

Superintendent  
Phillip Ward



Commissioners

Gus Daeuble  
Melvin Milburn  
Jay Hall  
Wm. Robert Durbin  
Jody Curry

Attorney  
Croley Moore & Snell

**OLDHAM COUNTY WATER DISTRICT**

PO BOX 51  
Buckner, Kentucky 40010  
502-222-1690 FAX - 502-222-5701

2007-193

May 9, 2008

**RECEIVED**

**MAY 15 2008**

**PUBLIC SERVICE  
COMMISSION**

KENTUCKY INFRASTRUCTURE  
AUTHORITY

2008 MAY 12 A 10:41

RECEIVED

Kentucky Infrastructure Authority  
1024 Capital Center Drive, Suite 340  
Frankfort, KY 40601

Attention: Sandy Williams

Regarding: De-annexation of Oldham County Water District Property

Dear Ms. Williams:

This letter is to request approval from KIA for de-annexation of Oldham County Water District property. The property involved is in a high elevation area in LaGrange, Kentucky, within our service area, with approximately 300 customers. Due to the high elevation, these customers experience low water pressure. LaGrange Utilities has agreed to build a water tank to service these customers. As we currently sell water to LaGrange Utilities, and will continue to do so, this transfer does not have an impact on our ability to repay our debt service with KIA. We therefore request your approval of this de-annexation by May 14, 2008, so that we may comply with the Public Service Commissions requirements.

If you are in agreement, please indicate by your signature below.

Sincerely,

Phillip Ward  
Superintendent

Agreed to by KIA, on May 12, 2008

# La Grange Utilities Commission

203 S. Walnut Street  
La Grange, Kentucky 40031-1245

502-222-9325

John M. Bennett  
Director

Louise H. Morris  
Treasurer

May 7, 2008

**RECEIVED**

MAY 15 2008

PUBLIC SERVICE  
COMMISSION

Stephanie Stumbo  
Executive Director  
Public Service Commission  
P. O. Box 615  
Frankfort, Kentucky 40602

RE: De-annexation of territory of the Oldham County Water District to the City of La Grange

Dear Ms. Stumbo:

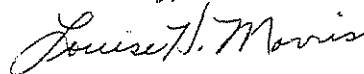
Please find attached a copy of La Grange Utilities Commission 2006-2007 Annual Audit as requested.

Our employees include:

Louise Morris, Treasurer has been with the City of La Grange 31 years  
John M. Bennett, Jr., PE, Director, 2 years in October 2008 with LUC  
Ted A. Chisholm, Assistant director, 3 years with LUC  
Calvin Chadwell, Class 2 Certified in Water Distribution, 8 years with LUC  
Zachary Yates, Class 2 Water, Class 3 Wastewater, 2 years with LUC  
Bradley Whisman, Class 2 Water, Class 2 Wastewater, 10 years with LUC  
Julee Hagan, office , 8 years with LUC  
Brian Golden, Technician, 1 year with LUC  
Jonathan Bates, maintenance, 2 years with LUC  
Travis Casto, maintenance, 2 years with LUC  
Charles Fritts, maintenance, 7 years with LUC

If further information is needed, please contact our office at 502-222-9325.

Sincerely,



Louise H. Morris  
Treasurer

UTILITY COMMISSION OF THE CITY  
OF  
LAGRANGE, KENTUCKY  
(A Component Unit of The City  
of LaGrange, Kentucky)

FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006

With  
Independent Auditor's Report

THOMAS M KAMER

Certified Public Accountant

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of The City of LaGrange, Kentucky)**

**TABLE OF CONTENTS**

<u>COMPONENT UNIT FINANCIAL STATEMENTS</u>	<u>PAGES</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1-2
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Management's Discussion and Analysis	3-8
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statements of Net Assets	9-10
Statement of Revenues, Expenses and Changes In Net Assets	11
Statements of Cash Flows	12-13
Notes to Financial Statements	14-21
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	22
Schedule of Funding Progress - County Employees Retirement System (CERS) - Kentucky Retirement Systems	23
Independent Auditor's Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	24
<b>OTHER SUPPLEMENTARY INFORMATION:</b>	
Comparative Statement of Revenues and Expenses	25

# THOMAS M. KAMER

CERTIFIED PUBLIC ACCOUNTANT

5301 W. HIGHWAY 146  
CRESTWOOD, KENTUCKY 40014-9529

(502) 243-9550  
FAX (502) 243-1281

## Independent Auditor's Report

October 19, 2007

To The Members of the Board of Commissioners  
Utility Commission of the City of LaGrange, Kentucky  
LaGrange, Kentucky 40031

I have audited the accompanying financial statements of the Utility Commission of the City of LaGrange, Kentucky, a component unit of The City of LaGrange, Kentucky, as of and for the years ended June 30, 2007 and 2006, respectively, as listed in the table of contents. These financial statements are the responsibility of the Utility Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my 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 I 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, on 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 financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Commission of the City of LaGrange, Kentucky as of June 30, 2007 and 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

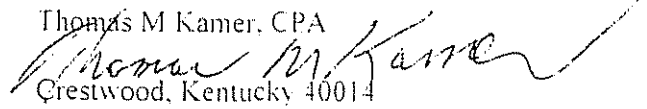
In accordance with Government Auditing Standards, I have also issued my report, dated October 19, 2007 on my consideration of the Utility Commission of the City of LaGrange, Kentucky's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. The 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 my audit.

The management's discussion and analysis on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

To The Members of the Board of Commissioners  
Utility Commission of the City of LaGrange, Kentucky  
LaGrange, Kentucky 40031

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary data as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Utility Commission of the City of LaGrange, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Thomas M Kamer, CPA

A handwritten signature in cursive script that reads "Thomas M. Kamer". The signature is written in black ink and is positioned above the printed name and address.

