



# LOUISVILLE WATER COMPANY

550 SOUTH THIRD STREET • LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600 FAX 502-569-0815

June 6, 2003

The Hon. Joe Sohm  
Mayor  
City of Shepherdsville  
P.O. Box 400  
Shepherdsville, KY 40165

RE: Amendment to the Asset Acquisition Agreement between  
City of Shepherdsville and LWC

Dear Mayor Sohm:

This is to document the amendment to the Asset Acquisition Agreement between the City of Shepherdsville and LWC, which representatives of the Louisville Water Company and you discussed in a meeting last week.

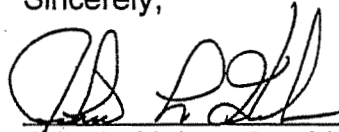
Specifically, in order for Louisville Water Company to meet its commitment to serve customers of the former Shepherdsville water system equally with similarly situated LWC customers under LWC Service Rules and Regulations, as that commitment was set out in paragraph M of Section 10 of the Asset Acquisition Agreement executed by the City of Shepherdsville and Louisville Water Company on December 23, 2002, Louisville Water Company and the City of Shepherdsville hereby agree that Louisville Water Company will assess its system development charge (SDC) on all new water mains installed AFTER the date of execution of the Asset Acquisition Agreement (December 23, 2002), and that all fire service connections (regardless of when they are installed) and all connections to mains which were in service prior to December 23, 2002, shall be exempt from the SDC.

To the extent that this amendment affects Exhibit R to the Asset Acquisition Agreement, Exhibit R is also amended. Specifically, for all three of the subdivisions listed at Exhibit R, Autumn Leaf, the Pointe, and River Oaks, LWC shall charge its standard meter fee of \$450.00 for a ¾ inch meter. Additionally, for the Autumn Leaf subdivision only (for which subdivision LWC had previously agreed in Exhibit R to deposit in the Shepherdsville Reserve Fund \$350.00 per application for the remaining 69 meter sets previously installed by Shepherdsville (totaling \$24,150.00) and \$800.00 per application for the listed lots in which

meters have been installed but no applications have yet been received (totaling \$7,200.00), for a combined total deposit to the Shepherdsville Reserve Fund of \$31,350.00)) LWC expressly agrees to honor its commitment to deposit that \$31,350.00 in the Shepherdsville Reserve Fund, despite the fact that pursuant to this amendment LWC shall be charging its standard meter fees for the Autumn Leaf subdivision.

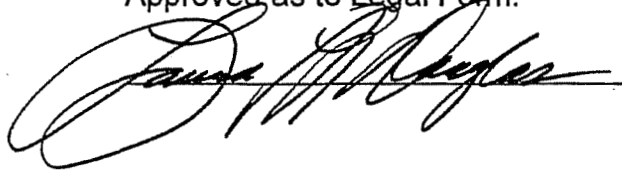
I trust that this "letter agreement" accurately sets out those points upon which agreement to amend the Asset Acquisition Agreement executed December 23, 2002, was reached. If you find this letter agreement acceptable, please sign and return one of the two originals provided to you to the Louisville Water Company.

Sincerely,

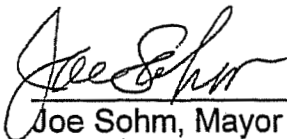


John L. Huber, President  
Louisville Water Company

Approved as to Legal Form:



Have Seen and Agree: \_\_\_\_\_

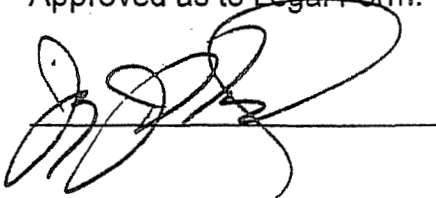


Joe Sohm, Mayor  
City of Shepherdsville

6/6/03

date

Approved as to Legal Form:



## **ASSET ACQUISITION AGREEMENT**

This Asset Acquisition Agreement, hereafter "Asset Acquisition Agreement" or "Agreement" is entered into this 23rd day of December, 2002, by and between

**CITY OF SHEPHERDSVILLE**

**"SHEPHERDSVILLE"**

A Municipality  
City Hall  
Post Office Box 400  
Shepherdsville, Kentucky 40165

**AND**

**LOUISVILLE WATER COMPANY**

**"LWC"**

A Municipally Owned Corporation  
Governed by the Board of Water Works  
Pursuant to KRS 96.230 through 96.310  
550 South Third Street  
Louisville, Kentucky 40202

### **RECITALS**

WHEREAS SHEPHERDSVILLE and LWC executed a certain Letter of Intent dated April 2, 2002 governing LWC's proposed acquisition of SHEPHERDSVILLE's water system;

WHEREAS, SHEPHERDSVILLE and LWC (as successor in interest to the Kentucky Turnpike Water District) have in place a Water Purchase Agreement dated November 3, 1988 with an expiration date of October 5, 2016, whereby LWC has wholesaled water to SHEPHERDSVILLE;

WHEREAS, SHEPHERDSVILLE and LWC (as successor in interest to the Kentucky Turnpike Water District) have in place a Water Purchase Agreement

dated March 25, 1993 and extended by agreement of the parties on April 2, 1998 for an additional five (5) year term;

WHEREAS, LWC and SHEPHERDSVILLE now desire to enter into the Asset Acquisition Agreement anticipated by and described in the Letter of Intent.

NOW, THEREFORE, the parties agree as follows:

### **Section One – Definitions for this Asset Acquisition Agreement**

As used in this Asset Acquisition Agreement, the following terms have the following meanings:

**“Assets”** shall mean all of SHEPHERDSVILLE's water system property, real and personal, tangible and intangible, including, but not limited to the distribution system, pump stations, storage tanks, equipment, materials, cellular communication leases, real and personal property, easements, lien rights, developer contracts, tapping fee contracts, leases, contracts, grants, pending grants, construction reserve funds, operating reserve funds, accounts receivable, licenses, rights to serve, if any, and promissory notes to be owned by LWC in this Asset Acquisition Agreement, a complete inventory of which has been reviewed and agreed to by the parties and is included at Exhibit B and incorporated herein by reference.

**“Excluded Assets”** shall mean all of SHEPHERDSVILLE's water system property, real and personal, tangible and intangible, including, but not limited to the distribution system, pump stations, storage tanks, equipment, materials, cellular communication leases, real and personal property, easements, lien rights, developer contracts, tapping fee contracts, leases, contracts, grants, pending grants, construction reserve funds, operating reserve funds, accounts receivable, licenses, rights to serve, if any, and promissory notes NOT to be owned by LWC in this Asset Acquisition Agreement, a complete list of which is included at Exhibit B1 and incorporated herein by reference.

**“Liabilities”** shall mean all of SHEPHERDSVILLE's water system liabilities, known, unknown or contingent, including but not limited to debt and the contractual obligations of SHEPHERDSVILLE, to be assumed by LWC in this Asset Acquisition Agreement, a complete list of which known liabilities has been reviewed and agreed to by the parties and is included at Exhibit C and incorporated herein by reference.

**“Closing Date”** shall mean the date at which LWC takes possession of the assets and responsibility for operation of SHEPHERDSVILLE's water system, no later than thirty calendar days after execution of this Asset Acquisition Agreement; this Closing Date and the date of execution of the Asset Acquisition Agreement may be extended in writing by mutual agreement of the parties.

**“Employees”** shall mean those six persons employed full-time at SHEPHERDSVILLE at the time of execution of the Letter of Intent, plus any additional person(s) hired after that date but before the Closing Date, if any such additional person(s) were hired with the approval of the LWC; names of those employees are included at Exhibit D and incorporated herein by reference.

**“Letter of Intent”** shall mean that document executed by SHEPHERDSVILLE and LWC on April 2, 2002 on the subject of acquisition of the assets of SHEPHERDSVILLE's water system, and any amendments to that Letter of Intent, which are included in this Asset Acquisition Agreement at Exhibit A (Statement) and Exhibit A1 (Amendments), respectively.

## **Section Two -- Asset Acquisition**

Upon the terms and conditions contained in this Asset Acquisition Agreement and for good and valuable consideration as outlined in this Asset Acquisition Agreement, the sufficiency of which is acknowledged by the parties through their

assent to this Asset Acquisition Agreement and evidenced by their signatures hereinbelow, LWC and SHEPHERDSVILLE agree that LWC is to acquire the assets listed at Exhibit B(excluding the excluded assets listed at Exhibit B1), and the liabilities (including but not limited to the known liabilities listed at Exhibit C) of the Shepherdsville water system.

#### **A. Terms**

This Asset Acquisition Agreement includes the conveyance to LWC of all assets owned by SHEPHERDSVILLE, as the term "assets" is defined for this Asset Acquisition Agreement and as those assets are listed in Exhibit B, excluding the "excluded assets" as that term is defined for this Asset Acquisition Agreement and as those assets are listed in Exhibit B1, as well as the assumption of all liabilities from SHEPHERDSVILLE, as the term "liabilities" is defined for this Asset Acquisition Agreement and as those liabilities are listed in Exhibit C. As a result of this acquisition and after the Closing Date, LWC shall be responsible for water service, management, administration and ownership of the following:

- SHEPHERDSVILLE water service areas, as shown in Exhibit E;
- SHEPHERDSVILLE Assets including those Assets shown in Exhibit B and excluding those Excluded Assets shown in Exhibit B1;
- SHEPHERDSVILLE customer accounts as shown in Exhibit J;  
and
- SHEPHERDSVILLE Liabilities including, but not limited to those Liabilities shown in Exhibit C.

#### **B. Consideration**

In consideration for the asset acquisition, LWC agrees to install, pursuant to the tentative schedule of system improvements at Exhibit F and system development improvements at Exhibit G, certain improvements within the

SHEPHERDSVILLE water service area in Bullitt County. The improvements shall be known collectively as the Shepherdsville Water Improvement Program (SWIP), and shall include the following:

- Exhibit F: \$1.6M (estimated) in System Improvements
- Exhibit G: Additional System Development Improvements

LWC agrees to install water system capital improvements in Shepherdsville's water system to bring that water system up to LWC's standards, as described in Exhibit F, with those improvements to be funded by a Shepherdsville Reserve Fund which Fund shall consist of the Shepherdsville rate capacity (with rate capacity being defined as the difference between then-current LWC rates and the frozen Shepherdsville water rates) as well as any grants or low-interest loans which may be awarded for projects in the former City of Shepherdsville service area. Both LWC and Shepherdsville pledge to work cooperatively with each other and with any and all third parties to obtain any such grants or low interest loans. LWC and Shepherdsville estimate, based on currently available information, that Shepherdsville rates will be equalized with then-current LWC rates within four to seven years from the date of execution of this AGREEMENT.

LWC further agrees to provide water system development improvements as described in Exhibit G, with those improvements to be funded by a system development charge to be assessed, collected and administered in a manner consistent with LWC's assessment, collection and administration of the system development charge in the rest of LWC's service area. The parties acknowledge that LWC reviews that system development charge from time to time and that LWC makes recommendations to its Board of Water Works from time to time as to the amount of that system development charge.

Improvements and liabilities, including but not limited to those improvements and liabilities set out at Exhibit F and Exhibit C, to this Asset Acquisition Agreement, respectively, related to the operation of SHEPHERDSVILLE water system will be funded from the Shepherdsville Reserve Fund.

### **Section Three – SHEPHERDSVILLE Assets and Liabilities**

Pursuant to the terms of this Asset Acquisition Agreement, on the Closing Date, SHEPHERDSVILLE shall convey, assign and deliver to LWC and LWC agrees to accept from SHEPHERDSVILLE any and all assets including those listed in Exhibit B and excluding those listed as Excluded Assets in Exhibit B1, and SHEPHERDSVILLE shall convey, assign and deliver to LWC and LWC agrees to accept any and all liabilities including those listed in Exhibit C.

