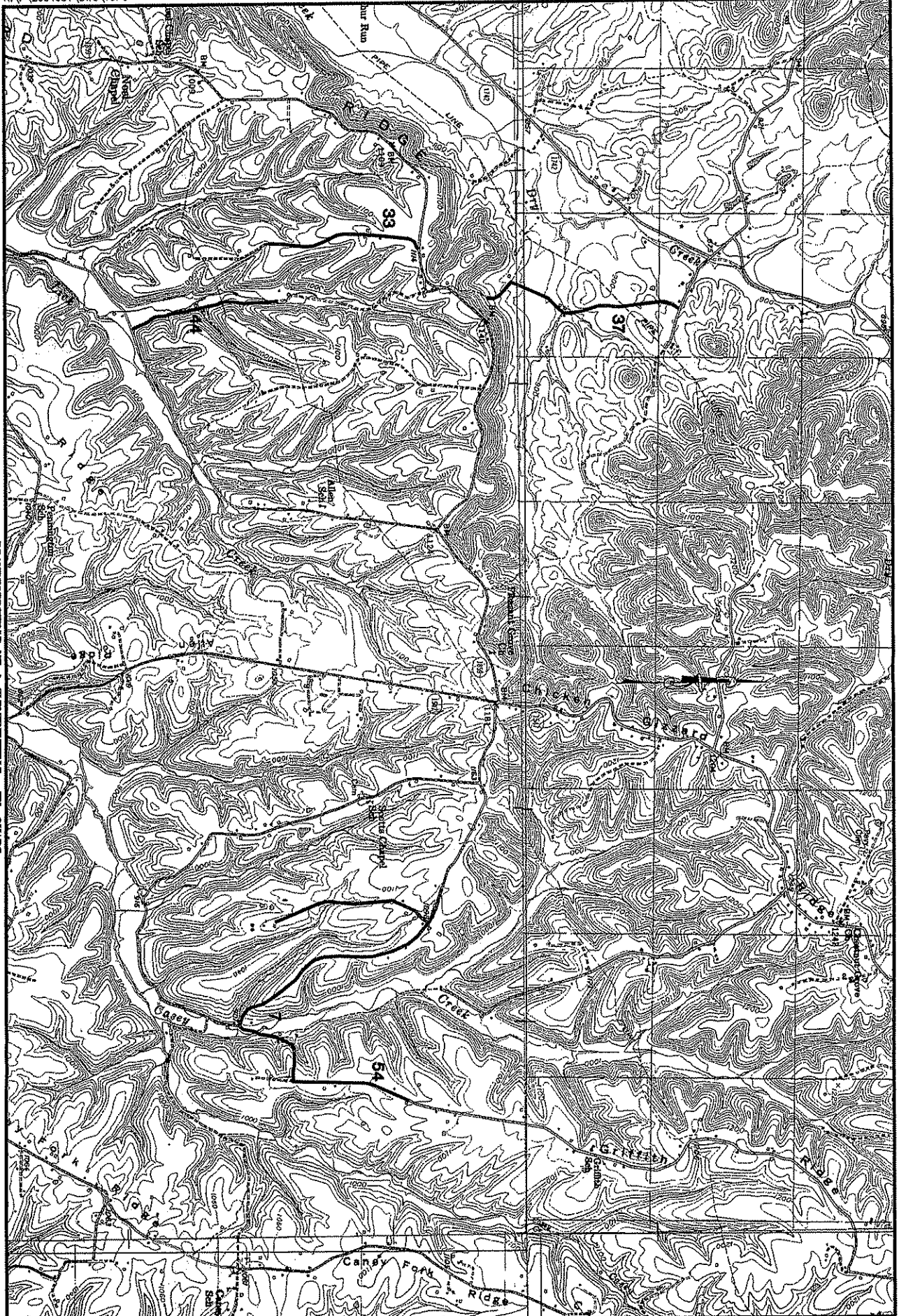


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 FRANKFORT, KENTUCKY

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**EAST CASEY WATER DISTRICT**  
**MULTI-AREA - WATER SYSTEM EXPANSION**  
**CASEY COUNTY, KENTUCKY**





BRANDFORSVILLE NE & CLEMENTSVILLE, KY. QUADS.

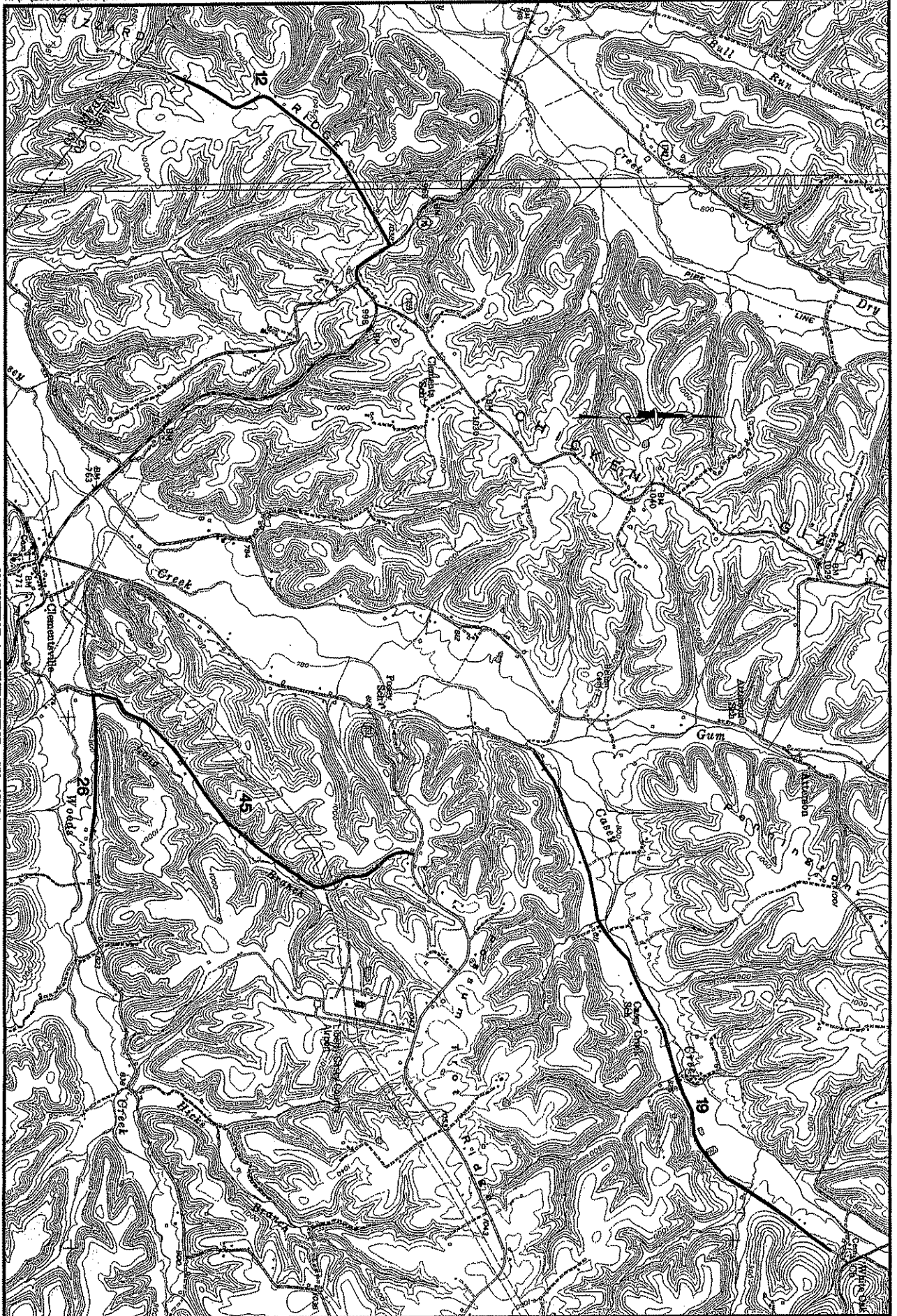
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**KENVIRONS, INC.**  
FRANKFORT, KENTUCKY