Crestwood, Kentucky 40014

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of the City of LaGrange, Kentucky)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the LaGrange Utilities Commission's annual financial report presents an analysis of the Commission's financial performance during the fiscal years ended June 30, 2007 and 2006. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2007**

- The Commission's net assets increased by \$ 9 million or 9 per cent from \$ 11.2 million to \$12.1 million.
- Operating revenues increased by \$175,095.9 percent from \$1,927,368 to \$2,102,463.
- Operating expenses increased by \$98,565 or 5 percent from \$1,772,782 to \$1,871,347.
- Capital contributions decreased by \$375,934 or 53 percent from \$ 708,249 to \$332,315.
- Water loss remained at 16% of gallons purchased which is the same as 2006.
- Commission implemented a 2.5 per cent increase in water and sewer rates effective 7/01/06.
- Received State capital reimbursement Grant for \$300,000 from the Kentucky Infrastructure for reimbursement of North Pump Station capital upgrade cost.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

**REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the Commission report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Assets include information on the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Commission creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Assets identify the Commission's revenues and expenses for the fiscal years ended June 30, 2007 and 2006. This statement provides information on the Commission's operations over the past two fiscal years and can be used to determine whether the Commission has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the Commission's cash receipts, cash payments and changes in cash resulting from operation, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balances for the fiscal years ended June 30, 2007 and 2006.

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of the City of LaGrange, Kentucky)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**FINANCIAL ANALYSIS OF THE COMMISSION**

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets provide an indication of the Commission's financial condition and also indicate that the financial condition of the Commission improved during the years ended June 30, 2007 and 2006. The Commission's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

**NET ASSETS**

A summary of the Commission's Statements of Net Assets is presented below.

Table 1  
 Condensed Statements of Net assets  
 (In thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$ 2,112	\$ 2,050	\$ 62	3%	\$ 1,773	\$ 277	16%
Capital Assets, net	11,030	10,137	893	9%	9,622	515	5%
<b>Total Assets</b>	<b>13,142</b>	<b>12,187</b>	<b>955</b>	<b>8%</b>	<b>11,395</b>	<b>792</b>	<b>7%</b>
Long Term Debt	721	780	( 59)	(8%)	838	( 58)	( 7%)
Other Liabilities	350	215	135	63%	230	(16)	(7%)
<b>Total Liabilities</b>	<b>1,071</b>	<b>995</b>	<b>76</b>	<b>8%</b>	<b>1,068</b>	<b>( 74)</b>	<b>(7%)</b>
Net assets invested in capital assets, net of related debt	10,056	9,272	784	8%	8,729	543	6%
Net assets restricted for debt service	53	48	5	10%	55	( 7)	(13%)
Unrestricted net Assets	1,962	1,872	90	5%	1,543	329	21%
<b>Total Net Assets</b>	<b>\$ 12,071</b>	<b>\$ 11,192</b>	<b>\$ 879</b>	<b>8%</b>	<b>\$10,327</b>	<b>\$ 865</b>	<b>8%</b>

As the above table indicates, total assets increased \$ 9 million from \$12.2 million to \$13.1 million during the fiscal year ended June 30, 2007. This increase consists of a \$ 1 million increase in current and other assets and an increase of \$ 9 million in capital assets. The increase in capital assets is due mainly to a \$0.9 million in construction projects in process at 6/30/07.



**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of the City of LaGrange, Kentucky)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**NET ASSETS (continued):**

Total liabilities reflect a decrease of \$76 thousand for the year ended June 30, 2007. This includes a decrease of \$59 thousand in long term debt for capital acquisitions and an increase of \$135 thousand in other liabilities (accounts payable and accrued expense) due mainly to amounts owing for construction in progress as of 6/30/07.

**STATEMENT OF REVENUES AND EXPENSES**

A summary of the Commission's Statement of Revenues, Expenses and Change in Net Assets is presented below:

Table 2  
Condensed Statements of Revenues, Expenses  
And Changes in Net Assets  
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	\$ 2,102	\$ 1,927	\$ 175	9%	\$ 1,717	\$ 210	12%
Non operating Revenues	45	30	15	50%	17	13	76%
<b>Total Revenues</b>	<b>2,147</b>	<b>1,957</b>	<b>190</b>	<b>10%</b>	<b>1,734</b>	<b>223</b>	<b>3%</b>
Depreciation expense	476	446	30	7%	421	25	6%
Other operating Expenses	1,396	1,326	70	5%	1,302	24	2%
Non operating expenses	29	28	1	4%	26	2	8%
<b>Total Expenses</b>	<b>1,901</b>	<b>1,800</b>	<b>101</b>	<b>6%</b>	<b>1,749</b>	<b>51</b>	<b>3%</b>
Income Before Capital Contributions	246	157	89	57%	( 15)	172	1146%
Capital Contributions	332	708	( 376)	(53%)	754	(46)	( 6%)
Grant Income	300	-	300	N/A	N/A	N/A	N/A
<b>Changes in Net Assets</b>	<b>878</b>	<b>865</b>	<b>13</b>	<b>2%</b>	<b>739</b>	<b>126</b>	<b>17%</b>
Beginning Net Assets	11,192	10,327	865	8%	9,588	739	8%
<b>Ending Net Assets</b>	<b>\$ 12,071</b>	<b>\$ 11,192</b>	<b>\$ 879</b>	<b>8%</b>	<b>\$ 10,327</b>	<b>\$ 865</b>	<b>8%</b>

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of the City of LaGrange, Kentucky)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**STATEMENT OF REVENUES AND EXPENSES (continued)**

The Statements of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which affect the change in net assets. Table 2 reflects income of \$246 thousand before capital contributions, capital contributions in the amount of \$332 thousand (infrastructure assets) and Grant income of \$300 thousand which make up the increase of \$878 thousand increase in net assets for the year ended June 30, 2007.