#### **A. Title and Possession**

SHEPHERDSVILLE shall deliver title and possession of assets to LWC on the Closing Date. In addition, SHEPHERDSVILLE through its Mayor or other authorized representative shall execute instruments of transfer of all or any portion of the assets, such as deeds, bills of sale, and other instruments in writing as may be reasonably requested by LWC with LWC to prepare said instruments and the Mayor or Authorized Representative of SHEPHERDSVILLE to sign said instruments within ninety (90) days after the Closing Date, as further specified in this Asset Acquisition Agreement at Section Eight, Paragraph A, subsection 3.

SHEPHERDSVILLE further agrees to cooperate with preparation and execution of any additional written instruments of transfer as may be reasonably requested after the Closing Date with respect to specific assets being acquired by LWC hereunder, where the need for such instrument may later appear (for example, an overlooked water line easement of record later discovered or an assignment of a specific

contract right deemed desirable at a later date in order to enforce same). SHEPHERDSVILLE and LWC agree that LWC will prepare any such additional written instruments of transfer and that the Mayor or authorized representative of SHEPHERDSVILLE will sign any such additional instruments.

#### **B. Audited Financial Statements**

SHEPHERDSVILLE has furnished, and LWC has reviewed and found satisfactory 2001 Audited Financial Statements for SHEPHERDSVILLE water system, prepared in conformity with generally accepted accounting principles (GAAP); SHEPHERDSVILLE will furnish to LWC on the Closing Date semiannual (January 1 through June 30, 2002) unaudited Financial Statements for SHEPHERDSVILLE, prepared in conformity with generally accepted accounting principles (GAAP) and paid for by LWC. Copies of the 2001 Audited Financial Statements are Exhibit I and incorporated herein by reference; SHEPHERDSVILLE represents and warrants those 2001 Audited Financial Statements to be complete and prepared from SHEPHERDSVILLE's water system books and records. Copies of the semiannual (January 1 through June 30, 2002) unaudited Financial Statements for SHEPHERDSVILLE shall be furnished by SHEPHERDSVILLE to LWC on the Closing Date and made a part of Exhibit I at that time.

#### **C. Schedule of Assets**

SHEPHERDSVILLE has furnished, and LWC has reviewed and found satisfactory a schedule of assets, a copy of which is Exhibit B and incorporated herein by reference. SHEPHERDSVILLE has also furnished, and LWC has reviewed and found satisfactory a schedule of excluded assets, a copy of which is Exhibit B1 and incorporated herein by reference.

#### **D. Liabilities**

SHEPHERDSVILLE has furnished, and LWC has reviewed and found satisfactory a list of known liabilities, which is Exhibit C and incorporated here by reference.

#### **E. Customer List**

SHEPHERDSVILLE has furnished, and LWC has reviewed the SHEPHERDSVILLE list of customers, which is Exhibit J and incorporated herein by reference.

### **Section Four -- Taxes**

Any federal, state or local taxes or assessments of any kind or description assessed against the assets or SHEPHERDSVILLE's operation of those assets and attributable to the period prior to the Closing Date are and will remain the sole responsibility and obligation of SHEPHERDSVILLE to be paid out of the Shepherdsville Water Reserve. Sales, use, transfer, purchase and documentary taxes, if any, payable by reason of the transactions required to fulfill the terms of this Asset acquisition Agreement and due at the Closing Date shall be the responsibility and obligation of SHEPHERDSVILLE, to be paid out of the Shepherdsville Water Reserve. Any and all taxes, sales, use or otherwise, assessed on the assets or the operation thereof, upon or after the Closing Date shall be the sole responsibility and obligation of LWC to be paid out of the Shepherdsville Water Reserve.

### **Section Five – Execution of the Asset Acquisition Agreement and Closing Date**

Execution of the Asset Acquisition Agreement shall take place on or before December 23, 2002. The Closing shall take place at the corporate offices of the Louisville Water Company, 550 S. Third Street, Louisville, KY 40202, at the hour

of 3:00 p.m., E.D.T. on a date fixed by agreement of the parties. The Closing Date may be extended in writing by mutual agreement of the parties.

## **Section Six -- SHEPHERDSVILLE's Representations and Warranties**

### **A. Authority**

SHEPHERDSVILLE represents and warrants that it owns the municipal water system, validly existing and in good standing under the laws of the Commonwealth of Kentucky, having full power and authority to own the assets and to conduct the water distribution business as and where such business has and is now being conducted.

### **B. Title and Authority to Convey**

SHEPHERDSVILLE represents and warrants that it has good and marketable title to all of its assets (listed at Exhibit B to this Asset acquisition Agreement and incorporated herein by reference), and, upon conveyance of same to LWC, each of the assets listed at Exhibit B will be free and clear of all claims, mortgages, security interests, equities, restrictions, liens, encroachments, pledges, options, purchase rights, charges or encumbrances of any kind, except those already disclosed to LWC; that it has the right to sell and convey the assets, make any necessary assignments, and convey the right to deliver water in SHEPHERDSVILLE water system without referendum or further approval of any other governmental agency or entity; and, that it has the full right, power, authority and capacity to execute, deliver and perform this Asset Acquisition Agreement in accord with its terms, which approval is evidenced by Resolution of the City of Shepherdsville at Exhibit K and incorporated herein by reference. This Asset Acquisition Agreement constitutes a legal, valid and binding obligation on SHEPHERDSVILLE.

### **C. Operating System**

SHEPHERDSVILLE represents and warrants that all the assets (listed at Exhibit B to this Asset Acquisition Agreement and incorporated herein by reference) are in working order, ordinary wear and tear excepted, sufficient to enable LWC to provide water service to SHEPHERDSVILLE's customers without interruption in service.

### **D. Environmental Matters**

SHEPHERDSVILLE represents and warrants that to the best of its knowledge there are no toxic, hazardous or carcinogenic substances or wastes disposed, stored or present on, in or under any of the assets to be transferred to LWC under the terms of this Asset Acquisition Agreement. SHEPHERDSVILLE further represents that it has not arranged for the shipment of any toxic substances and/or wastes, hazardous substances and/or wastes, or carcinogenic substances and/or wastes, other than those SHEPHERDSVILLE lists at Exhibit L. SHEPHERDSVILLE also represents that it has not arranged for the treatment, processing, recycling, reclamation, reprocessing, storage or disposal at any site listed on the National Priorities List, any Kentucky State Superfund Site, or any facility not duly authorized and permitted to accept and treat, process, recycle, reclaim, reprocess, store or dispose of such substances and wastes.

### **E. Financial Statements**

SHEPHERDSVILLE has furnished, and LWC has reviewed and found satisfactory 2001 Audited Financial Statements for SHEPHERDSVILLE prepared in conformity with generally accepted accounting principles (GAAP), which Statements SHEPHERDSVILLE represents and warrants to be true, correct and complete and prepared from SHEPHERDSVILLE's water system books and records all of which are Exhibit I and incorporated herein by reference; SHEPHERDSVILLE will furnish to LWC on the

Closing Date semiannual (January 1 through June 30, 2002) unaudited Financial Statements for SHEPHERDSVILLE, prepared in conformity with generally accepted accounting principles (GAAP) and paid for by LWC. Copies of the semiannual (January 1 through June 30, 2002) Audited Financial Statements for SHEPHERDSVILLE shall be furnished by SHEPHERDSVILLE to LWC on the Closing Date with SHEPHERDSVILLE's warranty that the Statements are true, correct and complete and prepared from SHEPHERDSVILLE's water distribution books and records.

**F. Litigation (Pending and Anticipated)**

SHEPHERDSVILLE represents and warrants that there are no claims, actions, suits, arbitrations, mediations, proceedings or investigations, administrative, judicial or otherwise, pending, or, to the best of SHEPHERDSVILLE's knowledge, threatened, administrative, judicial or otherwise, affecting the SHEPHERDSVILLE water distribution system operations or SHEPHERDSVILLE's ownership or possession of the assets, that have not been disclosed to LWC.

**G. Customer List and Metering**

SHEPHERDSVILLE represents and warrants that all users of water connected to the SHEPHERDSVILLE distribution system, are listed as SHEPHERDSVILLE customers on the customer list at Exhibit J, incorporated herein by reference, and, further, that those customers, including all governmental facilities, are metered, with the exception of the list of unmetered customers, at Exhibit M. After the Asset Acquisition Agreement is executed, LWC will install meters for water usage including, but not limited to meters for fire services, for any unmetered customers, with the cost of installation of any such meters to be funded by the Shepherdsville Water Reserve. LWC will continue to bill existing City of Shepherdsville facilities at the then-current LWC wholesale rate until

Shepherdsville rate equalization occurs, and LWC will continue to bill existing fill stations and quarter machines at the then-current LWC wholesale rate until Shepherdsville rate equalization occurs, with the understanding that the LWC wholesale rate is not "frozen" but, rather, that it will be billed at the then-current LWC wholesale rate approved by the Board of Water Works. LWC and Shepherdsville agree that if any additional City of Shepherdsville facilities should be built prior to rate equalization, then all such City of Shepherdsville facilities involved directly in providing city services shall be included as "existing City of Shepherdsville facilities" for this Agreement. LWC and Shepherdsville agree that after the rate equalization occurs, existing City of Shepherdsville facilities and existing fill stations and quarter machines shall be billed at the then-current LWC retail rates, approved by the Board of Water Works.

## **Section Seven -- LWC's Representations and Warranties**

### **A. Valid Existence**

LWC represents and warrants that it is a municipally-owned Kentucky corporation, validly existing and in good standing, acting hereunder through the authority of the Board of Water Works, established pursuant to KRS Sections 96.230 through 96.310.

### **B. Authority**

LWC has full right, power and authority to execute this Asset Acquisition Agreement and to perform the terms and conditions contained herein without further approval of any governmental agency or entity, other than the approval of its own Board of Water Works, which approval is evidenced by Resolution of the Board of Water Works at Exhibit N and

incorporated herein by reference. This Asset Acquisition Agreement constitutes a legal, valid and binding obligation for LWC.

## **Section Eight – Due at Closing**

### **A. Due from SHEPHERDSVILLE to LWC**

Unless LWC produces a written waiver of any item listed herein, SHEPHERDSVILLE shall deliver to LWC at closing the following:

1. A document evidencing in writing to LWC the exclusive authority if there be any such exclusive authority granted to SHEPHERDSVILLE, to provide water service to the properties and residents of SHEPHERDSVILLE;
2. A general warranty deed for any real property owned by SHEPHERDSVILLE (and listed in the schedule of assets at Exhibit B) to be prepared by LWC, said deed to be duly executed, acknowledged and delivered by SHEPHERDSVILLE conveying to LWC marketable fee simple title to such real property at the closing;
3. All of SHEPHERDSVILLE's title and ownership interest (and any other interest in real property held by Shepherdsville and listed in the schedule of assets at Exhibit B). The parties agree that any deed or deeds transferring to LWC all of SHEPHERDSVILLE's title and ownership interest in and to easements of record, used and/or acquired by SHEPHERDSVILLE to install and/or maintain water distribution facilities (which facilities are among the assets transferred to LWC in this Asset acquisition Agreement) shall be prepared by LWC and signed by SHEPHERDSVILLE mayor or authorized representative within ninety (90) days of the Closing Date;

4. All of SHEPHERDSVILLE's title and ownership interest and any other interest in personal property, tangible or intangible. The parties agree that any bill of sale for personal property (tangible or intangible) (which personal property is among the assets transferred to LWC in this Asset Acquisition Agreement), shall be prepared by LWC and signed by SHEPHERDSVILLE Mayor or authorized representative within sixty (60) days of the Closing Date;
5. An inventory, taken by LWC in the presence of a SHEPHERDSVILLE representative no later than 30 days in advance of the Closing Date, detailing all materials and supplies on hand and to be included within the assets in the Schedule of Assets (except to the extent those materials and supplies on hand are installed or consumed in the ordinary course of SHEPHERDSVILLE's business prior to the Closing Date) which is Exhibit B to this Asset Acquisition Agreement and incorporated herein by reference;
6. All customer records (including the customer list described in Section Three, Paragraph E and set out in Exhibit J), and engineering and supplier records relating to SHEPHERDSVILLE water system, including but not limited to a list of all SHEPHERDSVILLE customers, wholesale and retail, current as of the date of the closing and in a form satisfactory to LWC;
7. Possession of the assets detailed in the Schedule of Assets at Exhibit B;
8. Written affirmation of SHEPHERDSVILLE's representations and warranties;
9. A certified copy of SHEPHERDSVILLE's Resolution authorizing SHEPHERDSVILLE to enter into and perform the terms of this Asset Acquisition Agreement and further authorizing its Mayor

or authorized representative to execute this Asset Acquisition Agreement on behalf of SHEPHERDSVILLE;

10. An opinion from SHEPHERDSVILLE's counsel, satisfactory in form to LWC, as to matters set forth in Section Six of this Asset Acquisition Agreement – SHEPHERDSVILLE's Representations and Warranties;
11. A list of all pending legal actions, including administrative, regulatory, civil, criminal and any other legal actions to which SHEPHERDSVILLE's water system is a party, as well as a list of all agreements, including but not limited to contracts, to which SHEPHERDSVILLE's water system is a party;
12. Any such other documentation, at the closing or later if requested, as may be reasonably necessary to effect consummation of the transactions contemplated by and/or required by this Asset Acquisition Agreement, including, but not limited to, transfer from SHEPHERDSVILLE to LWC of title to and ownership of the water distribution facilities and appurtenances thereto.