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**EAST CASEY WATER DISTRICT  
MULTI-AREA - WATER SYSTEM EXPANSION  
CASEY COUNTY, KENTUCKY**



MANNINGVILLE & CLEMENTSVILLE, KY. QUADS.

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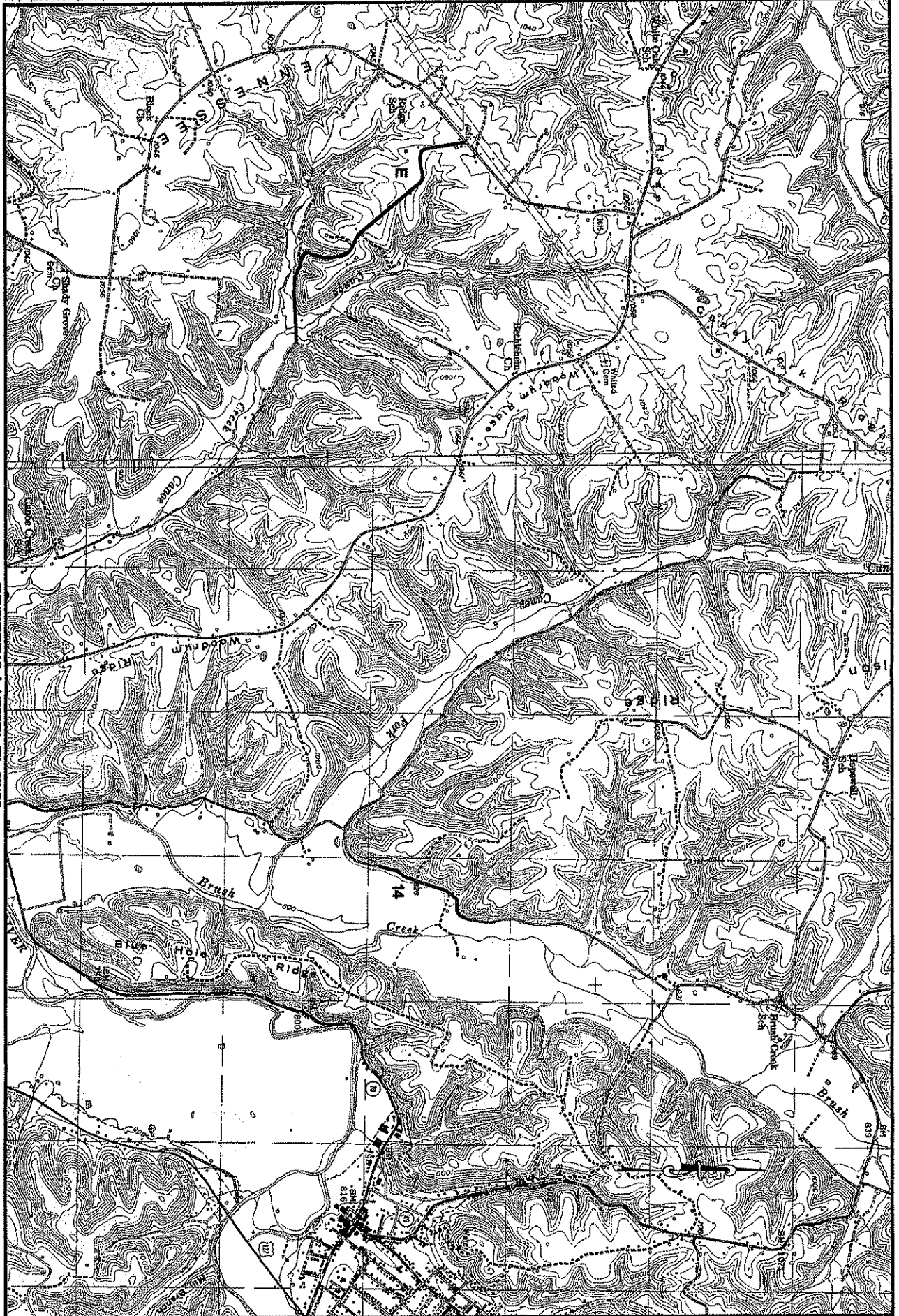


**KENVIRONS, INC.**  
FRANKFORT, KENTUCKY

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**EAST CASEY WATER DISTRICT  
MULTI-AREA - WATER SYSTEM EXPANSION  
CASEY COUNTY, KENTUCKY**





CLENTONVILLE & LIBERTY, KY. QUADS.