Table 2 indicates that the Commission's total revenues increased by \$190 thousand or 10% to \$2.1 million in the fiscal year ended June 30, 2007 from \$2.0 million for the prior year. The increase in revenue was due primarily to a 2.5% rate increase and customer growth within the service area. Total expenses increased by \$101 thousand, which consists of increases as follows: depreciation \$30 thousand, operating expenses \$70 thousand and non-operating expenses \$29 thousand.

**CAPITAL ASSETS**

As of June 30, 2007, the Commission's investment in capital assets net of accumulated depreciation totaled \$11.0 million, an increase of \$ .9 million or 9 % over the capital asset balance of \$10.1 million at June 30, 2006.

The Commission has construction projects in progress at June 30, 2007 as follows:

1. One million gallon elevated water storage tank: Contract budget \$1,750,000. Construction cost as of June 30, 2007 \$518,215.
2. Wastewater treatment plant improvements: Contract budget \$ 2,987,342. Construction cost as of June 30, 2007 \$195,248.

An analysis of the Commission's capital asset activity including purchases, retirements, depreciation and accumulated depreciation by category can be found in Note 4 of the notes to financial statements.

**LONG-TERM DEBT**

As of June 30, 2007, the Commission had \$780 thousand of outstanding debt compared to \$838 thousand as of June 30, 2006. The decrease of \$58 thousand represents principal payments made for the fiscal year ended June 30, 2007.

Additional information on the Commission's long-term debt is provided in Notes 7 and 8 of the financial statements.

**WATER AND SEWER RATES AND CHARGES**

LaGrange Utilities Commission (LUC) implemented a 2.5% rate increase for both water and sewer services which became effective July 1, 2007. The new water and sewer rates were adopted by the LaGrange City Council on June 4, 2007 Ordinance No 20-2007. A residential customer using 5000 gallons of water in a month pays \$0.31 more for water and \$0.30 for sewer services. LUC now has 3,022 water and 2,495 sewer customers and anticipates continued growth from commercial and residential development which helps keep current rates at a level well below other water and sewer service providers in the region.

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of the City of LaGrange, Kentucky)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**WATER AND SEWER RATES AND CHARGES (continued)**

An irrigation meter policy was approved by LUC on August 13, 2007 which established a rate schedule for monthly service charges, origination fee, system impact fee and installation cost based on various water meter sizes

The disconnection policy was modified and approved by the LUC Board of Directors on August 13, 2007. Delinquent accounts must now pay a \$50.00 service charge instead of \$25.00. Other related charges for water service disconnection were increased from \$15.00 to \$25.00.

**CAPITAL PLANNING**

LUC budgeted \$4,935,000 in fiscal year 2007-2008 for water and sewer system capital improvements. As of June 30, 2007 approximately \$1,174,419 has been expended on waste water treatment plant improvements, the new one million gallon Zhale Smith Road water tower, Commerce Parkway Interceptor sewer and North Pump station improvements.

1. Construction of Phase I improvements to the wastewater treatment facility began in June 2007. As of June 30, 2007 approximately \$195,248 has been expended from the \$2.8 million budget. LUC has been awarded a \$1,000,000 State reimbursement grant which is managed by the Kentucky Infrastructure Authority.
  - a) A portion of the wastewater treatment plant budget is allocated for the regional wastewater facilities plan as required by the State Division of Water. As of June 30, 2007 approximately \$79,930 has been spent on facilities planning.
  - b) During the last quarter of FYE June 30, 2007 and the first quarter of FYE 6/30/08 new aerators were installed in the flow equalization basin at the wastewater treatment facility. This project approved by the LUC Board of Commissioners and was completed at a cost of \$17,844.
2. A contract to construct the one million gallon water tower located on Zhale Smith Road was awarded December 2006. Construction is scheduled for completion in December 2007. As of June 30, 2007 \$518,215 has been expended from the \$1.3 million budget. LUC has been awarded a \$500,000 State reimbursement grant which is managed by the Kentucky Infrastructure Authority.
3. Improvement and expansion of the North pump station was completed in FYE 6/30/07. The total Project cost was \$291,564 which was less than the \$335,000 budget. LUC has been awarded a \$300,000 State reimbursement grant which is managed the Kentucky Infrastructure Authority.
4. Construction of the Commerce Parkway Interceptor sewer was completed in fiscal 2007. The total Project cost was \$169,392 which is less than the \$335,000 budget. LUC expects to recover some of this project's construction cost from developers who install sewers which connect to the new interceptor.

In addition to the capital projects discussed above, LUC budgeted \$300,000 for improvements to the South pump station, \$150,000 for sewer system rehabilitation, \$100,000 for water system rehabilitation, \$75,000 for an automated meter reading program, \$50,000 for purchase of the Woodlawn water tanks, \$45,000 for computer system equipment, \$25,000 for a new service truck, and \$20,000 for pump station telemetry installations.

UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of The City of LaGrange, Kentucky)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**ADDITIONAL FINANCIAL INFORMATION**

The Commission's financial statements are designed to present users a general overview of the Commission's finances and to demonstrate the Commission's accountability. If you have questions about the report or need additional financial information, please contact the Commission's Treasurer at 203 Walnut Street, LaGrange, KY 40031.