#### **B. Due from LWC to SHEPHERDSVILLE**

Unless SHEPHERDSVILLE produces a written waiver of any item listed herein, LWC shall deliver to SHEPHERDSVILLE at closing the following:

1. A certified copy of LWC's Board of Water Works' Resolution authorizing LWC's president to enter into and perform the terms of this Asset Acquisition Agreement, including acceptance of assets and liabilities listed in Exhibits B and C, respectively, pursuant to the terms of this Asset Acquisition Agreement;
2. A final offer of employment to each of the SHEPHERDSVILLE employees listed at Exhibit D, offer contingent on execution of this Asset acquisition Agreement; said offer to include a position

description, salary range, starting salary and provisions for leave and benefits;

3. An opinion from LWC's counsel, satisfactory in form to SHEPHERDSVILLE, as to matters set forth in Section Seven of this Asset Acquisition Agreement – LWC's Representations and Warranties.
4. Written affirmation of LWC's representations and warranties.

## **Section Nine – Defaults**

### **A. Default by Either LWC or SHEPHERDSVILLE or Both**

If the Asset Acquisition Agreement is not executed at the request of either of the parties or by mutual agreement of the parties, each party shall be solely responsible for its own expenses.

## **Section Ten – Miscellaneous Matters**

### **A. Risk of Loss**

After the Closing Date when LWC receives the assets and accepts any and all liabilities described at Exhibits B and C, the risk of loss shall shift from SHEPHERDSVILLE to LWC; SHEPHERDSVILLE having borne exclusively the risk of loss during negotiation of the Asset Acquisition Agreement.

### **B. Transfer of Customer Accounts**

SHEPHERDSVILLE shall conduct its final reading of all of its customers' meters prior to execution of the Asset Acquisition Agreement; LWC agrees to accept SHEPHERDSVILLE's final reading on the consumption of each account as LWC's beginning reading. The parties agree to work together on meter reading to assure a smooth transition of this process. Any

payment for service rendered prior to the Closing Date and received after the Closing Date shall be deposited in the Shepherdsville Water Reserve.

#### **C. Applications for Service Connections**

LWC will effect any water service connections after the Closing Date which SHEPHERDSVILLE has approved in the ordinary course of business and for which SHEPHERDSVILLE has been paid its usual and customary fees and/or deposits prior to the Closing Date; SHEPHERDSVILLE agrees to surrender to LWC any deposit paid by the customer, and LWC agrees to make no further charge the customer therefor.

#### **D. Other Payments to SHEPHERDSVILLE and Invoices Owed By SHEPHERDSVILLE**

Any other payments due to SHEPHERDSVILLE prior to the Closing Date and received within 120 days after the Closing Date shall be deposited into the Shepherdsville Water Reserve; any invoices owed by SHEPHERDSVILLE in the ordinary and regular course of its business prior to the Closing Date and received within 120 days after the Closing Date shall be paid out of the Shepherdsville Water Reserve.

#### **E. Notices**

Any notices, requests, waivers or other communications required or permitted to be given under this Asset Acquisition Agreement shall be in writing, and shall be delivered by hand or courier or US mail, postage paid, and addressed to each party as set forth in this Asset Acquisition Agreement with copies to parties' counsels at their then-current addresses.

#### **F. Entire Agreement**

This Asset Acquisition Agreement, including the Letter of Intent previously incorporated herein by reference, supersedes all prior discussions and agreements between SHEPHERDSVILLE and LWC, with respect to this asset acquisition. All promises, inducements, offers, solicitations, agreements, commitments, representations, and warranties heretofore made between the parties are merged into this Asset Acquisition Agreement. This Asset Acquisition Agreement shall not be modified or amended except in a writing executed by both parties. Covenants, representations and warranties made in this Asset Acquisition Agreement remain in full force and effect, surviving the closing.

#### **G. Headings and Captions**

All headings, captions, sections and section numbers and letters are solely for the purpose of facilitating reference to this Asset Acquisition Agreement and shall not supplement, limit, or otherwise vary in any respect the text of this Asset Acquisition Agreement.

#### **H. Successors and Assigns**

This Asset Acquisition Agreement shall be binding on and shall inure to the benefit of the parties hereto and their respective successors and assigns. Nothing in this Asset Acquisition Agreement shall be construed to create any rights or obligations except among and between the parties thereto, and no person or entity shall be regarded as a third party beneficiary of this Asset Acquisition Agreement.

#### **I. Indemnifications**

Each party agrees to indemnify and hold the other party harmless from claims made against it and expenses incurred in defense of same, resulting from one or more breaches of the representations, warranties, and covenants contained in this Asset Acquisition Agreement. The parties

agree that the indemnifications by LWC under the terms of this Asset Acquisition Agreement, including the cost of legal representation, shall be drawn from the Shepherdsville Water Reserve if such costs are occasioned by Shepherdsville's breach(es) of the representations, warranties, and covenants contained in this Asset Acquisition Agreement. The parties acknowledge that LWC's actions and decisions regarding indemnifications will be made on behalf of the SHEPHERDSVILLE ratepayers and with the best interests of those ratepayers in mind.

#### **J. Defense of Territory**

To the extent that, at the time of execution of this Asset Acquisition Agreement, there exists any exclusive authority granted to SHEPHERDSVILLE to provide water service to the properties and residents of SHEPHERDSVILLE water system, LWC agrees to take reasonable steps necessary to preserve that exclusive authority, in LWC's discretion, with the advice of the Shepherdsville Advisory Board.

#### **K. Shepherdsville Advisory Board**

The parties agree that the Shepherdsville Advisory Board shall be formulated as follows:

Upon execution of this Asset Acquisition Agreement, the Shepherdsville Advisory Board, "SAB", consisting initially of the three appointees of the Mayor of SHEPHERDSVILLE (including, in the Mayor's discretion, the Mayor himself or herself), shall be established, with two of the initial appointees to serve two-year terms and one of the initial appointees to serve a four-year term. Thereafter, upon expiration of each appointee's current term, the parties most respectfully request that the Mayor in his discretion either reappoint the appointee(s) or appoint successors, to four year terms. The SAB shall provide advice and counsel to the Chairman of the LWC Board of Water Works, on issues related to

SHEPHERDSVILLE service area and the Shepherdsville Water Improvement Program until the time of rate equalization, at which time the SAB will automatically cease to exist. The SAB shall meet quarterly to receive from LWC financial reports on the sources and uses of funds referenced in the Letter of Intent and in the Asset Acquisition Agreement. Those financial reports from LWC shall include, annually, as part of LWC's annual financial audit and conducted by the same independent certified public accounting firm that conducts LWC's annual financial audit, an audit in accordance with generally accepted accounting principles (GAAP). LWC shall direct this independent, certified public accounting firm to issue an Opinion Letter to the Board of Water Works on the subject of the management and accounting of the Shepherdsville Water Reserve, which Opinion Letter shall also be provided to the Shepherdsville Advisory Board. The SAB shall, at its next regular quarterly meeting after presentation of LWC's Annual Audit to the Board of Water Works, receive both that portion of the annual audit reflecting activity within the SWR as well as a copy of the independent, certified public accounting firm's Opinion Letter to the Board of Water Works regarding management and accounting of the SWR. The SAB members shall receive a stipend of \$100 per month from the Shepherdsville Water Reserve.

**L. Rates for former SHEPHERDSVILLE Customers**

LWC shall charge rates for the former SHEPHERDSVILLE customers as set out in the Shepherdsville rate tariff at Exhibit P; LWC shall charge fees for the former SHEPHERDSVILLE customers as set out in the schedule of fees at Exhibit Q (the parties acknowledge that LWC shall charge its fees, and not the fees set out in the Shepherdsville rate tariff, from the date of closing on this Agreement); rate equalizations with other LWC customers shall occur when the conditions listed in this Asset Acquisition Agreement

have been met. LWC shall honor those written agreements executed by SHEPHERDSVILLE and third parties prior to execution of this AGREEMENT and listed at Exhibit R to this AGREEMENT.

**M. Service to Former SHEPHERDSVILLE Customers**

LWC reaffirms and reiterates its commitment to serve customers of the former SHEPHERDSVILLE water system equally with similarly situated LWC customers under LWC Service Rules and Regulations except that customers of the former SHEPHERDSVILLE water system will be subject to the rates and fees set out in this Asset Acquisition Agreement and the Letter of Intent.

**N. Rate Equalization and Water Rates**

SHEPHERDSVILLE and LWC reiterate and reaffirm their agreement on water rates and their commitment to rate equalization; the parties acknowledge that after rate equalization occurs, customers of the former SHEPHERDSVILLE water system will be billed at the then-current LWC rates.

**O. Funding and Interim Funding for SWR**

In addition to provisions at Section Ten paragraphs B and D, SHEPHERDSVILLE and LWC agree that any balances in any SHEPHERDSVILLE accounts at the Closing Date shall be transferred to the SHEPHERDSVILLE Water Reserve. SHEPHERDSVILLE and LWC acknowledge that, from time to time, the Shepherdsville Water Reserve (as that fund is defined at Section Two, paragraph B in this AGREEMENT and further defined at Exhibit S to this Asset Acquisition Agreement) will require interim funding by LWC, for purposes of cash flow and orderly financial management when costs due to be paid out of that Shepherdsville Water Reserve might otherwise exceed its balance. LWC is prepared to advance funds to the Shepherdsville Water Reserve on an

as-needed basis, at LWC's own cost for borrowing those funds, which cost shall be defined as LWC's most recent long term borrowing rate including any closing costs and other costs imposed on LWC, with no additional fees or charges imposed by LWC.

**P. Sale or Lease of SHEPHERDSVILLE Assets**

The parties agree that, in the event of any sale or lease by LWC of assets conveyed, assigned or delivered to it by SHEPHERDSVILLE pursuant to the terms of this Asset Acquisition Agreement for so long as the Shepherdsville Advisory Board exists or the rate differential between former SHEPHERDSVILLE customers and Jefferson County LWC customers exists, LWC will deposit the same amount as the amount of any proceeds of any such sale or lease into the Shepherdsville Water Reserve. The parties acknowledge that LWC's Louisville Water Company Water System Revenue Bond Resolution Authorizing the Issuance of Water System Revenue Bonds, adopted July 14, 1992, specifically Article VI Bond Covenants at Section 611, requires deposit of the proceeds of any such sale or lease into LWC's Depreciation Fund; therefore, the parties agree that LWC's deposit of the same amount as the amount of any such proceeds of any such sale or lease of assets will satisfy this provision.