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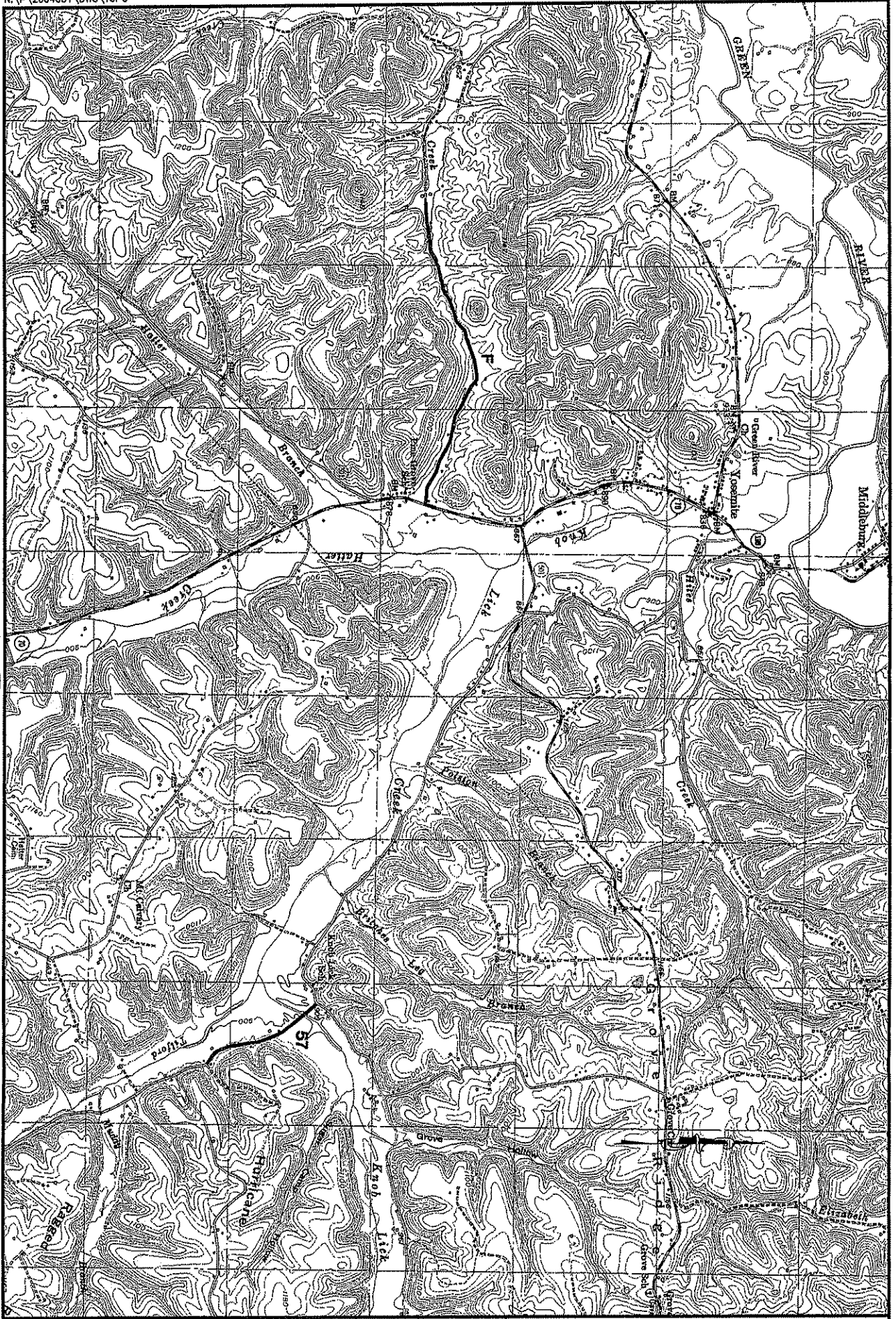


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FRANKFORT, KENTUCKY

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**EAST CASEY WATER DISTRICT**  
**MULTI-AREA - WATER SYSTEM EXPANSION**  
**CASEY COUNTY, KENTUCKY**

YOSEMITE, KY. QUAD.



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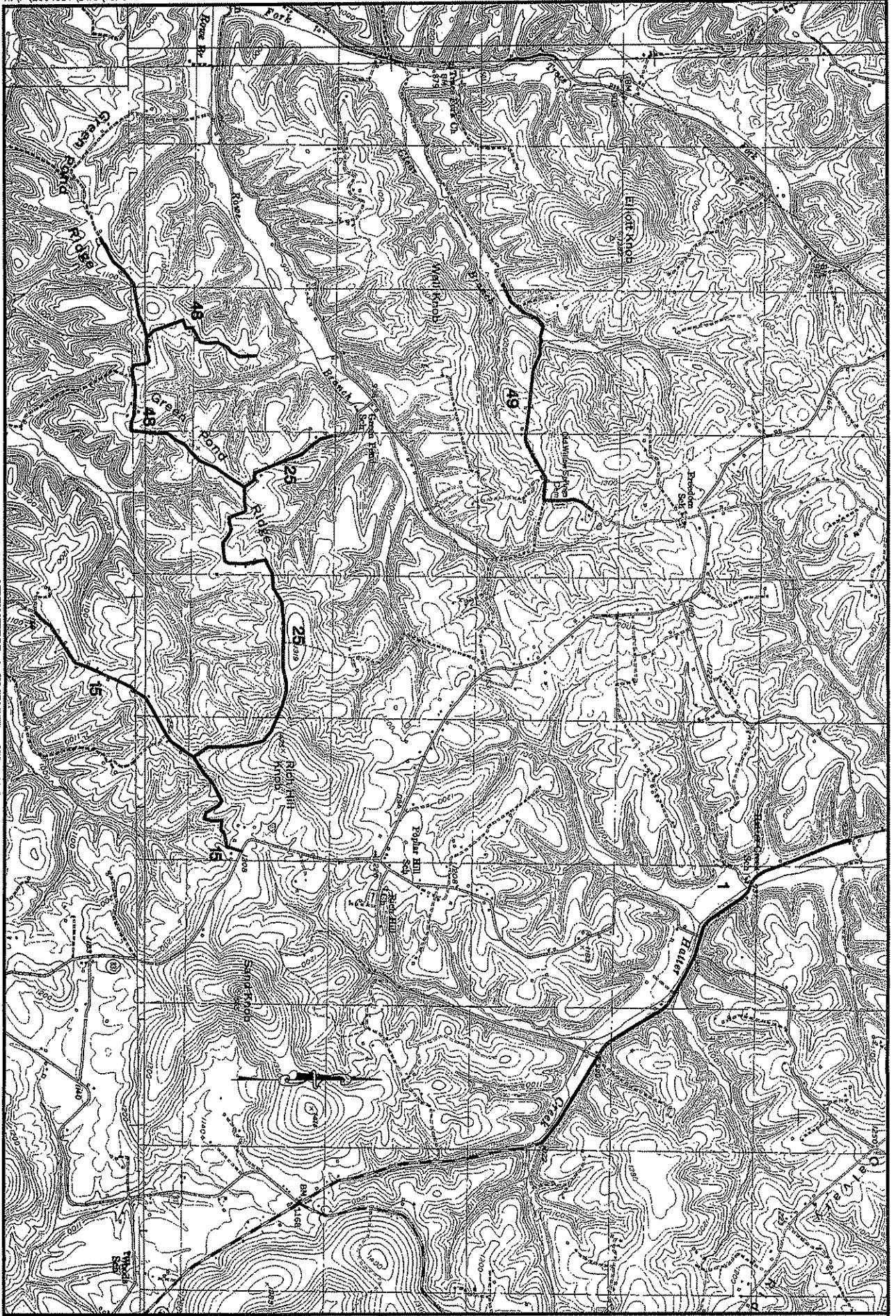