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of The City of LaGrange, Kentucky)**  
**STATEMENTS OF NET ASSETS**

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 3)	\$ 591,207	\$ 919,627
Certificates of deposit - six month term	667,862	641,324
Receivables:		
Service charges - water and sewer fees	216,283	162,103
Unbilled service charges - water and sewer fees	95,842	91,767
Grant receivable - KY Infrastructure Authority (Note 11)	300,000	-
Interest receivable	12,615	10,414
Inventory of supplies at cost	102,774	111,898
Prepaid expenses	48,322	47,488
<b>TOTAL CURRENT ASSETS</b>	<b><u>2,034,905</u></b>	<b><u>1,984,621</u></b>
<b>NONCURRENT ASSETS</b>		
Restricted assets:		
Cash and cash equivalents (Note 3)	72,497	59,175
Debt issuance cost net of accumulated amortization	5,456	5,782
Capital assets: (Note 4)		
Land and improvements	288,223	288,223
Water tanks	686,983	686,983
Mains, hydrants and new services	3,022,509	2,932,706
Wastewater treatment plant	3,141,861	3,121,828
Sewage system	8,469,169	7,917,194
Transportation equipment	218,833	203,685
General and office equipment	356,458	344,464
Construction in progress	882,855	246,633
	<u>17,066,891</u>	<u>15,741,716</u>
Less: accumulated depreciation	<u>(6,037,086)</u>	<u>(5,604,694)</u>
<b>TOTAL CAPITAL ASSETS</b>	<b><u>11,029,805</u></b>	<b><u>10,137,022</u></b>
<b>TOTAL NONCURRENT ASSETS</b>	<b><u>11,107,758</u></b>	<b><u>10,201,979</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$13,142,663</u></b>	<b><u>\$12,186,600</u></b>

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of The City of LaGrange, Kentucky)**  
**STATEMENTS OF NET ASSETS (CONTINUED)**

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable (Note 5)	\$ 207,160	\$ 100,116
Accrued expenses	3,880	3,817
Accrued compensated absences (Note 6)	9,129	11,789
Accrued interest	953	1,089
Amounts due City of LaGrange	51,277	29,263
Deposits payable - customer meter deposits	19,298	10,633
Note payable Kentucky Infrastructure Authority-		
Amount due within one year (Note 7)	42,843	41,750
Lease payable Kentucky League of Cities-		
Amount due within one year (Note 8)	16,303	15,822
<b>TOTAL CURRENT LIABILITIES</b>	<b>350,843</b>	<b>214,279</b>
<b>NONCURRENT LIABILITIES</b>		
Note payable Kentucky Infrastructure Authority-		
Amount due after one year (Note 7)	385,666	428,509
Lease payable Kentucky League of Cities-		
Amount due after one year (Note 8)	335,156	351,459
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>720,822</b>	<b>779,968</b>
<b>TOTAL LIABILITIES</b>	<b>1,071,665</b>	<b>994,247</b>
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	10,056,379	9,271,707
Restricted	53,199	48,542
Unrestricted	1,961,420	1,872,104
<b>TOTAL NET ASSETS</b>	<b>\$12,070,998</b>	<b>\$ 11,192,353</b>

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of The City of LaGrange, Kentucky)**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 980,312	\$ 910,639
Sewer sales	<u>1,122,151</u>	<u>1,016,729</u>
<b>Total Operating Revenues</b>	<b><u>2,102,463</u></b>	<b><u>1,927,368</u></b>
<b>OPERATING EXPENSES</b>		
Employee salaries & benefits	596,720	522,169
Contractual services	127,065	139,498
Purchase of water (Note 9)	371,288	383,591
Utilities	82,632	70,598
Repairs and maintenance	58,694	44,908
Other supplies and expense	120,299	131,538
Insurance - property, liability and bonding	38,432	34,191
Depreciation	<u>476,217</u>	<u>446,289</u>
<b>Total Operating Expenses</b>	<b><u>1,871,347</u></b>	<b><u>1,772,782</u></b>
<b>OPERATING INCOME, (LOSS)</b>	<b>231,116</b>	<b>154,586</b>
<b>NONOPERATING REVENUES, (EXPENSES)</b>		
Interest revenue	40,190	30,177
Interest expense	(29,297)	(27,570)
Miscellaneous	4,321	-
<b>Total Nonoperating Revenues and (expense)</b>	<b><u>15,214</u></b>	<b><u>2,607</u></b>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	<b><u>246,330</u></b>	<b><u>157,193</u></b>
Capital contributions - developer's	332,315	708,249
Grant Income - KY Infrastructure Authority (Note 11)	<u>300,000</u>	<u>-</u>
<b>INCREASE IN NET ASSETS</b>	<b>878,645</b>	<b>865,442</b>
<b>Net Assets Beginning of Year</b>	<b>11,192,353</b>	<b>10,326,911</b>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$12,070,998</u></b>	<b><u>\$11,192,353</u></b>

See accompanying notes to financial statements

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of The City of LaGrange, Kentucky)**  
**STATEMENTS OF CASH FLOWS**

For The Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$2,074,924	\$1,894,271
Cash payments employees, payroll, taxes & benefits	(599,355)	(543,725)
Cash payments for services, supplies and cost of water	<u>(843,074)</u>	<u>(815,658)</u>
Net cash provided by operating activities	<u>632,495</u>	<u>534,888</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES</b>		
Purchase of capital assets	(876,686)	(225,139)
Principal paid on debt	(57,572)	(56,061)
Interest paid on debt	(29,433)	(28,061)
Amortization of debt issuance cost	<u>326</u>	<u>106</u>
Net cash provided (used) in capital and related financial activities	<u>(963,365)</u>	<u>(309,155)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	37,989	26,003
Miscellaneous income	4,321	-
Payments for investments	<u>(26,538)</u>	<u>(17,952)</u>
Net cash provided (used) by capital and related financing activities	<u>15,772</u>	<u>8,051</u>
<b>NET INCREASE, (DECREASE) IN CASH AND EQUIVALENTS</b>	<u>(315,098)</u>	<u>233,784</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	978,802	745,018
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 663,704</u>	<u>\$ 978,802</u>

See accompanying notes to financial statements



UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of The City of LaGrange, Kentucky)  
STATEMENTS OF CASH FLOWS (CONTINUED)