**Q. Dismantling or Upgrading Storage Tanks**

The parties acknowledge that LWC's proposed improvements include dismantling and/or upgrading existing SHEPHERDSVILLE water storage tanks. LWC agrees to provide at least nine (9) months' advance notice of LWC's intent to proceed with dismantling of any tank upon which there exists currently a lease agreement, so as to allow SHEPHERDSVILLE time to negotiate alternative arrangements with any lessee. LWC and SHEPHERDSVILLE agree to cooperate with each other and any third parties, for any additional leases which may be executed after the closing on this Agreement.

#### **R. Supplemental Representations**

The parties agree that both parties may supplement their representations and warranties and exhibits to this Asset Acquisition Agreement, during the time period between execution of this Asset Acquisition Agreement and the Closing Date. The parties further agree that if the non-supplementing party considers the supplement to materially affect the value of the Asset Acquisition to the detriment of the non-supplementing party, then the supplementing party shall pay the administrative costs of the non-supplementing party, up to the sum of \$10,000, within thirty days of the date of the non-supplementing party's notice to the supplementing party of material detriment.

#### **S. Notice of Significant Actions During Interim Period**

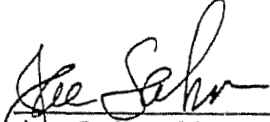
The parties acknowledge that there may be a period of time between the execution of this Asset Acquisition Agreement and the Closing Date, and both parties agree to provide notice to the other party of any action or event which may impair the value of an asset (by \$10,000 or more) or increase a liability (by \$10,000 or more) subject to this Asset Acquisition Agreement, including but not limited to those assets and liabilities listed at Exhibits B and C. The parties agree that any such notice shall be provided within forty-eight (48) hours of the party's knowledge of that action or event.

#### **T. Cooperation for Preparation of Consumer Confidence Report**

The parties recognize that after the closing on this Agreement, LWC will become responsible for preparation and dissemination of the Sheperdsville water system's Consumer Confidence Report (CCR) for the year 2002, and that the City of Sheperdsville has in its possession and/or within its care, custody and control the data necessary for preparation of the CCR. Sheperdsville agrees to provide all of that data to LWC within thirty (30) days after the execution and closing on this Agreement.

Wherefore, the parties to this Asset Acquisition Agreement affix their signatures as of the date first hereinabove written.

CITY OF SHEPHERDSVILLE



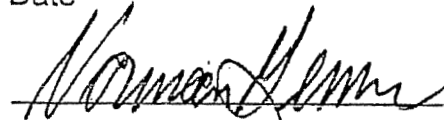
Joe Sohm, Mayor

12-23-2002

Date

Attest

Date



Norman R. Lemme, Attorney at Law  
Shepherdsville City Attorney

LOUISVILLE WATER COMPANY



John L. Huber, President

December 23, 2002

Date

Attest

12-23-02

Date



Laura M. Douglas, Vice President  
General Counsel and Corporate Secretary

## Exhibits

- A Letter of Intent executed 4/2/02
- A1 Amendment(s) to the Letter of Intent (if there are none, this will so state)
- B Schedule of Assets agreed to by the Parties (including Inventory of personal property)
- B1 List of Excluded Assets agreed to by the Parties
- C List of "Assumed Liabilities"
- D List of SHEPHERDSVILLE employees, current positions and LWC contingent offers
- E Map of SHEPHERDSVILLE Water System
- F \$1.6 System Upgrades and Improvements
- G SHEPHERDSVILLE System Development Improvements
- H Intentionally Left Blank
- I SHEPHERDSVILLE 2001 audited financial statements and half-year financial statement for Jan-June 2002
- J SHEPHERDSVILLE customer list
- K SHEPHERDSVILLE Resolution Authorizing Mayor or Authorized Representative to sign Asset Acquisition Agreement
- L SHEPHERDSVILLE list of toxic, hazardous and/or carcinogenic substances/wastes
- M SHEPHERDSVILLE list of unmetered customers (If there are none, this will so state)
- N LWC Resolution of the Board of Water Works Authorizing President to sign Asset Acquisition Agreement
- P Shepherdsville Rate Tariff
- Q LWC Schedule of Fees
- R List of Agreements between SHEPHERDSVILLE and third parties which agreements LWC agrees to honor
- S Shepherdsville Water Reserve (SWR) description and information

Exhibit A  
Letter of Intent

April 2, 2002

The Honorable Joe Sohm  
Mayor of Shepherdsville  
City Hall  
P.O. Box 400  
Shepherdsville, KY 40165

RE: Letter of Intent for Asset Acquisition Agreement

Dear Mayor Sohm:

This Letter of Intent (hereafter, Letter) follows up discussions between yourself and representatives of the Louisville Water Company, including among those representatives Karla Teasley, Greg Heitzman, and Bob Miller; its intent is to capture points of agreement reached during those discussions. If, after your review, you agree that this Letter accurately captures our points of agreement on the proposed transaction, please sign one of the two originals provided, and return it to me.

The proposed transaction anticipated by this Letter is between the City of Shepherdsville (hereafter, Shepherdsville) and the Louisville Water Company, a municipal corporation (hereafter, LWC) (collectively hereafter, the Parties). In that proposed transaction, Louisville Water Company will acquire the assets and assume the debt (as those terms "asset" and "debt" are further defined later in this Letter and in any subsequent Asset Acquisition Agreement) as well as assume the responsibility for operation of Shepherdsville's water system. The Parties anticipate that, upon Closing on this proposed Asset Acquisition Agreement, that the Shepherdsville Water System will become part of the Louisville Water Company service area and will be operated by LWC. The parties further anticipate the establishment of a Shepherdsville Advisory Board to advise LWC on matters related to the operation of the Shepherdsville water system, including the system improvements detailed below, with the details of that board to be set out in the anticipated Asset Acquisition Agreement.

Shepherdsville agrees to provide additional information on the five (5) current employees of Shepherdsville's water system during the designated due diligence period set out in this Letter, and, at the Closing on the anticipated Asset Acquisition Agreement, LWC agrees to offer those five employees employment at LWC (with those offers of employment contingent on those employees' satisfactory results in pre-employment drug screens and background checks, which screens and checks are required of all prospective LWC employees).

The consideration for this proposed transaction shall consist of the following elements:

- LWC's assumption of the Debt, which debt shall include only those items set out at Exhibit 1 to this Letter and incorporated herein by reference (and which debt is estimated to total \$648,749.00);
- LWC's continued operation of Shepherdsville's water system;
- LWC's upgrades of Shepherdsville's water system to LWC standards with system capital improvements described in Exhibit 2 to this Letter and incorporated herein by reference, the value of which upgrades is estimated at \$1.5 Million, and with those system capital improvements to be funded by the establishment of a Shepherdsville Reserve Fund funded by Shepherdsville rate capacity (with rate capacity being the difference between then-current LWC rates and frozen Shepherdsville water rates);
- Exhibit 3 are additional system wide capital improvements recommended, but not required, prior to rate equalization;
- LWC's maintaining Shepherdsville water rates at the current level, with equalization to LWC's then-current rates when the improvements listed at Exhibit 2 have been completed and financed by the Shepherdsville Reserve Fund. The estimated time for rate equalization is 5 to 7 years.
- LWC's maintaining current wholesale water rates (presently at \$1.16/1000 gallons) for water service to City of Shepherdsville facilities, including water hauling and water vending services, until rate equalization, and City of Shepherdsville agreeing to meter all water usage by installing meters at those city facilities.

LWC shall prepare and present a draft agreement (Asset Acquisition Agreement) detailing the terms of this proposed transaction within sixty (60) days after the parties' execute this Letter. Closing on this transaction shall be contingent on LWC's completion of a due diligence investigation, with that due diligence investigation to include operational, environmental, and legal/regulatory issues and with that due diligence investigation to be concluded no later than forty-five (45) days after the date of this Letter, unless the parties agree in writing to extend the due diligence investigation period beyond that initial 45 day period.

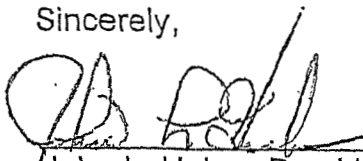
Shepherdsville shall not negotiate with any party other than LWC for acquisition of the Shepherdsville water system assets during the 60 day period leading up to presentation of the draft agreement.

The Closing on the transaction anticipated by this Letter is contingent on the parties' approval of an Asset Acquisition Agreement by the LWC Board of Water Works and by the City of Shepherdsville's governing authority(ies). The Asset Acquisition Agreement shall provide that the Closing occur not later than six (6) months after the date of this Letter (i.e., the Closing Date) or on such other date as the Parties hereto may agree.

This Letter of Intent does not purport to address all matters which the Parties anticipate will be included in the Asset Acquisition Agreement. Except for the obligation of Shepherdsville herein to negotiate exclusively with LWC during the period specified, the Parties understand and acknowledge that this Letter merely expresses the Parties' mutual intentions with respect to the proposed transaction, and does not constitute a present obligation binding on the Parties hereto. The Parties anticipate that the Asset Acquisition Agreement will constitute a binding obligation on the Parties hereto.

Each Party shall bear its own expenses relating to the negotiation and execution of this Letter and the Asset Acquisition Agreement anticipated hereby, and the performance of such Party's obligations hereunder and thereunder. Any amendment, modification, or waiver of the terms and conditions of this Letter shall be effective only if in writing and duly executed by each of the Parties hereto. This Letter may be executed in one or more counterparts, each of which together shall constitute a single instrument. The Parties agree that facsimile signatures shall have the same force and effect as original signatures hereunder.

Sincerely,

  
\_\_\_\_\_  
John L. Huber, President  
Louisville Water Company

Agreed:

For the City of Shepherdsville:

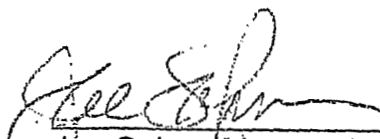
  
\_\_\_\_\_  
Joe Sohm, Mayor  
City of Shepherdsville

EXHIBIT 1

City of Shepherdsville Water System Liabilities/Equity projected as of June 30, 2002

JCS 2/20/02

	<u>Acquired Date</u>	<u>Beginning Balance</u>	<u>Net Book Value</u>
1996 Bond issue	1966	\$ 1,166,000	\$ 205,000
1979 Bond issue	1979	\$ 425,000	\$ 285,000
Note Payable 5/3	2001		\$ 12,652
Due to City			\$ 18,651
Other (a/p, accrued payroll, etc.)			\$ 127,446
<b>TOTAL</b>			<b>\$ 648,749</b>

**EXHIBIT 2****RECOMMENDED SHEPHERDSVILLE WATER SYSTEM IMPROVEMENTS**

Item	Description	Amount	Unit Cost	Estimate
1	Fire Flow and Hydraulic Improvements: a. Replace 50% of undersized mains with 6 inch lines b. Cut in new hydrants, gate valves and key tube c. Replace hydrants 40 yrs old, add valve & key tube d. Add gate valves & key tubes to existing hydrants	17,030 130 50 80	\$35/ft \$2,200 \$2,200 \$1,500	\$ 596,050 \$ 286,000 \$ 110,000 \$ 120,000
2	12 inch Main Transmission Improvements a. Hwy 61 from Bypass to Blue Lick Rd b. 12 inch main along bypass from Hwy 61 to Hwy 44** c. Hwy 44 from Keystone Crossroads to Carpenter	900 ft 2,500 ft 1,500 ft	\$55/ft \$55/ft \$55/ft	\$ 49,500 \$ 137,500 \$ 82,500
3	System Mapping			\$ 20,000
4	Hydro-pneumatic booster for Pointe Subdivision			\$ 35,000
5	Miscellaneous tie-ins: a. West-end Hwy 44 grid tie b. North-end Raymond Rd grid tie			\$ 42,000 \$ 5,000
6	Miscellaneous Meter and Vault Improvements			\$ 25,000
<b>Total Estimated Costs</b>				<b>\$ 1,508,550</b>