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 FRANKFORT, KENTUCKY

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**EAST CASEY WATER DISTRICT**  
**MULTI-AREA - WATER SYSTEM EXPANSION**  
**CASEY COUNTY, KENTUCKY**





HINTONVILLE & YOSEMITE, KY. QUADS.

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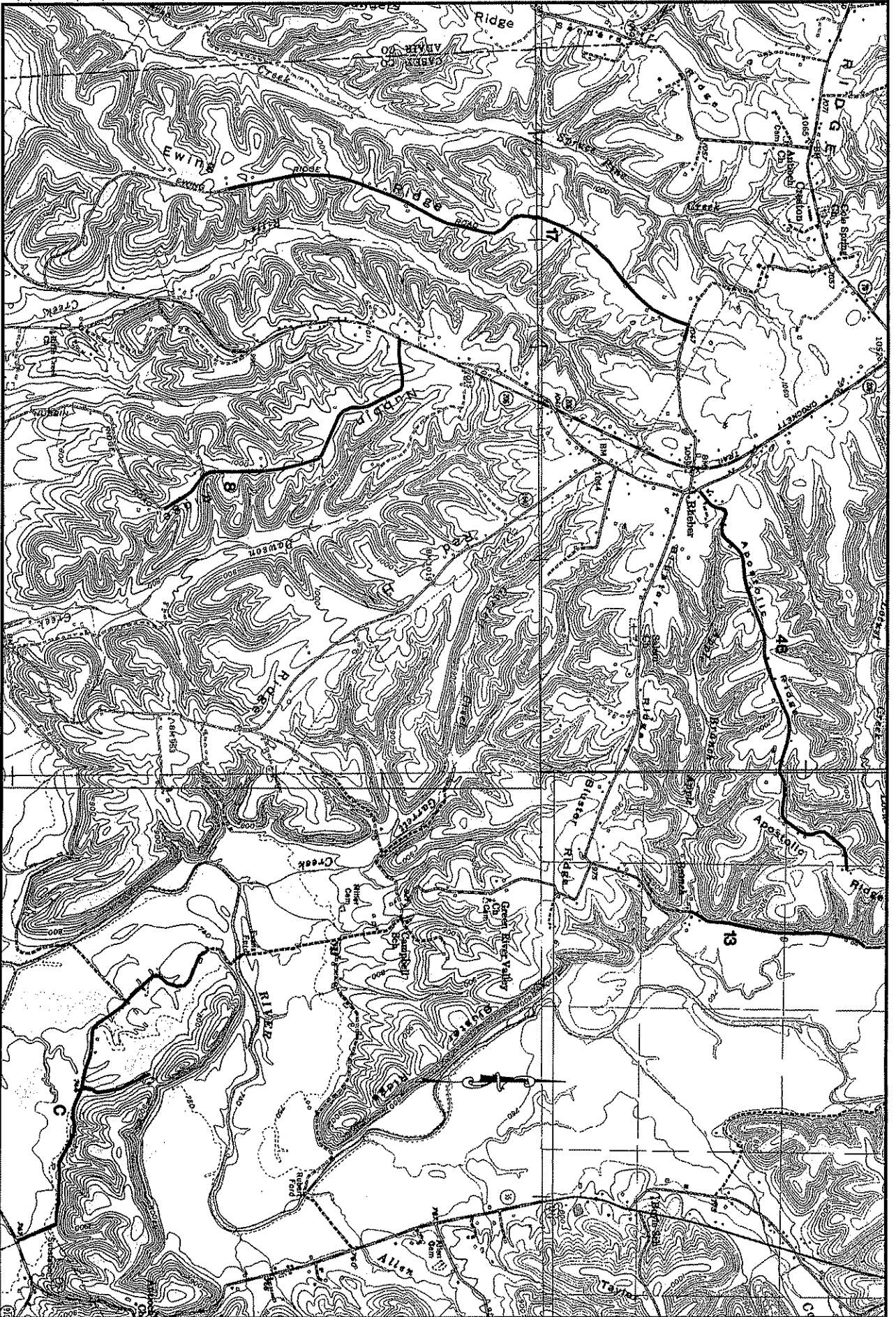


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FRANKFORT, KENTUCKY

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**EAST CASEY WATER DISTRICT**  
**MULTI-AREA - WATER SYSTEM EXPANSION**  
**CASEY COUNTY, KENTUCKY**

CAMBERTSVILLE, LIBERTY, PUNNVILLE, & PAH, KY. QUADS.