For The Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 231,116	\$ 154,586
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	476,217	446,289
Changes in assets and liabilities:		
Increases:		
Customer and other accounts receivable	(54,180)	(2,140)
Accrued unbilled revenue	(4,075)	2,548
Prepaid expenses	(835)	(2,603)
Accrued expenses	28,082	(27,889)
Total Increases	<u>(31,008)</u>	<u>(30,084)</u>
Decreases:		
Inventories	9,124	(18,906)
Accounts payable	(52,954)	(16,997)
Total Decreases	<u>(43,830)</u>	<u>(35,903)</u>
Net cash provided by operating activities	<u>\$ 632,495</u>	<u>\$ 534,888</u>

UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of the City of LaGrange, Kentucky)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

**NOTE 1—DESCRIPTION OF ENTITY**

(a) Reporting Entity

The Utility Commission, a component unit, of the City of LaGrange, Kentucky ("Commission"), was created April 3, 1950 (Ordinance No. 407). The Commission is operated by a five member board of commissioners which includes four City of LaGrange, Kentucky ("City"), residents appointed by the mayor and approved by the City council. The fifth member of the board of commissioners is a member of the City Council appointed by and from the membership of the City Council. The Commission is an agency of the Mayor and City council created to supervise, control and maintain the waterworks and sewer system for the City.

(b) Description of Operations

The Commission provides water and sewer system services, on credit, to residents and commercial enterprises located within the City and in some cases the immediate outlying areas. Commission operations are conducted in compliance with the State Water Code of The Commonwealth of Kentucky.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of Presentation and Accounting

The Commission's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The accounts of the Commission are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Commission's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation or debt services), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation and debt service).

The accounting and financial reporting treatment applied to the Commission is determined by its measurement focus. The transactions of the Commission are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the statements of net assets (i.e., total assets net of total liabilities) are segregated into: invested in capital assets net of related debt; assets restricted for debt service and unrestricted assets components.

These financial statements follow the provisions of GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis - for State and local Governments*. GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of the City of LaGrange, Kentucky)  
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLITIES (Continued)

(a) Basis of Presentation and Accounting (continued)

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that is attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted net assets - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net asset assets consists on net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt"

(b) Cash and Cash Equivalents

The Commission considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. This includes bank certificates of deposit.

(c) Accounts Receivable: Receivables are based on predetermined water and sewer usage rates as defined by monthly meter readings. Billings are mailed out on the last day of the month with payment due by the 10<sup>th</sup> day of the succeeding month. If payment is not received by approximately the 28<sup>th</sup> day of the succeeding month, customer's service will be terminated.

(d) Accrued Unbilled Revenue

Customer water meters are read and bills rendered monthly. The meters are read on approximately the 15<sup>th</sup> day of the month for the billing period month end. As a result of unbilled services for the latter half of the month, the Commission accrues an unbilled receivable for proper matching of revenues to related expenses.

(e) Investments: Investments consists of certificates of deposit and money market accounts which are reported at actual cash value. Investment income consists of interest income.

(f) Materials and Supplies

Materials and supplies inventory consists principally of spare parts and supplies. The purchase cost is charged directly to inventory at time of purchase. Inventory is reduced by monthly consumption on a first-in first-out (FIFO) method of accounting. Inventory is valued at cost.

UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
 (A Component Unit of the City of LaGrange, Kentucky)  
 NOTES TO FINANCIAL STATEMENTS (Continued)

(g) Capital Assets

It is the Commission's policy to capitalize property and equipment additions with a unit cost of \$500 or more. Lesser amounts are expensed as a period cost. The cost of additions to the water lines, sewer lines, pump stations, wastewater treatment plant additions and major replacement of retired units of property are capitalized. The Commission did not capitalize interest during fiscal years ended 2007 and 2006. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the *statement of revenues expenses and changes in net assets*. The cost of current repairs, maintenance, and minor replacements are charged to operating expense. Construction in progress primarily relates to additions and upgrades of existing facilities.

Depreciation has been provided on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

Water storage towers	40 - 50 Years
Water lines, mains, new services and hydrants	40 - 50 Years
Sewer lines and pump stations	40 - 50 Years
Vehicles	4 - 6 Years
Miscellaneous furniture and equipment	5 - 10 Years
Computer equipment and peripherals	3 - 5 Years
Wastewater treatment plant	26 Years

(h) Long-Term Debt and Costs

Long-term debt is reported at face value. Costs related to the issuance of debt are deferred and amortized over the life of the debt.

(i) Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Commission (water and sewer service). Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

(j) Capital Contributions

Water lines, sewer lines and pump stations turned over to the Commission by developers are capitalized at the developer's cost or at an approximate fair value based on current construction cost at the time of acquisition if developer's cost is not available. The foregoing acquisitions are recorded as capital contributions when received.

UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of The City of LaGrange, Kentucky)  
NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 3-CASH AND CASH EQUIVALENTS**

Deposits are categorized into the following three categories of credit risk:

- (A) insured or collateralized with securities held by the entity or its agent in the entity's name;
- (B) collateralized with securities held by the pledging financial institution's trust department or agent in the entity's Name and
- (C) uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the entity's name.

At June 30, 2006 deposits were categorized as follows:

A	B	C	Bank Balance	Carrying Amount
\$ 520,078	\$ 811,488	\$ 1,438,680	\$ 1,438,680	\$ 1,331,566

Kentucky law establishes the following as legal investments and deposits for the Commission:

- (1) obligations of the United States and its agencies and instrumentalities;
- (2) bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities;
- (3) shares of any savings and loan associations insured by an agency of the United States government up to the amount so insured; and
- (4) interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the United States government up to the amount insured and in larger amounts providing the bank pledges as security obligations of the United States government, its agencies and instrumentalities.