\*\*12 inch water main through new development

**EXHIBIT 3****ADDITIONAL SHEPHERDSVILLE IMPROVEMENTS RECOMMENDED**

Item	Description	Amount	Unit Cost	Estimate
1	Replace remaining undersized mains with 6 Inch * lines	17,030	\$35/ft	\$ 596,050
2	8 Inch Supply Main to The Pointe from Blue Lick Rd	3,850 ft	\$35	\$ 134,750
3	Hwy 44*, 12 inch Transmission main a. Carpenter to Hwy 61 intersection b. Saltwell to Raymond Rd	1,200 ft 5,200 ft	\$55/ft \$55/ft	\$ 66,000 \$ 286,000
Total Estimated Costs				\$ 1,082,800

Exhibit A1  
Amendment(s) to the Letter of Intent  
(LWC to provide – if applicable)

Exhibit B  
Schedule of Assets Agreed to by the Parties

Exhibit B  
Schedule of Assets Agreed to by the Parties

Assets include all facilities, including water mains, meters, valves, hydrants and appurtenances including, but not limited to:

- Elevated water storage tank commonly known as Winn Dixie storage tank
- Elevated water storage tank commonly known as city ball park storage tank
- Standpipe water storage tank commonly known as Chillicoop Stand pipe
- Real property associated with the Chillicoop Stand pipe
- personal property associated with the aforementioned water facilities

# **EXHIBIT B** **Shepherdsville Water System Materials Inventory**

Recorded 11/13/02

Item	Matr	Size	Measurements	Qty	Comments
<b>Repair Bands</b>					
PVC repair band	Ford	2"	2.35-2.65 x 6"	6	
PVC repair band	Ford	2"	2.35-2.65 x 12"	14	
PVC repair band	Ford	4"	4.45-4.73 x 12.5"	19	
PVC repair band	Ford	4"	4.45-4.73 x 24"	2	
PVC repair band	Ford	4"	4.45-4.73 x 30"	1	
PVC repair band	Ford	6"	6.60-7.00 x 12"	10	
PVC repair band	Ford	8"	8.54-8.94 x 12.5"	1	
PVC repair band	Ford	8"	8.54-8.94 x 24"	2	
PVC repair band	Ford	10"	11.04-11.44 x 12.5"	2	
PVC repair band	Ford	12"	13.10-13.50 x 24"	4	
PVC repair band	Romac	2"	2.35-2.65 x 6"	2	
PVC repair band	Romac	2"	2.35-2.65 x 12"	8	
PVC repair band	Romac	2"	2.35-2.65 x 16"	3	
PVC repair band	Romac	2"	2.35-2.65 x 24"	3	
PVC repair band	Romac	3"	3.45-3.70 x 12"	5	
PVC repair band	Romac	4"	4.45-4.85 x 12"	10	
PVC repair band	Romac	4"	4.45-4.85 x 20"	1	
PVC repair band	Romac	4"	4.45-4.85 x 24"	3	
PVC repair band	Romac	6"	6.60-7.00 x 12"	21	
Cast Iron repair band	Ford	6"	6.60-7.00 x 30"	5	
Cast Iron repair band	Ford	4"	4.74-5.14 x 12.5"	13	
Cast Iron repair band	Ford	4"	4.74-5.14 x 30"	1	
Cast Iron repair band	Ford	6"	6.82-7.24 x 12"	9	
Cast Iron repair band	Ford	6"	6.82-7.24 x 15"	1	
Cast Iron repair band	Ford	6"	6.82-7.24 x 30"	3	
Cast Iron repair band	Ford	8"	8.99-9.39 x 12.5"	3	
Cast Iron repair band	Romac	8"	8.99-9.39 x 20"	4	
Cast Iron repair band	Romac	2"	2.53-2.87 x 12"	1	
Cast Iron repair band	Romac	4"	4.74-5.14 x 12"	1	
Cast Iron repair band	Romac	4"	4.74-5.14 x 20"	4	
Cast Iron repair band	Romac	6"	6.84-7.24 x 12"	1	
Cast Iron repair band	Romac	6"	6.84-7.24 x 24"	4	
Cast Iron repair band	Romac	6"	6.84-7.24 x 30"	4	
<b>Tapping Saddles</b>					
PVC Brass Saddle		6"	3/4" tap	12	
PVC Brass Saddle		6"	1" tap	2	
PVC Brass Saddle		3"	3.50 x 3/4" tap	74	
PVC Brass Saddle		4"	4.50 x 3/4" tap	3	
PVC Brass Saddle		6"	6.625 x 3/4" tap	19	
PVC Brass Saddle		6"	6.625 x 1" tap	4	
PVC Brass Saddle		8"	8.625 x 3/4" tap	9	
PVC Brass Saddle		8"	8.06 x 2" tap	1	
PVC C900 Brass Saddle		6"	6.90 x 3/4" tap	46	
PVC C900 Brass Saddle		6"	6.90 x 1" tap	3	
PVC C900 Brass Saddle		8"	9.05 x 3/4" tap	32	
PVC C900 Brass Saddle		8"	9.05 x 2" tap	3	
Cast Iron Brass Saddle		8"			

# EXHIBIT B

Recorded 11/13/02

## Shepherdsville Water System Materials Inventory

Item	Matr.	Size	Measurements	Qty	Comments
Cast Iron Brass Saddle		4"	4.80-5.40 x 1" tap	8	
Cast Iron Brass Saddle		6"	6.80-7.50 x 3/4" tap	6	
<b>Meter Setter</b>					
meter setter w/backflow prev.		3/4"		24	
meter setter		3/4"		3	
<b>Gate Valve</b>					
gate valve	Amer. Flow	4"		2	
gate valve	Amer. Flow	2"		2	
<b>Brass</b>					
corporation stop	Ford	3/4"		45	
3/4" CTS PJ or 1/2" PJ	Ford		9 boxes	120	
3/4" CTS grip coupling	Ford				
3/4" x 1" CTS grip coupling	Ford		4boxes	45	
1" x 1" CTS grip coupling	Ford		2 boxes	20	
1 1/2" x 1 1/2" CTS PJ	Ford			7	
3/4" angle ball, pad wing PJ	Ford		3 boxes	18	
1" angle ball, pad wing, CTS	Ford			6	
3/4" ball x 3/4" CTS curb vlv	Ford			6	
Tapping Tool (toolbox)	Ford		3/4" to 2"		
<b>Meters</b>					
3/4" T-10 disc meter	Schlumberger	3/4"	3/4"	16	
3/4" T-10 disc meter(used)	Schlumberger	3/4"	3/4"	10	
1" T-10 disc meter	Schlumberger	1"	1"	7	
1" T-10 disc meter(used)	Schlumberger	1"	1"	7	
1 1/2" disc meter(used)	Schlumberger	1 1/2"	1 1/2"	2	
2" TruFlo Compound Meter	Schlumberger	2"	2"	8	
2" TruFlo Compound (used)	Schlumberger	2"	2"	2	
<b>Meter Read Equip</b>					
touch pads (similar to LWC)	Schlumberger		1 box	50	
touch pads (similar to LWC)	Schlumberger		loose	25	
R900 PitWater Rf MIU	Schlumberger		6 boxes	60	
<b>Tapping Sleeves</b>					
ss tapping sleeve	Ford		12" x 4"	6	
ss tapping sleeve	Ford		12" x 6"	2	
<b>Pipe and Fittings</b>					
C900 PVC		12"	45 pieces - 20'	900'	
12" x 6" ductile iron tee			12" x 6"	3	
12" x 8" ductile iron tee			12" x 8"	1	
90 Bend MJ			12"	3	
misc 4" fittings/parts					
8" Mechanical joint		8"	loose		
6" Mechanical joint					

**EXHIBIT B**

Recorded 11/13/02

**Shepherdsville Water System Materials Inventory**

Item	Muff	Size	Measurements	Qty	Comments
4" Mechanical joint		4"	loose	28	
2" Mechanical joint		2"	loose	10	

This list does not include all pieces, such as various parts found in garage and yard.

Example. (Loose brass pieces, meter parts, plastic meter lids, corrugated vault risers, etc.)

Exhibit B1  
List of Excluded Assets Agreed to by the Parties

Exhibit B1  
List of Excluded Assets Agreed to by the Parties

EXCLUDED ASSETS

1. Water Treatment Plant
2. Water Plant Garage
3. Fence
4. Maintenance Building
5. Water Dispensing Coin Machines
6. Haney Building
7. Shed
8. 94 Ford F-150 Truck
9. Dump Truck
10. Radio & Antenna
11. Pressure Washer
12. 95 Ford F-150 Truck (2)
13. Computer
14. 24" Bucket
15. Computer Software
16. Shore Shield
17. 96 Ford Pickup Truck
18. Ditch Witch Pig
19. 580 L Case Backhoe
20. Uniboard

All other and real personal property owned by the City of Shepherdsville and not listed at Exhibit B.

Exhibit C  
List of "Assumed Liabilities"

SCHEDULE C

Assumed Liabilities

12/20/02

City of Shepherdsville Water System Liabilities projected as of December 20, 2002

	<u>Acquired Date</u>	<u>Beginning Balance</u>	<u>Net Book Value</u>
1996 Bond issue	1966	\$ 1,166,000	\$ 205,000
1979 Bond issue	1979	\$ 425,000	\$ 285,000
Note Payable to 5/3 Bank	2001		\$0
Due to City			\$ 18,651
Other (a/p, accrued payroll, etc.)			\$ 127,446
TOTAL			\$ 636,097

Exhibit D  
List of Shepherdsville Employees,  
Current Positions, and LWC Contingent Offers

November 13, 2002

## LOUISVILLE WATER COMPANY

### Shepherdsville Employees

**Employee Name:** Gayla Mattingly

This is Louisville Water Company's offer of employment. Below you will find the final slotting in comparison to your current situation with Shepherdsville. Please sign where indicated and fax to Ellen Mackin at 569-3672 as soon as possible.

	Current Status (with Shepherdsville):	Proposed Status (with LWC):
Job Title:	Water/Sewer Clerk	Customer Service Clerk I (Billing Department)
Salary:	\$25,480 (\$12.25 hr.)	\$25,480 (\$12.25 hr.) 4/1/03 – Eligible for Market Movement adjustment
Grade:		Grade 3 Quartile 2 Min 20,166 CP 26,204 Max \$33,280
FLSA Status:	Nonexempt	Nonexempt
Scheduled Work Hours:	40	40
Years of Service:	4 years	0
Reporting Location:	Shepherdsville	Allmond Avenue
Paid Time Off Accrued:	0 days 1/1/03 – 13 days annually	0 days Effective 1/1/03 – 12 days
Sick Leave Accrued:	1 day Accrues 1 day each month	*0 days *assuming Shepherdsville pays out remaining sick Effective 1/1/03 – 5 days (may carry up to 15 days in sick leave account – paid out for days exceeding 15) If has perfect attendance in 2003, is eligible for a bonus of 3 additional sick days
Take Home Vehicle	No	No

November 13, 2002

## LOUISVILLE WATER COMPANY

### Shepherdsville Employees

Employee Name: Tonya Taylor

This is Louisville Water Company's offer of employment. Below you will find the final slotting in comparison to your current situation with Shepherdsville. Please sign where indicated and fax to Ellen Mackin at 569-3672 as soon as possible.