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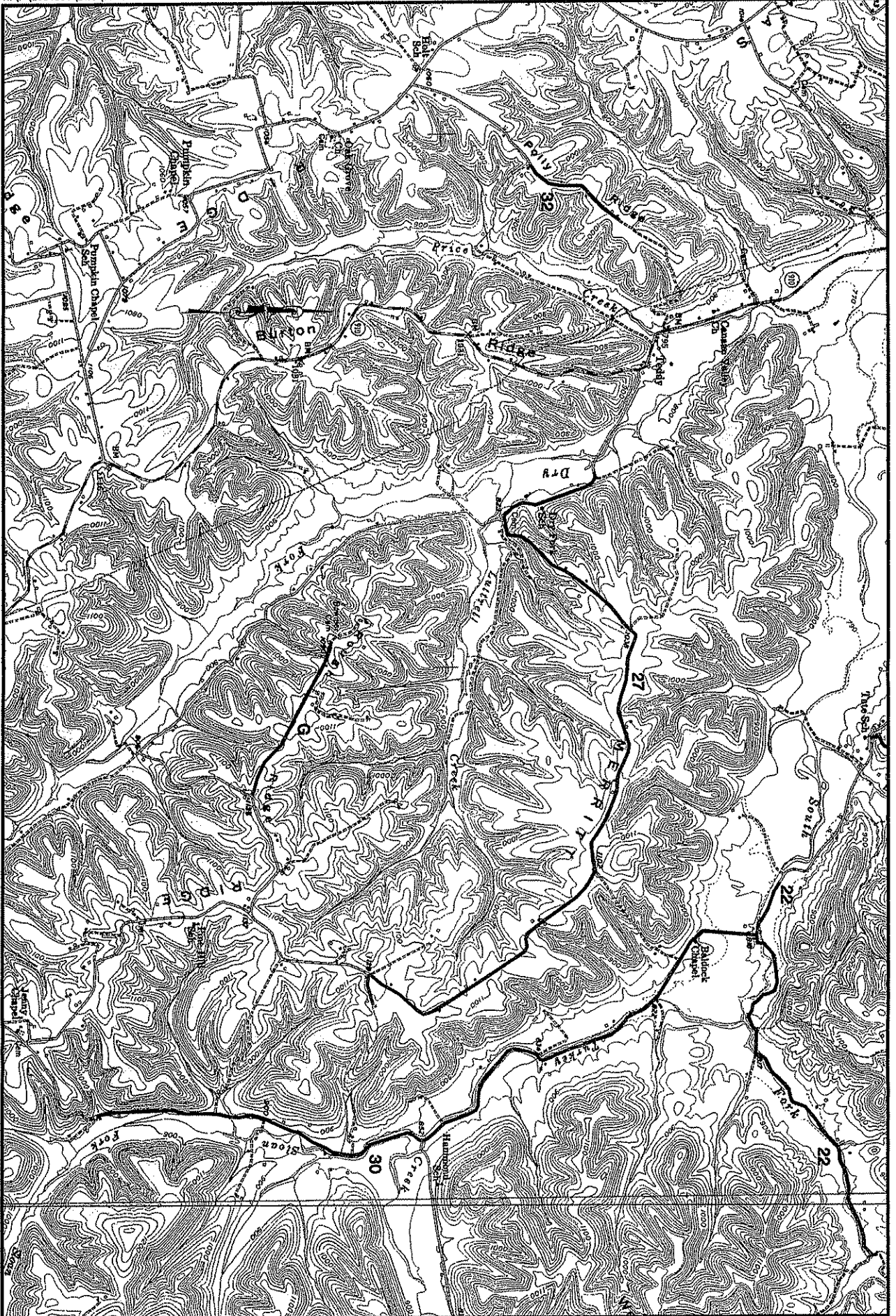


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**EAST CASEY WATER DISTRICT**  
**MULTI-AREA - WATER SYSTEM EXPANSION**  
**CASEY COUNTY, KENTUCKY**





PHIL & MINTONVILLE, KY. QUADS.

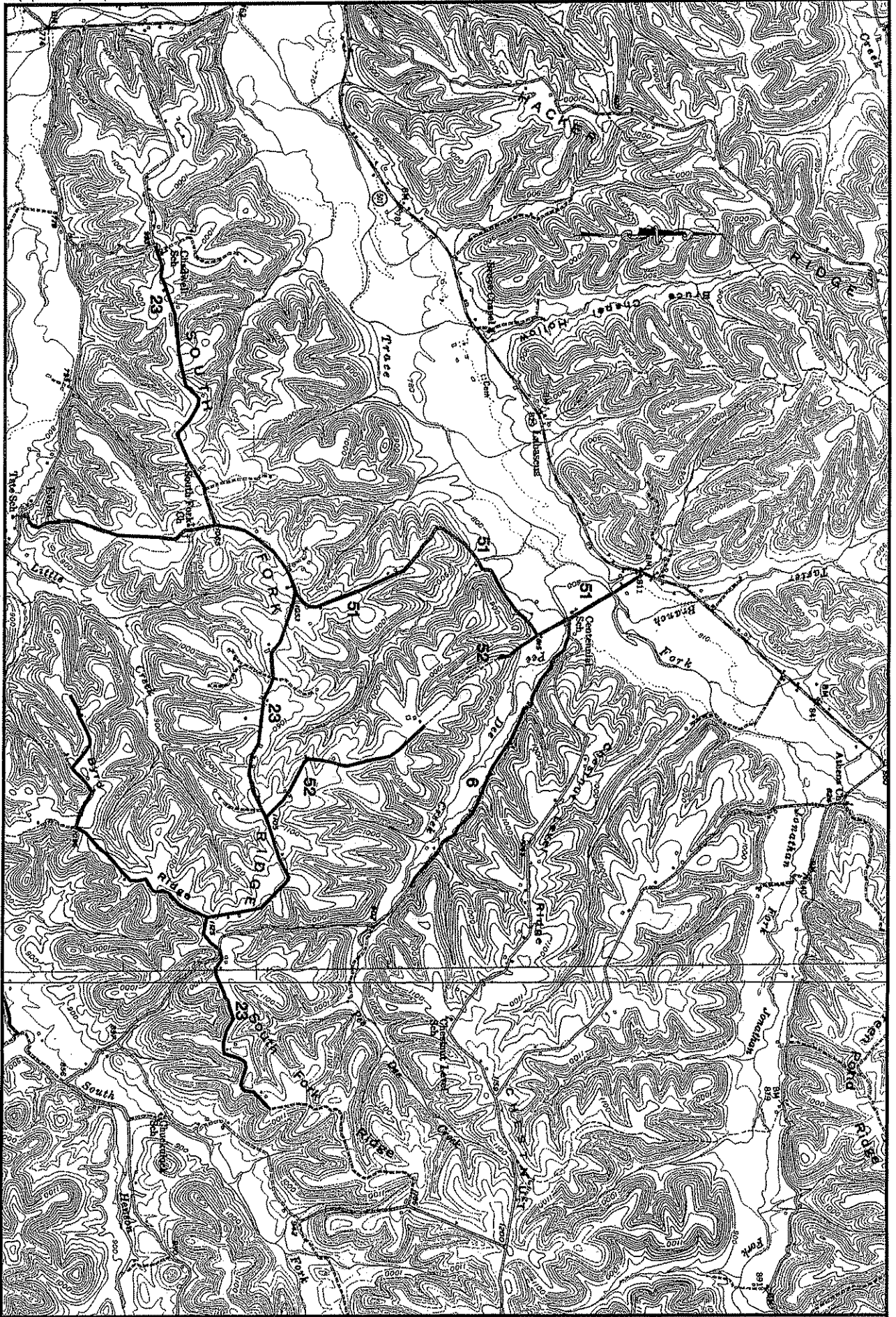
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 FRANKFORT, KENTUCKY