The carrying amount of cash and cash equivalents are reflected on the balance sheet as follows:

	<u>06/30/07</u>	<u>06/30/06</u>
Cash and cash equivalents	\$ 591,207	\$ 919,628
Restricted assets - Meter deposit account, cash	19,800	11,216
Restricted assets - Waste water improvements system, cash	52,697	47,958
Totals	<u>\$ 663,704</u>	<u>\$ 978,802</u>

UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of the City of LaGrange, Kentucky)  
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2006 and 2007 was as follows:

	<u>Balance</u> <u>June 30</u> <u>2005</u>	<u>Transfers</u> <u>in and</u> <u>additions</u>	<u>Transfers</u> <u>out and</u> <u>retirements</u>	<u>Balance</u> <u>June 30</u> <u>2006</u>	<u>Transfers</u> <u>in and</u> <u>additions</u>	<u>Transfer</u> <u>out and</u> <u>retirements</u>	<u>Balance</u> <u>June 30</u> <u>2007</u>
Capital assets, not being							
Depreciated:							
Land	\$ 12,217	\$ -	\$ -	\$ 12,217	\$ -	\$ -	\$ 12,217
Construction in Progress	34,366	212,267	-	246,633	882,855	246,633	882,855
Total capital assets, not being							
Depreciated	<u>46,583</u>	<u>212,267</u>	<u>-</u>	<u>258,850</u>	<u>882,855</u>	<u>246,633</u>	<u>895,072</u>
Capital assets, being							
depreciated:							
Buildings & Improvements	267,111	8,895	-	276,006	-	-	276,006
Water tank	686,983	-	-	686,983	-	-	686,983
Mains, hydrants and new							
water services	2,823,922	108,784	-	2,932,706	89,803	-	3,022,509
Sewage treatment plant	3,121,828	-	-	3,121,828	20,033	-	3,141,861
Sewage system lines and							
pump stations	7,285,974	631,220	-	7,917,194	551,974	-	8,469,168
Transportation equipment	203,685	-	-	203,685	27,084	11,936	218,833
General office equipment	344,464	-	-	344,464	44,715	32,720	356,159
Total capital assets, being							
Depreciated	<u>14,733,967</u>	<u>748,899</u>	<u>-</u>	<u>15,482,866</u>	<u>733,609</u>	<u>44,656</u>	<u>16,171,819</u>
Less accumulated							
Depreciation							
Buildings & Improvements	(17,803)	(7,135)	-	(24,938)	(7,276)	-	(32,214)
Water tank	(290,484)	(15,343)	-	(305,827)	(15,343)	-	(321,170)
Mains, hydrants and new							
water services	(589,471)	(68,055)	-	(657,526)	(70,350)	-	(727,876)
Sewage treatment plant	(1,636,499)	(122,163)	-	(1,758,662)	(123,126)	-	(1,881,788)
Sewage system lines and							
pump stations	(2,268,717)	(203,605)	-	(2,472,322)	(224,355)	-	(2,696,677)
Transportation equipment	(159,503)	(10,091)	-	(169,594)	(13,245)	11,936	(170,903)
General equipment	(196,559)	(20,097)	-	(216,656)	(22,522)	32,720	(206,458)
Less accumulated depreciation	<u>(5,159,036)</u>	<u>(446,489)</u>	<u>-</u>	<u>(5,605,525)</u>	<u>(476,217)</u>	<u>44,656</u>	<u>(6,037,086)</u>
Total capital assets							
being depreciated net	<u>9,574,931</u>	<u>302,410</u>	<u>-</u>	<u>9,877,341</u>	<u>257,392</u>	<u>-</u>	<u>10,259,183</u>
Total capital assets net	<u>\$ 9,621,514</u>	<u>\$ 514,677</u>	<u>\$ -</u>	<u>\$ 10,136,191</u>	<u>\$ 1,140,247</u>	<u>\$ 246,633</u>	<u>\$ 11,029,805</u>

All fixed assets are valued at historical cost or estimated historical cost if actual or historical cost is not available. Donated assets are valued at their estimated fair value or cost, if available, on the date donated. Repairs and maintenance are recorded as expenditures; renewal and betterments are capitalized.

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of the City of LaGrange, Kentucky)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5--ACCOUNTS PAYABLE**

	<u>2007</u>	<u>2006</u>
Accounts payable and accrued expenses were as follows:		
Vendors - operating expenses	\$ 13,701	\$ 72,340
Contractors - capital construction	<u>193,459</u>	<u>27,776</u>
Total	<u>\$ 207,160</u>	<u>\$ 100,116</u>

**NOTE 6--COMPENSATED ABSENCES**

Accrued vacation pay vests as of January 1 and must be used by December 31 of each year. Unused vacation pay is payable upon termination of employment. At June 30, 2007 and 2006 the liability for accrued vacation pay was \$9,129 and \$11,789 respectively.

The Commission's sick leave policy permits the accumulation of twelve sick days per year up to a maximum of 70 days for full time employees. Employees are not paid for unused sick leave days upon termination of employment. However, if an employee retires from the Commission with 20 years or more of service, the Commission will contribute the employer match per cent (currently 13.19%) of the unused sick days monetary amount to the County Employees Retirement System. The employee does not receive any remuneration for sick time credit upon termination. Accordingly, sick pay is charged to expenditures when taken. No provision has been made in the financial statements for any contingent liabilities associated with estimated unused sick leave.

**NOTE 7—NOTE PAYABLE—KENTUCKY INFRASTRUCTURE**

On October 1, 1995 the Commission entered into a loan agreement with the Kentucky Infrastructure Authority for an authorized loan amount of \$917,668 for the construction of a wastewater lagoon and sewer system improvements. When project was completed in August of 1996 the final loan amount was \$832,777. Total interest expense incurred for the fiscal years ended June 30, 2007 and 2006 was \$11,597 and \$13,022 respectively.