	Current Status (with Shepherdsville):	Proposed Status (with LWC):
Job Title:	Deputy City Clerk	Accounting Clerk II
Salary:	\$30,160 (\$14.50 hr.)	\$30,160 (\$14.50 hr.) 4/1/03 – Eligible for Market Movement adjustment
Grade:		Grade 5 Quartile 2 Min 25,520 CP 33,175 Max \$42,107
FLSA Status:	Nonexempt	Nonexempt
Scheduled Work Hours:	40	40
Years of Service:	6 years	0
Reporting Location:	Shepherdsville	Third Street
Paid Time Off Accrued:	2 days Effective 1/1/03 – 15 days	*0 days *assuming Shepherdsville pays out all remaining PTO Effective 1/1/03 – 12 days
Sick Leave Accrued:	10 hours Accrues 1 sick day every month	*0 days *assuming Shepherdsville pays out all remaining sick Effective 1/1/03 – 5 days (may carry up to 15 days in sick leave account – paid out for days exceeding 15) If has perfect attendance in 2003, is eligible for a bonus of 3 additional sick days
Take Home Vehicle	No	No

November 13, 2002

## LOUISVILLE WATER COMPANY

### Shepherdsville Employees

Employee Name: Mike Smothers

This is Louisville Water Company's offer of employment. Below you will find the final slotting in comparison to your current situation with Shepherdsville. Please sign where indicated and fax to Ellen Mackin at 569-3672 as soon as possible.

	Current Status (with Shepherdsville):	Proposed Status (with LWC):
Job Title:	Water Distribution System Operator	General Laborer
Salary:	\$15.00/hr. (\$31,200)	\$15.00/hour \$31,200 2/1/03 – Eligible for 2% increase 7/1/03 – Eligible for additional 1.5% increase
Grade:	N/A	
FLSA Status:	Hourly	Hourly
Scheduled Work Hours:	40	40
Years of Service:	25 years	0
Reporting Location:	Shepherdsville	Allmond Avenue
Paid Time Off Accrued:	0 days Effective 1/1/03 – 20 days	0 days Effective 1/1/03 – 15 days
Sick Leave Accrued:	1 day Accrues 1 sick day every month	*0 days *assuming Shepherdsville pays out all remaining Sick Effective 1/1/03 – 5 days (may carry up to 20 days in sick leave account – paid out for days exceeding 20) If has perfect attendance in 2003, is eligible for a bonus of 3 additional sick days

November 13, 2002

## LOUISVILLE WATER COMPANY

### Shepherdsville Employees

Employee Name: Andy Cox

This is Louisville Water Company's offer of employment. Below you will find the final slotting in comparison to your current situation with Shepherdsville. Please sign where indicated and fax to Ellen Mackin at 569-3672 as soon as possible.

	Current Status (with Shepherdsville):	Proposed Status (with LWC):
Job Title:	Maintenance Worker II	General Laborer
Salary:	\$13.00/hr. (\$27,040)	\$13.00/hour (\$27,040) 2/1/03 – Eligible for 2% increase 7/1/03 – Eligible for additional 1.5% increase
Grade:	N/A	
FLSA Status:	Hourly	Hourly
Scheduled Work Hours:	40	40
Years of Service:	5 years	0
Reporting Location:	Shepherdsville	Allmond Avenue
Paid Time Off Accrued:	0 days Effective 1/1/03 – 14 days	0 days Effective 1/1/03 – 12 days
Sick Leave Accrued:	0 days Accrues 1 sick day every month	0 days Effective 1/1/03 – 5 days (may carry up to 20 days in sick leave account – paid out for days exceeding 20) If has perfect attendance in 2003, is eligible for a bonus of 3 additional sick days
Take Home Vehicle	No	No

November 13, 2002

## LOUISVILLE WATER COMPANY

### Shepherdsville Employees

Employee Name: Tim Miller

This is Louisville Water Company's offer of employment. Below you will find the final slotting in comparison to your current situation with Shepherdsville. Please sign where indicated and fax to Ellen Mackin at 569-3672 as soon as possible.

	Current Status (with Shepherdsville):	Proposed Status (with LWC):
Job Title:	Maintenance Worker II	General Laborer
Salary:	\$11.00/hr. (\$22,880)	\$12.99/hour (\$27,019) 2/1/03 -- Eligible for 2% increase 7/1/03 -- Eligible for additional 1.5% increase
Grade:	N/A	
FLSA Status:	Hourly	Hourly
Scheduled Work Hours:	40	40
Years of Service:	3 years	0
Reporting Location:	Shepherdsville	Allmond Avenue
Paid Time Off Accrued:	0 days Effective 1/1/03 -- 12 days	0 days Effective 1/1/03 -- 12 days
Sick Leave Accrued:	0 days Accrues 1 sick day every month	0 days Effective 1/1/03 -- 5 days (may carry up to 20 days in sick leave account -- paid out for days exceeding 20) If has perfect attendance in 2003, is eligible for a bonus of 3 additional sick days
Take Home Vehicle	No	No

November 13, 2002

## LOUISVILLE WATER COMPANY

### Shepherdsville Employees

Employee Name: Glen Ryan

This is Louisville Water Company's offer of employment. Below you will find the final slotting in comparison to your current situation with Shepherdsville. Please sign where indicated and fax to Ellen Mackin at 569-3672 as soon as possible.

	Current Status (with Shepherdsville):	Proposed Status (with LWC):
Job Title:	Maintenance Worker III	General Laborer
Salary:	\$15.00/hr. (\$31,200)	\$15.00/hour (\$31,200) 2/1/03 – Eligible for 2% increase 7/1/03 – Eligible for additional 1.5% increase
Grade:	N/A	
FLSA Status:	Hourly	Hourly
Scheduled Work Hours:	40	40
Years of Service:	6 years	0
Reporting Location:	Shepherdsville	Allmond Avenue
Paid Time Off Accrued:	.5 days Effective 1/1/03 – 15 days	*0 days *assuming Shepherdsville pays out remaining PTO Effective 1/1/03 – 12 days
Sick Leave Accrued:	4 days Accrues 1 sick day every month	*0 days *assuming Shepherdsville pays out remaining Sick Effective 1/1/03 – 5 days (may carry up to 20 days in sick leave account – paid out for days exceeding 20) If has perfect attendance in 2003, is eligible for a bonus of 3 additional sick days
Take Home Vehicle	No	No

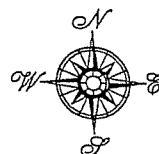
Exhibit E  
Map of Shepherdsville Water System

# EXISTING SHEPHERDSVILLE WATER SYSTEM EXHIBIT E



## Legend

- |           |           |                        |
|-----------|-----------|------------------------|
| 1" Mains  | 14" Mains | Streams                |
| 2" Mains  | 16" Mains | Interstate             |
| 3" Mains  | 20" Mains | Streets                |
| 4" Mains  | 24" Mains | Railroad               |
| 5" Mains  | 30" Mains | City of Shepherdsville |
| 6" Mains  | 36" Mains |                        |
| 8" Mains  | 48" Mains |                        |
| 10" Mains | 60" Mains |                        |
| 12" Mains |           |                        |
- Booster Pump  
 Water Storage



NOT TO SCALE



Date: 12/19/02

Exhibit F  
System Upgrades and Improvements

Exhibit G  
Shepherdsville System Development Improvements

**SCHEDULE G**

12/20/02

**SHEPHERDSVILLE SYSTEM DEVELOPMENT CHARGE (SDC) FUNDED PROJECTS**

<b>Item</b>	<b>Description</b>	<b>Amount</b>	<b>Unit Cost</b>	<b>SDC Estimate</b>	<b>Completion</b>
1	Pointe Subdivision Hydropneumatic Station	1	\$35,000	\$35,000	2003
2	Hwy 44 main - upsize from 8" line to 12" main	1,500	\$20/ft	\$30,000	2003
3	Grid Ties				
	a. Chillicoop 12" to Blue Lick Rd	1,300 ft	\$50/ft	\$66,000	2003
	b. 8" Grid tie at Roby School	1,500 ft	\$55/ft	\$5,500	2003
<b>Total Estimated Costs</b>				<b>\$ 136,500</b>	<b>2003</b>

Exhibit I  
Shepherdsville 2001 Audited Financial Statements  
and Half-year Financial Statements for Jan-June 2002

Revised JS 11/8/02

CITY OF SHEPHERDSVILLE, KENTUCKY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001



STEPHENS  
& LAWSON

Certified Public Accountants

**CITY OF SHEPHERDSVILLE, KENTUCKY**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

CONTENTS	PAGE
Independent Auditor's Report	1
Combined Balance Sheet – All Fund Types and Account Groups	2
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Fund Types	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual All Governmental Fund Types	5
Combined Statement of Revenue, Expenses, and Changes in Accumulated Deficit – Proprietary Fund Type	7
Combined Statement of Cash Flows – Proprietary Fund Type	8
Notes to the Financial Statements	9
Schedule of Expenditures of Federal Awards	17
Notes to the Schedule of Expenditures of Federal Awards	18
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	20
Schedule of Findings and Questioned Costs	22



# STEPHENS & LAWSON

Certified Public Accountants

June 28, 2002

## Independent Auditor's Report

To the Mayor and Members of the City Council  
City of Shepherdsville, Kentucky

We have audited the accompanying general-purpose financial statements of the City of Shepherdsville, Kentucky, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Shepherdsville, Kentucky's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Shepherdsville, Kentucky, as of June 30, 2001, and the results of its operations and cash flows of its discretely presented component units for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2002, on our consideration of the City of Shepherdsville, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements of the City of Shepherdsville, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Stephens & Lawson, PSC



PROPRIETARY FUND TYPE	ACCOUNT GROUPS		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Debt	
Water and Sewer Fund			
\$ 262,886	\$ -	\$ -	\$ 416,785
511,752	-	-	564,086
-	-	-	138,315
144,317	-	-	144,317
-	-	-	410
2,811	-	-	2,811
8,843,937	1,991,954	-	10,835,891
(3,603,659)	(862,538)	-	(4,466,197)
144,861	-	-	144,861
(71,666)	-	-	(71,666)
-	-	-	63,752
-	-	589,092	589,092
<u>\$ 6,235,239</u>	<u>\$ 1,129,416</u>	<u>\$ 589,092</u>	<u>\$ 8,362,457</u>
\$ 97,267	\$ -	\$ -	\$ 114,755
19,768	-	-	26,859
109,030	-	-	109,030
63,752	-	-	63,752
1,687,000	-	-	1,687,000
40,600	-	589,092	629,692
<u>2,017,417</u>	<u>-</u>	<u>589,092</u>	<u>2,631,088</u>
4,574,643	-	-	4,574,643
-	1,129,416	-	1,129,416
(356,821)	-	-	(356,821)
-	-	-	113,288
-	-	-	270,843
<u>4,217,822</u>	<u>1,129,416</u>	<u>-</u>	<u>5,731,369</u>
<u>\$ 6,235,239</u>	<u>\$ 1,129,416</u>	<u>\$ 589,092</u>	<u>\$ 8,362,457</u>