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**EAST CASEY WATER DISTRICT**  
**MULTI-AREA - WATER SYSTEM EXPANSION**  
**CASEY COUNTY, KENTUCKY**



PHIL & MINTONVILLE, KY. QUADS.

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**KENVIRONS, INC.**  
FRANKFORT, KENTUCKY

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**EAST CASEY WATER DISTRICT**  
**MULTI-AREA - WATER SYSTEM EXPANSION**  
**CASEY COUNTY, KENTUCKY**

**TABLE I**

WATER RATES - EXISTING SYSTEM

Existing Rate Schedule:

First	<u>2,000</u>	Gallons @	<u>\$ 13.40</u>	Minimum.
Next	<u>3,000</u>	Gallons @	<u>\$ 6.15</u>	per 1,000 Gallons.
Next	<u>5,000</u>	Gallons @	<u>\$ 5.80</u>	per 1,000 Gallons.
Next	<u>5,000</u>	Gallons @	<u>\$ 5.50</u>	per 1,000 Gallons.
Next	<u>5,000</u>	Gallons @	<u>\$ 5.20</u>	per 1,000 Gallons.
Next	<u>5,000</u>	Gallons @	<u>\$ 4.70</u>	per 1,000 Gallons.
All Over	<u>25,000</u>	Gallons @	<u>\$ 4.70</u>	per 1,000 Gallons.

Date This Rate Went Into Effect Jan. 2001

**TABLE II**

## CONTENTS

Independent Auditors' Report .....	1.
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**ENGLAND  
& HENSLEY, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

*Members of the American Institute of CPAs  
Members of the Kentucky Society of CPAs*

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
East Casey County Water District  
Liberty, Kentucky

We have audited the accompanying balance sheets of East Casey County Water District as of December 31, 2003 and 2002, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Casey County Water District as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, the District has adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of December 31, 2003.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 4, 2004, on our consideration of East Casey County Water District's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

*England & Hensley*

England & Hensley, PLLC  
March 4, 2004

**EAST CASEY COUNTY WATER DISTRICT  
BALANCE SHEETS  
December 31,**

<b>ASSETS</b>	<b>2003</b>	<b>2002</b>
<b>Current Assets</b>		
Cash	\$ 1,150,584	\$ 1,139,916
Accounts receivable		
Customers, net	86,977	76,865
Interest	5,021	6,839
	<u>1,242,582</u>	<u>1,223,620</u>
<b>Restricted Assets</b>		
Cash	<u>276,178</u>	<u>330,886</u>
	276,178	330,886
<b>Fixed Assets</b>		
Property, plant and equipment	9,436,019	9,201,416
Less accumulated depreciation	(2,548,728)	(2,267,042)
Construction-in-progress	13,156	-
	<u>6,900,447</u>	<u>6,934,374</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,419,207</u></b>	<b><u>\$ 8,488,880</u></b>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 42,248	\$ 38,752
Taxes payable	6,697	6,081
Customer deposits payable	17,656	16,442
Current portion of long-term debt	33,500	26,500
	<u>100,101</u>	<u>87,775</u>
<b>Long-term debt</b>		
Bonds payable, net	<u>2,066,500</u>	<u>2,106,500</u>
<b>Retained earnings</b>		
Restricted for reserves	276,177	262,140
Unrestricted, restated	5,976,429	6,032,465
	<u>6,252,606</u>	<u>6,294,605</u>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS</b>	<b><u>\$ 8,419,207</u></b>	<b><u>\$ 8,488,880</u></b>

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



**EAST CASEY COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN RETAINED EARNINGS**  
for the years ended December 31,

	<u>2003</u>	<u>2002</u>
<b>OPERATING INCOME</b>		
Water sales	\$ 971,641	\$ 911,112
Late Charges	25,694	27,317
Other revenue	<u>23,805</u>	<u>39,689</u>
Total operating income	<u>1,021,140</u>	<u>978,118</u>
<b>OPERATING EXPENSES</b>		
Water purchases	336,560	305,160
Salaries	129,130	122,954
Employee benefits	34,011	27,281
Taxes	9,385	7,374
Office expense & postage	46,737	22,408
Insurance	19,083	15,241
Transportation expense	17,351	16,008
Line upkeep	60,540	68,926
Contract labor	48,710	60,669
Tank maintenance	8,143	14,475
Utilities & Telephone	24,056	18,923
Legal & professional	8,689	7,778
Miscellaneous	4,592	13,553
Regulatory commission expenses	<u>1,783</u>	<u>1,735</u>
Total operating expense	<u>748,770</u>	<u>702,482</u>
Operating income before depreciation	272,370	275,636
Depreciation expense	<u>(281,686)</u>	<u>(272,558)</u>
<b>OPERATING INCOME</b>	(9,316)	3,078
Non-operating income (expenses)		
Interest income	21,373	34,867
Interest expense	(99,380)	(87,626)
Grants received	-	301,300
Tap fees	<u>45,324</u>	<u>138,238</u>
<b>NET INCOME (LOSS)</b>	(41,999)	389,857
Retained earnings (restated) - Beginning	6,032,465	5,664,324
Transfer from (to) reserves	<u>(14,037)</u>	<u>(21,716)</u>
<b>RETAINED EARNINGS (RESTATED) - ENDING</b>	<u>\$ 5,976,429</u>	<u>\$ 6,032,465</u>