The loan is payable from the income and revenue derived from the combined and consolidated Municipal Waterworks and Sewer System. The loan is subordinate to the security interest and source of payment for the debt obligations of the Commission at which time the loan agreement was executed. The loan can be prepaid in full at any time without penalty provided written notice is given five business days in advance of prepayment.

The loan has a fixed interest rate of 2.6% payable in semiannual payments commencing December 1, 1996 payable semi-annually thereafter on June 1 and December 1 for the duration of the repayment term of twenty years. A contract administrative fee of .2% payable on the unpaid principal balance is to be included with semi-annual principal and interest payments.

The Commission must maintain a replacement reserve account and deposit on or before December 1, each year \$4,614 annually until such reserve account accumulated a balance of \$46,140. As of June 30, 2007 and 2006 the reserve account had a balance of \$52,697 and \$47,958 respectively. Since the reserve balance exceeds the amount specified by the loan agreement no more deposits are being made.

**UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY**  
**(A Component Unit of the City of LaGrange, Kentucky)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 7—NOTE PAYABLE—KENTUCKY INFRASTRUCTURE (Continued)**

Future loan principal, interest and administration fee requirements are as follows:

Year Ending <u>June 30</u>	Loan <u>Maturity</u>	Loan <u>Interest</u>	Administration <u>Fee</u>	<u>Totals</u>
2008	\$ 42,843	\$ 10,865	\$ 836	\$ 54,544
2009	43,964	9,743	750	54,457
2010	45,114	8,593	661	54,368
2011	46,295	7,412	570	54,277
2012	47,506	6,201	477	54,184
2013 and thereafter	202,787	12,042	925	215,754
<b>Totals</b>	<b>\$ 428,509</b>	<b>\$ 54,856</b>	<b>\$ 4,219</b>	<b>\$ 487,584</b>

**NOTE 8—LEASE PAYABLE KENTUCKY LEAGUE OF CITIES**

On April 1, 2004 The Commission entered into a lease agreement in the amount of \$400,000 with the Kentucky League of Cities for the financing and leasing of improvements to the wastewater treatment plant (belt press system installation) The principal and interest payments are to be made from the income and revenues of the Water & Sewer system The League shall hold a lien on the system's revenues until such lease and interest payments are paid in full The Commission has the option of prepayment without any prepaid discount charges

The lease is to run for a term of twenty years with payments to be made monthly The lease carries a stated interest rate of 2.3% and fees of 75 % for a total of 3.05% in charges for cost of funds

Future lease principal, interest and administration fee requirements are as follows:

Year Ending <u>June 30</u>	Loan <u>Maturity</u>	Loan <u>Interest</u>	Administration <u>Fee</u>	<u>Totals</u>
2008	\$ 16,303	\$ 7,693	\$ 2,871	\$ 26,867
2009	16,798	7,303	2,750	26,851
2010	17,308	6,923	2,637	26,868
2011	17,834	6,531	2,517	26,882
2012	18,934	5,713	2,263	26,910
2013 and thereafter	264,302	37,697	17,632	319,631
<b>Totals</b>	<b>\$ 351,479</b>	<b>\$ 71,860</b>	<b>\$ 30,670</b>	<b>\$ 454,009</b>

**NOTE 9—WATER PURCHASE CONTRACT**

The Commission purchases water at wholesale from the Oldham County Water District, which in turn is sold to the Commission's customers The Public Service Commission governs water rates charged by the District to the Commission The Oldham County Water District was granted a rate increase of \$ 32 per thousand gallons effective June 1, 2002 This rate increase was passed on and increased the Commission's water cost from \$ 90 per thousand gallons to \$1.22 per thousand gallons As rate increases are granted to the District they are passed on to the Commission



UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of the City of LaGrange, Kentucky)  
NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 10—RETIREMENT PLAN**

Plan Description

The Commission is a participant in the County Employees Retirement System (CERS), a cost sharing multiple employer qualified public defined benefit plan administered by the Kentucky Retirement Systems. The Plan covers all full-time employees and provides for retirement, disability and death benefits. Vesting begins immediately upon entry into the system. The participant has a fully vested interest after the completion of 60 months of service, twelve of which are current service.

Under the provisions of Kentucky Revised Statute, Section 61.545, the Board of Trustees of the Kentucky Retirement Systems administers the CERS. Laws governing CERS are found in Kentucky Revised Statute 78. The Kentucky Retirement System issues a publicly available financial report that includes audited financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601. The date of the most recent actuarial valuation of the system is June 30, 2006.

Funding Policy

Plan members were required to contribute 5.00% of their qualified compensation for the years ended June 30, 2007 and 2006. The Commission was required to contribute 13.19% and 10.98%, respectively, of employees' qualifying compensation for the years ended June 30, 2007 and 2006. The contribution requirements of plan members and the Commission are established and may be amended by the CERS Board of Trustees. The Commission's contributions to CERS for the years ended June 30, 2007 and 2006 were \$50,319 and \$38,179 respectively.

**NOTE 11-GRANTS**

The Commission was awarded a capital reimbursement grant from the State of Kentucky which is managed by the Kentucky Infrastructure Authority. Details of grant are as follows:

1. Grant ID# 454N-2007 executed June 19, 2007 for reimbursement of capital cost in connection with North Pump Station upgrade - \$300,000. Funds received in August of 2007.

**NOTE 12-LITIGATION**

As of October 31, 2007 there was no pending or threatened litigation or unasserted claims outstanding against the Commission.

**NOTE 13-SUBSEQUENT EVENTS**

As of August 22, 2007 the Commission was awarded two additional capital reimbursement grants from the State of Kentucky as managed by the Kentucky Infrastructure Authority. Grant details are as follows:

1. Grant ID# 456N-2007 executed August 22, 2007 for reimbursement of capital cost in connection with construction of one million gallon water tower - \$500,000.
2. Grant ID# 455I-2007 executed August 22, 2007 for reimbursement of capital cost in connection with waste water treatment plant improvements - \$1,000,000.