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

**CITY OF SHEPHERDSVILLE, KENTUCKY**  
**COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE - ALL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPE	Total (Memorandum Only)
	General Fund	Special Revenue Fund	Capital Projects Fund	Water and Sewer Fund	
<b>REVENUE</b>					
Property & Franchise Taxes	\$ 675,178	\$ -	\$ -	\$ -	\$ 675,178
Occupational Taxes	508,751	-	-	-	508,751
Restaurant Tax	401,565	-	-	-	401,565
Intergovernmental	244,545	82,376	344,230	-	671,151
License & Permits	104,455	-	-	-	104,455
Other	28,436	-	-	2,177,231	2,205,667
Interest	1,197	2,045	-	31,303	34,545
<b>TOTAL REVENUE</b>	<u>1,964,127</u>	<u>84,421</u>	<u>344,230</u>	<u>2,208,534</u>	<u>4,601,312</u>
<b>EXPENDITURES</b>					
General Government	555,179	-	-	-	555,179
Police Department	771,937	-	-	-	771,937
Fire Department	128,850	-	-	-	128,850
Tourism	400,949	-	-	-	400,949
Capital Outlay	486,367	-	-	-	486,367
Recreation	-	858	-	-	858
Streets	-	29,999	-	-	29,999
Disaster Assistance	-	-	343,797	-	343,797
Public Works	-	-	-	1,942,706	1,942,706
<b>TOTAL EXPENDITURES</b>	<u>2,343,282</u>	<u>30,857</u>	<u>343,797</u>	<u>1,942,706</u>	<u>4,660,642</u>
Excess (Deficiency) of Revenues over Expenditures	(379,155)	53,564	433	265,828	(59,330)
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Transfers To Other Funds	-	-	(3,928)	-	(3,928)
Transfers From Other Funds	3,928	-	-	-	3,928
Lease Proceeds	409,434	-	-	-	409,434
<b>TOTAL OTHER FINANCING SOURCES AND USES</b>	<u>413,362</u>	<u>-</u>	<u>(3,928)</u>	<u>-</u>	<u>409,434</u>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	34,207	53,564	(3,495)	265,828	350,104
<b>FUND BALANCE - July 1, 2000</b>	232,938	57,308	5,883	4,021,531	4,317,660
Prior Period Adjustment	3,698	28	-	(69,537)	(65,811)
<b>FUND BALANCE - June 30, 2001</b>	<u>\$ 270,843</u>	<u>\$ 110,900</u>	<u>\$ 2,388</u>	<u>\$ 4,217,822</u>	<u>\$ 4,601,953</u>

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



SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUND		
BUDGET	ACTUAL	VARIANCE: FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE: FAVORABLE (UNFAVORABLE)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
88,000	82,376	(5,624)	74,680	344,230	269,550
-	-	-	-	-	-
-	-	-	-	-	-
-	2,045	2,045	-	-	-
88,000	84,421	(3,579)	74,680	344,230	269,550
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
13,000	858	12,142	-	-	-
125,000	29,999	95,001	-	-	-
-	-	-	-	-	-
-	-	-	74,680	343,797	(269,117)
138,000	30,857	107,143	74,680	343,797	(269,117)
(50,000)	53,564	103,564	-	433	(433)
-	-	-	-	(3,928)	(3,928)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(3,928)	(3,928)
(50,000)	53,564	103,564	-	(3,495)	(3,495)
50,000	57,308	7,308	-	5,883	5,883
-	28	28	-	-	-
\$ -	\$110,900	\$ 110,900	\$ -	\$ 2,388	\$ 2,388

CITY OF SHEPHERDSVILLE, KENTUCKY  
 COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN  
 ACCUMULATED DEFICIT - PROPRIETARY FUND TYPE  
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
<b>OPERATING REVENUE</b>			
Metered Sales to Customers	\$ 509,793	\$ 940,464	\$ 1,450,257
Plant Sales	56,544	-	56,544
Meter Installations	93,100	-	93,100
Connection Fees	8,188	450,000	458,188
	<u>667,625</u>	<u>1,390,464</u>	<u>2,058,089</u>
<b>TOTAL OPERATING REVENUE</b>			
	667,625	1,390,464	2,058,089
<b>OPERATING EXPENSES</b>			
Chemicals	-	22,043	22,043
Fuel	5,612	5,612	11,224
Insurance	11,053	13,751	24,804
Office Expenses	5,742	4,967	10,709
Other Expenses	162	1,784	1,946
Payroll Taxes and Benefits	46,161	127,594	173,755
Professional Services	3,369	341,984	345,353
Purchases	285,003	-	285,003
Repairs and Maintenance	76,713	110,793	187,506
Salaries and Wages	134,113	310,568	444,681
Uniforms	3,532	4,435	7,967
Utilities	1,524	74,008	75,532
	<u>572,984</u>	<u>1,017,539</u>	<u>1,590,523</u>
<b>TOTAL OPERATING EXPENDITURES</b>			
	572,984	1,017,539	1,590,523
<b>OPERATING LOSS</b>	94,641	372,925	467,566
<b>NON-OPERATING REVENUE AND EXPENSES</b>			
Interest Income	31,303	-	31,303
Miscellaneous Income	35,195	83,947	119,142
Depreciation	(48,637)	(210,089)	(258,726)
Interest on Bonds and Leases	(17,777)	(75,680)	(93,457)
	<u>84</u>	<u>(201,822)</u>	<u>(201,738)</u>
<b>TOTAL NON-OPERATING REVENUE AND EXPENSES</b>			
	84	(201,822)	(201,738)
<b>NET INCOME</b>	<u>\$ 94,725</u>	<u>\$ 171,103</u>	265,828
<b>ACCUMULATED DEFICIT - JULY 1, 2000</b>			(353,112)
Prior Period Adjustment			(69,537)
<b>ACCUMULATED DEFICIT - JUNE 30, 2001</b>			<u>\$ (156,821)</u>

CITY OF SHEPHERDSVILLE, KENTUCKY  
COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2001

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net Income	\$265,828
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and Amortization	258,726
Investment Income	(26,621)
(Increase) Decrease in:	
Accounts Receivable	(79,801)
Prepaid Expenses	(372)
Other Assets	(23,754)
Increase (Decrease) in:	
Accounts Payable	74,715
Accrued Expenses	6,168
Customer Deposits	9,350
Due to Other Funds	20,101

**NET CASH PROVIDED BY OPERATING ACTIVITIES**

\$ 504,340

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Property, Plant and Equipment	(293,534)
---	-----------

**NET CASH USED BY INVESTING ACTIVITIES**

(293,534)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal Payments on Capital Leases	(26,600)
Principal Payments on Bonds	(139,000)

**NET CASH USED BY FINANCING ACTIVITIES**

(165,600)

Net Increase in Cash and Cash Equivalents

45,206

Cash and Cash Equivalents, July 1, 2000

217,680

Cash and Cash Equivalents, June 30, 2001

\$262,886

**Supplemental Information:**

Interest Paid                      \$ 93,457

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

**CITY OF SHEPHERDSVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Financial Reporting Entity*

The City of Shepherdsville, Kentucky (the City) is a fourth class city located in Bullitt County, Kentucky. It operates under an elected mayor-council form of government. The City provides the following services authorized by its charter: police, fire protection, street maintenance, recreation and community development. Primary revenue sources are property taxes, occupational taxes, restaurant taxes, and base court revenue. Those revenues susceptible to accrual are property taxes.

All significant activities and organizations on which the City of Shepherdsville, Kentucky exercises oversight responsibility have been included in the City's general-purpose financial statements, for the year ended June 30, 2001. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

Financial interdependency - The City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the City.

Election of the government authority - The locally elected City Council is exclusively responsible for all public decisions and accountable for the decisions it makes.

Ability to significantly influence operations - The City Council has the statutory authority under the provisions of the Revised Statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the City management.

After consideration of the above criteria, no entities were deemed component units.

*Basis of Presentation - Fund Accounting*

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

Governmental type funds used by the primary government are as follows:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. These funds include the LGEA and Municipal Road Aid Funds.

**Capital Project Funds** - Capital Project Funds account for long-term assets under construction and not yet transferred to the general fixed assets account group. Unlike other governmental funds, this fund accounts for all fixed assets under construction and debt associated with those construction projects within the fund, rather than in the account group described below.

CITY OF SHEPHERDSVILLE, KENTUCKY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

*Basis of Presentation - Fund Accounting- Continued*

Proprietary Funds

**Proprietary Funds** – Proprietary funds are used to account for activities that are similar to those often found in the private sector; therefore, the proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinion issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The measurement focus is upon determination of net income and capital maintenance. The Enterprise Fund (Water and Sewer System) is the only proprietary fund of the City.

Account Groups

**General Fixed Assets Account Group** - This account group is used to account for all fixed assets of the primary government other than those accounted for in capital project funds and proprietary funds.

**General Long-Term Debt Account Group** - This account group is used to account for all long term debts of the primary government other than those accounted for in capital project funds and proprietary funds.

*Basis of Accounting*

The accounting records for the City are maintained on a modified accrual basis, in accordance with generally accepted accounting principles for governmental units. Under this method, revenue is recognized in the accounting period in which it becomes both available and measurable. Revenue not susceptible to accrual is recorded when cash is received. General property taxes, self assessed taxes and state program funds are recorded when earned (when they are measurable and available). Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recognized on the accrual basis except for inventory type items, which may be considered expenditures at the time of purchase or at the time the items are used. Interest on general long-term debts is also recorded when due.

*Property, Plant and Equipment*

**General Fixed Asset Account Group** - Property, Plant and Equipment are valued at historical cost if purchased or approximate fair market value if donated. Property, Plant and Equipment are recorded as expenditures in the governmental funds of the primary government and capitalized at cost in the general fixed assets account group, except for assets under construction in the capital projects fund which are recorded in that fund. Infrastructure fixed assets including streets, sidewalks and lighting systems are not required as part of the general fixed assets account group and are recorded as expenditures but are not capitalized. Depreciation is calculated using the straight-line method based on the estimated useful life of the asset.

**Proprietary Funds** - Property, Plant and Equipment are valued at historical cost if purchased or approximate fair market value if donated. Depreciation is calculated using the straight-line method based on the estimated useful life of the asset.

Beginning with the fiscal year ending June 30, 2001, the City has elected not to capitalize assets with a cost basis of less than \$1,000 in either the General Fixed Asset Account Group or in the Proprietary Fund.

*Capitalized Interest*

Interest costs are capitalized when incurred by capital project funds on debt where proceeds were used to finance the construction of assets.

**CITY OF SHEPHERDSVILLE, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2001**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Encumbrances*

The City does not employ encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation.

*Budgets and the Budgetary Process*

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets and budget amendments for all funds are adopted on a basis consistent with generally accepted accounting principles.

*Cash and Cash Equivalents*

The primary government considers all cash in bank and highly liquid investments with a maturity of ninety days or less to be cash and cash equivalents.

*Investments*

Investments of the primary government are valued at fair market value.

*Inventories*

Disbursements for inventory type items are considered expenditures at the time of purchase.

*Due To and Due From Other Funds*

Interfund receivables and payables are recorded by all funds in the period in which transactions are executed.

*Long-Term Debts*

Long-term debts consisting of notes payable and pension obligations owed by the primary government, except for amounts owed by the capital projects fund, are accounted for in the general long-term debt account plus as required by generally accepted accounting principles.

*Property Tax Revenue*

The City assesses property taxes on January 1<sup>st</sup> of each calendar year and bills are due and payable by December 31<sup>st</sup> in the year assessed. All bills paid prior to November 1st are eligible for a 2% discount and all bills paid after December 31<sup>st</sup> are charged a 6% penalty per annum plus interest at a rate of one-half of one percent per month until paid. Property tax revenue is recognized when it becomes due and payable. Property taxes are collected by the City Clerk; motor vehicle taxes are collected by the Bullitt County Clerk's office.

*Occupational Tax*

An occupational tax of .5% is assessed on all payroll paid within the City. Taxes are collected and remitted by employers on a quarterly basis. Occupational tax revenue is recognized when measurable and available.

CITY OF SHEPHERDSVILLE, KENTUCKY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

*Restaurant Tax*

The City assesses a 2% tax on the retail sale of all food and beverage sales by a restaurant within the City. The proceeds of this tax is remitted to the Shepherdsville-Bullitt County Tourist and Convention Committee to promote tourism in Shepherdsville and Bullitt County.

*Estimates*

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

*Totals (Memorandum Only) Columns*

The total columns captioned "Memorandum Only" is presented for analysis purposes only. They are not intended to present fairly the financial position or results of operations of the City as a whole.

NOTE B - DEPOSITS AND INVESTMENTS

The City of Shepherdsville, Kentucky categorizes deposits at local financial institutions to give an indication of the level of risk assumed by the City at fiscal year end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uncollateralized.