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

**EAST CASEY COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
for the years ended December 31,**

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ (9,316)	\$ 3,078
Noncash items included in operating income		
Depreciation	281,686	272,588
Changes in assets and liabilities		
(Increase) decrease in customer receivables	(10,112)	5,631
Increase (decrease) in accounts payable	3,497	(103,170)
Increase (decrease) in customer deposits	1,214	20,558
Increase (decrease) in taxes/ other payables	<u>615</u>	<u>(596)</u>
Net cash provided by operating activities	<u>267,584</u>	<u>198,089</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>23,190</u>	<u>45,189</u>
Net cash provided by investing activities	<u>23,190</u>	<u>45,189</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Principal payments	(33,000)	(30,000)
Additions to property, plant and equipment	(234,602)	(464,763)
Additions to construction in progress	(13,156)	-
Tap fees	45,324	138,238
Grants received	-	301,300
Interest payments	<u>(99,380)</u>	<u>(87,623)</u>
Net cash (used) provided by financing activities	<u>(334,814)</u>	<u>(142,848)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(44,040)	100,430
Cash at beginning of year	<u>1,470,802</u>	<u>1,370,372</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 1,426,762</u>	<u>\$ 1,470,802</u>

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

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
for the years ended December 31, 2003 and 2002**

**1. ORGANIZATION AND ACCOUNTING POLICIES**

The East Casey County Water District was created and organized as a public body corporate in East Casey County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the East Casey County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

Fixed assets are recorded at cost. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation has been provided using the straight-line method.

Inventory is maintained at lower-of cost or market.

The District charges all uncollected accounts directly against current earnings. The reserve for uncollectible at December 31, 2003 and 2002 was \$97,958 and \$84,786, respectively.

The District applies all applicable FASB pronouncements in accounting and reporting for its operations.

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

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit.

The District records revenue as billed to its customers on monthly meter reading cycles. At the end of each year, water service which has been rendered from the latest date of each meter reading to the year end is unbilled.

Restricted retained earnings consist of reserves for revenue bond retirement and the cost of construction, replacements, extensions, additions and/or improvements to the system. These reserves are discussed in note 4.

**2. CASH AND INVESTMENTS**

**Statutory Requirements**

The East Casey County Water District deposits and investments at December 31, 2003 and 2002 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

**Statement of Cash Flows**

The Statement of Cash Flows includes as cash and cash equivalents the following:

	<b>2003</b>	<b>2002</b>
Cash	\$ 1,150,584	\$ 1,139,916
Restricted Cash	<u>276,178</u>	<u>330,886</u>
	<u>\$ 1,426,762</u>	<u>\$ 1,470,802</u>

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
for the years ended December 31, 2003 and 2002**

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**3. REVENUE BONDS PAYABLE**

Long-term debt consists of two issues of 5% bonds issued in 1987 and 1990 for \$301,000 and \$500,000, respectively, and three issues of 4.5% issued in 1993, 1997, and 2000, collateralized by the water distribution system payable to United States of America, Rural Development. The bonds are payable in annual installments of principal and interest with the final installments due in January 2027, 2030, 2033, 2037, and 2040 respectively.

The following is a summary of the long-term debt payments for the years ended December 31,

Year Ending	Principal	Interest	Payment
2004	\$ 33,500	\$ 97,825	\$ 131,325
2005	35,000	96,247	131,247
2006	36,000	94,598	130,598
2007	39,000	92,902	131,902
2008	40,000	91,063	131,063
2009-2013	233,500	424,957	658,457
2014-2018	292,000	364,535	656,535
2019-2023	373,000	288,428	661,428
2024-2028	435,000	192,465	627,465
2029-2033	332,500	98,235	430,735
2034-2038	219,000	33,660	252,660
2039-2040	<u>31,500</u>	<u>1,418</u>	<u>32,918</u>
	<u>\$ 2,100,000</u>	<u>\$ 1,876,333</u>	<u>\$ 3,976,333</u>

**4. COMPLIANCE WITH BOND ORDINANCE**

The East Casey County Water District is required to comply with the bond agreements of all bond issues as follows:

**Sinking Fund**

The District is required to set aside an amount into a special account known as the East Casey County Water District Water System Revenue Bonds, Bond and Interest Sinking Fund. The amount to be set aside and paid each month shall be not less than the following respective amounts:

- 1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- 2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the reserve at December 31, 2003 was \$19,096. The District had set aside \$132,995 into a restricted account at December 31, 2003, and \$136,895 at December 31, 2002.

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
for the years ended December 31, 2003 and 2002**

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**4. COMPLIANCE WITH BOND ORDINANCE (continued)**

**Depreciation Fund**

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and /or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$72,000 the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The 2000 issue requires an additional deposit of \$275 per month for the life of the loan once the facility becomes operational. The District had set aside \$143,182 and \$125,245 at December 31, 2003 and 2002.

**5. RETIREMENT PLAN**

Effective November 1, 2001, The East Casey County Water District elected to be a participating employer of the County Employees' Retirement System (CERS), which is a multi-employer defined benefit plan that covers substantially all regular full-time employees of each county, school board, municipal and other local agencies electing to participate. Upon election to participate in the CERS, each employee has the option to participate, however, all subsequent employees must participate and the employer is required to continue participation.