Deposits, including certificates of deposits shown as investments in the financial statements, categorized by level of risk at June 30, 2001 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	\$ 671,177	\$ 200,000	\$ 32,407	\$ 438,770	\$ 466,382
Certificates	<u>564,086</u>	<u>100,000</u>	<u>249,726</u>	<u>214,360</u>	<u>564,086</u>
Total	\$ <u>1,235,263</u>	\$ <u>300,000</u>	\$ <u>282,133</u>	\$ <u>653,130</u>	\$ <u>1,030,469</u>

Of the amounts shown in category 3, \$441,564, met the criteria to be placed in category 2; however, there were no written agreements or the agreements were not approved by the bank as required by the Governmental Accounting Standards Board.

**CITY OF SHEPHERDSVILLE, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2001**

**NOTE C - FIXED ASSETS**

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2001</u>
Land	\$ 71,900	\$ -	\$ -	\$ 71,900
Vehicles	610,764	432,691	-	1,043,455
Buildings and Improvements	353,168	32,142	-	385,310
Equipment	458,744	32,545	-	491,289
Total	\$ <u>1,494,576</u>	\$ <u>497,378</u>	\$ -	\$ <u>1,991,954</u>

Depreciation expense for the year ended June 30, 2001 in the general fixed assets account group is \$127,142.

A summary of changes in the Proprietary Fund is as follows:

	Balance <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2001</u>
Land	\$ 74,436	\$ -	\$ -	\$ 74,436
Water and Sewer System	8,074,707	133,971	-	8,208,678
Vehicles	108,131	144,222	-	252,353
Buildings and Improvements	139,538	-	-	139,538
Equipment	153,591	15,341	-	168,932
Total	\$ <u>8,550,403</u>	\$ <u>293,534</u>	\$ -	\$ <u>8,843,937</u>

Depreciation expense for the year ended June 30, 2001 in the proprietary fund is \$247,407 (water system \$48,637, sewer system \$198,770).

**NOTE D - EMPLOYEE RETIREMENT SYSTEM**

The County has elected to participate in the County Employee Retirement System pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan and hazardous covered employees are required to contribute 8 percent of their salary. The County's contribution rate for nonhazardous employees was 7.17 percent and for hazardous employees it was 16.78 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65; benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report.

**NOTE E - INTERGOVERNMENTAL REVENUE**

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City for police and fire incentive training and other miscellaneous operating costs during the year ended June 30, 2001 that are recorded in the General Fund.

CITY OF SHEPHERDSVILLE, KENTUCKY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2001

**NOTE F - LITIGATION**

The City is involved in various legal proceedings incidental to the normal course of business. City management is of the opinion, based upon the advice of general counsel, that although the outcome of such litigation cannot be forecast with certainty, final disposition should not have a material effect on the financial position of the City.

**NOTE G - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance coverage for each of the above risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE H - LONG-TERM DEBT**

*Proprietary Fund*

Revenue bonds payable consist of the following at June 30, 2001:

1966 Issue – These bonds were used to finance the construction of water and sewer lines within the City and are payable to General Motors Acceptance Corporation. They bear an interest rate of 3 7/8% and are secured by a statutory lien and pledge of water and sewer revenues. The balance due on this issue at June 30, 2001 is \$254,000.

1979 Issue – These bonds were used to finance the construction of water lines within the City and are payable to General Motors Acceptance Corporation. They bear an interest rate of 5% and are secured by a statutory lien and pledge of water and sewer revenues. The balance due on this issue at June 30, 2001 is \$295,000.

1982 Issue – These bonds were used to finance the construction of sewer lines within the City and are payable to General Motors Acceptance Corporation. They bear an interest rate of 5% and are secured by a statutory lien and pledge of water and sewer revenues. The balance due on this issue at June 30, 2001 is \$738,000.

1994 Issue – These bonds were used to finance the construction of sewer lines within the City and are payable to Bullitt County Bank. They bear a variable rate of interest from 5.25% to 5.60% and are secured by a statutory lien and pledge of water and sewer revenues. The balance due on this issue at June 30, 2001 is \$400,000.

*Summary of Revenue Bonds Payable:*

1966 Issue	\$ 254,000
1979 Issue	295,000
1982 Issue	738,000
1994 Issue	400,000
Subtotal	1,687,000
Bond Discount (Net)	( 4,120)
Bond Agent Fees (Net)	( 7,716)
Deferred Loss on Refunding (Net)	( 49,138)
Revenue Bonds Payable	1,626,026
Less Current Portion	181,000
Long Term Portion	<u>\$1,445,026</u>

**CITY OF SHEPHERDSVILLE, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2001**

**NOTE H - LONG-TERM DEBT - CONTINUED**

*Debt Service Requirements to Maturity*

The annual debt service requirements to maturity for long-term debt as of June 30 are as follows

Year Ending <u>June 30,</u>	Revenue Bonds			
	<u>1966 Issue</u>	<u>1979 Issue</u>	<u>1982 Issue</u>	<u>1994 Issue</u>
2002	\$ 49,000	\$ 10,000	\$ 22,000	\$ 100,000
2003	50,000	11,000	23,000	100,000
2004	51,000	11,000	25,000	100,000
2005	52,000	12,000	26,000	100,000
2006	52,000	13,000	27,000	-0-
2007-2011	-0-	73,000	158,000	-0-
2012-2016	-0-	95,000	200,000	-0-
2017-2021	-0-	70,000	257,000	-0-
Total	<u>\$ 254,000</u>	<u>\$ 295,000</u>	<u>\$ 738,000</u>	<u>\$ 400,000</u>

**NOTE I - CAPITAL LEASE AGREEMENTS**

The City has entered into the following capital lease agreements:

*General Long Term Debt Account Group*

In November 1999 the City entered into a three year lease agreement in the amount of \$81,011 for the acquisition of three police cruisers. This lease requires quarterly payments in the amount of \$7,365 including interest (imputed at 6.50%) with the final payment due in August 2002.

In December 1998 the City entered into a twenty year lease agreement in the amount of \$220,000 for the construction of sidewalks within the City. This lease requires monthly interest payments and semi-annual principal payments (June and December of each year) at various amounts. The interest rate on this lease is 5.589% with the final payment due in December 2018.

In February 2000 the City entered into a six year lease agreement in the amount of \$409,434 for the acquisition of a new fire truck. This lease requires annual payments in the amount of \$70,502 including interest (imputed at 4.90%) with the final payment due in February 2007.

Future minimum lease payments under these three leases are as follows:

Year Ending <u>June 30,</u>	<u>Ford Motor Credit</u>	<u>Sidewalk Lease</u>	<u>Fire Truck Lease</u>
2002	\$ 29,462	\$ 19,683	\$ 1,502
2003	7,365	19,153	1,502
2004	-0-	18,622	1,502
2005	-0-	18,091	1,502
2006	-0-	17,561	1,502
Thereafter	-0-	203,230	1,502
Total Future Minimum Payments	36,827	296,340	41,012
Less Amounts Representing Interest	1,729	101,340	1,018
Present Value of Net Minimum Lease Payments	35,098	195,000	39,994
Less Current Portion	27,850	10,000	1,912
Long Term Portion of Capital Leases	<u>\$ 7,248</u>	<u>\$ 185,000</u>	<u>\$ 38,082</u>

CITY OF SHEPHERDSVILLE, KENTUCKY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2001

NOTE I - CAPITAL LEASE AGREEMENTS - CONTINUED

*Proprietary Fund*

In October 1997 the Water and Sewer System entered into a five year lease agreement in the amount of \$130,000 for the continued development of water and sewer service within the City. This lease requires semi-annual payments (April and October of each year) at various amounts. The interest rate on this lease is 5.73% with the final payment due in October 2002.

Future minimum lease payments under this lease is as follows:

Year Ending	
<u>June 30,</u>	<u>Fifth Third Bank</u>
2002	\$ 30,128
2003	12,755
2004	-0-
2005	-0-
2006	-0-
Thereafter	-0-
Total Future Minimum Payments	42,883
Less Amounts Representing Interest	<u>2,283</u>
Present Value of Net Minimum Lease Payments	40,600
Less Current Portion	<u>28,200</u>
Long Term Portion of Capital Leases	\$ <u>12,400</u>

NOTE J - PRIOR PERIOD ADJUSTMENT

Certain adjustments had to be made to the opening fund balance figures per the prior year audit to make them agree to the financial records of the City.

CITY OF SHEPHERDSVILLE, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2001

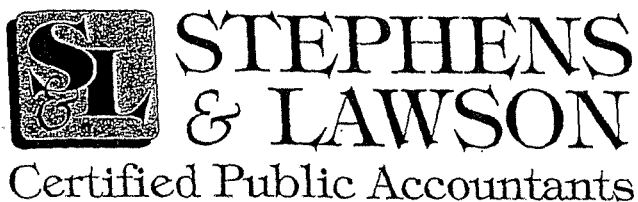
Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Ident- ifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Program			
Disaster Recovery Initiative Grant	Not Available	B-97-NU-21-0006	\$ 74,680
Direct Program			
Community Development Block Grant	Not Available	Not Available	2,655
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Program			
State Police Grant	Not Available	AL-99-16	35,373
Direct Program			
COPS Fast Grant	Not Available	1999 SHWX0075	83,870
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u>			
Passed-Through State Department of Military Affairs:			
Disaster and Emergency Assistance Grants			
Hazard Mitigation Program	Not Available	1163-DR-KY-0014	<u>218,942</u>
TOTAL CASH EXPENDITURES OF FEDERAL AWARDS			<u>\$ 415,520</u>

See accompanying footnote to the Schedule of Expenditures of Federal Awards

CITY OF SHEPHERDSVILLE, KENTUCKY  
NOTES TO THE SCHEDULE OF FEDERAL AWARDS  
JUNE 30, 2001

NOTE 1 - PRESENTATION

This schedule is presented on the cash basis of accounting.



June 28, 2002

Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To the Mayor and City Council  
City of Shepherdsville, Kentucky

We have audited the general purpose financial statements of the City of Shepherdsville, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 28, 2002. 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 City of Shepherdsville, Kentucky's general purpose 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 City of Shepherdsville, Kentucky's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 general purpose 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, management, City Council, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Stephens & Lawson, PSC*



# STEPHENS & LAWSON

Certified Public Accountants

June 28, 2002

## Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133

To the Mayor and City Council  
City of Shepherdsville, Kentucky

### Compliance

We have audited the compliance of the City of Shepherdsville, Kentucky, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The City of Shepherdsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Shepherdsville, Kentucky's management. Our responsibility is to express an opinion on the City of Shepherdsville, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shepherdsville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Shepherdsville, Kentucky's compliance with those requirements.

In our opinion, the City of Shepherdsville, Kentucky, complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

### Internal Control Over Compliance

The management of City of Shepherdsville, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Shepherdsville, Kentucky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, management, City Council, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Stephens & Lawson, PSC*

**CITY OF SHEPHERDSVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2001**

**SUMMARY OF AUDIT RESULTS**

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the City of Shepherdsville, Kentucky
2. No reportable conditions disclosed during the audit of the financial statements are reported in this schedule.
3. No instances of noncompliance material to the financial statements of the City of Shepherdsville, Kentucky were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal awards programs.
5. The auditor's report on compliance for the audit of the major federal award programs for the City of Shepherdsville, Kentucky expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the City of Shepherdsville, Kentucky are reported in this schedule.
7. The program tested as a major program was: U.S. Department of Housing and Urban Development, Disaster Recovery Initiative Grant and U.S. Federal Emergency Management Agency, passed through the State Department for Military Affairs, Hazard Mitigation Program.
8. The threshold for distinguishing Type A and B programs was \$300,000
9. The City of Shepherdsville, Kentucky was not determined to be a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**REPORTABLE CONDITIONS**

None

**NONCOMPLIANCES**

None

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM**

None

**PRIOR YEAR FINDINGS**

There were no prior year audit findings.