Employees who retire at age 65 and have 48 or more months of credited service or have 27 years of credited service regardless of age are entitled to a retirement benefit, payable monthly for life, equal to 2% of the average annual salary of the members' five highest earning years multiplied by the number of years of service credit. Members retiring at less than 55 years of age with 25 to 29 years of service credit or 65 years of age with less than 48 months of service credit are entitled to reduced benefits. Members' retirement benefits become fully vested when they complete sixty months of service, twelve of which are current service.

The East Casey County Water District has a total of 8 employees covered by the CERS. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. There are 8 non-hazardous duty employees who contributed 5.00% and the employer contributed 7.34%. The District's contribution for the year ended December 31, 2003 was \$8,774 and the employees contributed \$6,456. The total payroll for covered employees for the year ended December 31, 2003 was \$129,130 and the total payroll for all employees was \$129,130.

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
for the years ended December 31, 2003 and 2002**

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**5. RETIREMENT PLAN (continued)**

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the actuarial funding method used to determine contributions to the System.

All required contributions were paid at year end or within thirty (30) days thereafter. The percentage of the District's contribution to total employers' contributions in the CERS for the year is not known.

The pension benefit obligation for the year ended June 30, 2003 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$5,917,226,584. The System's net assets available for benefits on that date were \$6,753,584,903. Ten-year historical trend information showing assets available to pay benefits when due is presented in the System's June 30, 2003 comprehensive annual report.

**6. CONSTRUCTION IN PROGRESS**

During 2002, the District completed construction on the Tri County Project, costs of \$1,438,625 were added to property, plant and equipment. Capitalized interest added to construction cost during 2002 was \$13,365. Funds for this project were provided by the following: \$594,000, Rural Development Loan; \$396,000, Rural Development Grant; \$350,000, ARC Grant; \$60,000, local funds.

At December 31, 2003, construction in progress consisted of \$13,156, which included costs incurred for site surveys and easements relating to a new \$1.7 million expansion project.

**7. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**8. CONTINGENCIES**

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

**EAST CASEY COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
for the years ended December 31, 2003 and 2002

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**9. RESTATEMENTS OF RETAINED EARNINGS**

**Changes in Accounting Principle**

For year ended December 31, 2003, the East Casey County Water District has implemented Governmental Accounting Standards Board (GASB) Statement No. 33 (GASB 33), "Accounting and Financial Reporting for Nonexchange Transactions". Under GASB 33, capital contributions are reported as nonoperating revenue in Statement of Revenues, Expenses and Changes in Retained Earnings. In prior years, capital contributions were recorded as direct additions to contributed capital equity.

**Correction of Customer Deposits**

For the year ended December 31, 2002, customer deposits payable was overstated by \$41,566, the correction of the overstatement has been recorded as an adjustment to retained earnings.

The prior year financial statements have been restated in order to provide an understanding of changes in the District's financial position and operations. Some prior period amounts have been reclassified to be comparative to current period figures.

Beginning retained earnings and contributed capital for the East Casey Water District reconciles to the previously reported balances at December 31, 2002, as follows:

Retained earnings previously reported	\$ 628,036
Correction for overstatement of customer deposits	41,566
Transfer of contributed capital, net	<u>5,362,863</u>
Retained earnings, December 31, 2002	<u>\$ 6,032,465</u>
Contributed capital, net as previously reported	\$ 5,362,863
Transfer to retained earnings	<u>(5,362,863)</u>
Contributed capital, December 31, 2002	<u>\$ 0</u>

**10. SUBSEQUENT EVENTS**

On February 25, 2004 the District was approved for the following grants and loans that will be used to complete a \$1.7 million water expansion project: Rural Development Loan \$406,000, Rural Development Grant \$244,000, ARC Grant \$350,000, EPA Grant \$500,000, and a Kentucky Infrastructure Grant of \$200,000.

**EAST CASEY COUNTY WATER DISTRICT  
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
LAWS AND REGULATIONS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Commissioners  
East Casey County Water District  
Liberty, Kentucky

We have audited the financial statements of East Casey County Water District as of and for the year ended December 31, 2003, and have issued our report thereon dated March 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the East Casey County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the East Casey County Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operations that we consider to be a material weakness.

This report is intended for the information of the Board of Commissioners, management and the Public Service Commission of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

*England & Hensley*

ENGLAND & HENSLEY, PLLC  
March 4, 2004



**TABLE III**

# East Casey County Water District Water Expansion Project

## Opinion of Probable Cost

May 25, 2005

Item No.	Item	Unit	Quantity	Unit Price	Item Price
1	4" PVC SDR-17 Pipe	LF	82,500	6.00	495,000.00
2	4" PVC SDR-21 Pipe	LF	99,050	5.50	544,775.00
3	3" PVC SDR-17 Pipe	LF	81,000	5.00	405,000.00
4	3" PVC SDR-21 Pipe	LF	66,700	4.50	300,150.00
5	3" and 4" Bore and Case	LF	1,580	65.00	102,700.00
6	3" and 4" Open Cut and Case	LF	60	40.00	2,400.00
7	3" and 4" Creek Crossing	LF	310	50.00	15,500.00
8	Free Bore	LF	1,970	30.00	59,100.00
9	4" Gate Valve	EA	34	500.00	17,000.00
10	3" Gate Valve	EA	18	400.00	7,200.00
11	Tie-In w/ Gate Valve	EA	43	1,100.00	47,300.00
12	Blow Off Assembly	EA	40	850.00	34,000.00
13	5/8" X 3/4" Meter Setting	EA	185	300.00	55,500.00
14	5/8" X 3/4" Meter Setting/w PRV	EA	131	125.00	16,375.00
15	Leak Detection Meter	EA	1	700.00	700.00
16	Pressure Reducing Station	LS	1	10,000.00	10,000.00
17	Pneumatic Pump w/Bladder Tanks	LS	2	60,000.00	120,000.00
18	3/4" Service Tubing	LF	5,680	4.00	22,720.00
19	Pavement Replacement	LF	1,970	12.00	23,640.00
<b>Total Construction Cost</b>					<b>\$2,279,060.00</b>

Contingency	\$227,906.00
Engineering	153,200.00
Inspection	68,400.00
Legal and Administrative	50,000.00
Land and Rights	5,000.00
Interest	30,000.00
Preliminary Engineering Report	8,000.00
	<b>\$2,821,566.00</b>