*SUPPLEMENTARY DATA*

UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
(A Component Unit of The City of LaGrange, Kentucky)  
Statement of Revenues, Expenses and Changes in Net Assets  
ACTUAL VS BUDGET

For The Year Ended June 30, 2007

	<u>2007</u>	<u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
<b>OPERATING REVENUES</b>			
Water Sales	\$ 980,312	\$ 915,452	\$ 64,860
Sewer service	<u>1,122,151</u>	<u>1,160,019</u>	<u>(37,868)</u>
<b>Total Operating Revenues</b>	2,102,463	2,075,471	26,992
<b>OPERATING EXPENSES</b>			
Purchase of water	371,288	401,669	30,381
Other direct operating	726,640	714,400	(12,240)
Administration and general	297,203	285,286	(11,917)
Depreciation	<u>476,217</u>	<u>474,000</u>	<u>(2,217)</u>
<b>Total Operating Expenses</b>	1,871,348	1,875,355	4,007
<b>OPERATING INCOME (LOSS)</b>	<b>231,115</b>	<b>200,116</b>	<b>30,999</b>
<b>NONOPERATING REVENUES, (EXPENSES)</b>			
Interest revenue	40,190	22,677	17,513
Interest expense	(29,297)	(24,000)	(5,297)
Miscellaneous income	<u>4,321</u>	<u>7,129</u>	<u>(2,808)</u>
<b>Total Nonoperating Revenue (expense)</b>	15,214	5,806	9,408
<b>NET INCOME, (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>246,329</b>	<b>205,922</b>	<b>40,407</b>
Capital contributions - developer's	332,315	753,000	(420,685)
Grant income - KY Infrastructure Authority (Note 11)	300,000	1,800,000	(1,500,000)
<b>INCREASE IN NET ASSETS</b>	<b>\$ 878,644</b>	<b>\$ 2,758,922</b>	<b>\$ (1,880,278)</b>

See accompanying notes to financial statements

UTILITY COMMISSION OF THE CITY OF LAGRANGE, KENTUCKY  
 (A Component Unit of the City of LaGrange, Kentucky)  
 Required Supplementary Information  
 Schedule of Funding Progress

JUNE 30, 2007

The Utility Commission is a participant in the County Employees Retirement System (CERS). A cost-sharing multiple employer qualified public defined benefit plan administered by the Kentucky Retirement Systems. The amounts reflected herein represent the Commission's activity for the last three years

<u>FYE</u>	<u>Employer Contribution Per Cent</u>	<u>Annual Covered Payroll</u>	<u>Employer Liability</u>	<u>Employer Payment</u>
June 30, 2004	7.34%	\$ 296,348	\$ 21,752	\$ 21,752
June 30, 2005	8.48%	\$ 354,224	\$ 30,038	\$ 30,038
June 30, 2006	10.98%	\$ 347,712	\$ 38,179	\$ 38,179
June 30, 2007	13.19%	\$ 381,500	\$ 50,320	\$ 50,320

The Kentucky Retirement System issues a publicly available financial report that includes audited financial statements and required supplementary information for CERS. The report does not break out member employer's unit information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601. The date of the most recent actuarial valuation of the system is June 30, 2006.

# THOMAS M. KAMER

CERTIFIED PUBLIC ACCOUNTANT

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(502) 243-9550  
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## Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

October 19, 2007

To The Members of the Board of Commissioners  
Utility Commission of the City of LaGrange, Kentucky  
LaGrange, Kentucky 40031

I have audited the general purpose financial statements of the Utility Commission of the City of LaGrange, Kentucky, a component unit of the City of LaGrange, Kentucky, as of and for the years ended June 30, 2007 and 2006 respectively and have issued my report thereon dated October 19, 2007. I conducted my 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

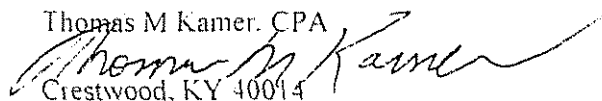
As part of obtaining reasonable assurance about whether the Commission's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance that is required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the Board of Commissioners, members of the Commission's management and others with the organization and is not intended to be and should not be used by anyone other than these specified parties.

Thomas M. Kameron, CPA



Crestwood, KY 40014

UTILITY COMMISSION OF THE CITY OF LAGRANGE  
 (A Component Unit of The City of L. Crang, Kentucky)  
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES  
 YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006

	WATERWORKS SYSTEM		SEWER SYSTEM		COMBINED	
	2007	2006	2007	2006	2007	2006
<b>OPERATING REVENUES</b>						
Water purchased	371,288	383,591			371,288	383,591
Salaries - director	37,907	31,091	25,646	11,261	75,814	57,737
- other	96,499	74,531	135,423	(10,065)	221,857	10,077
Supplies	5,642	13,118	33,160	(2,003)	209,964	11,903
Repairs and replacements	33,890	11,832	25,002	(8,074)	36,699	46,279
Chemicals			30,172	9,903	58,692	44,908
Sludge removal			26,561	(1,168)	30,172	20,269
Power	6,847	5,809	67,868	9,088	74,715	9,903
Insurance	37,154	35,583	60,320	(283)	26,561	27,730
Payroll tax	9,865	7,563	11,574	472	74,715	64,589
Truck expense	10,315	12,347	11,052	(3,592)	97,474	96,166
Bad debts	(2,122)	4,399	12,046	(6,522)	21,911	19,137
Miscellaneous	3,329	2,239	12,123	(1,248)	21,367	26,991
Retirement fund	17,921	11,592	20,791	3,808	(4,245)	8,798
Depreciation	107,215	95,814	369,002	18,527	4,415	4,573
Samples & analysis	2,915	3,140	19,578	4,568	38,712	28,575
Total Operating	573,651	692,650	611,065	15,010	476,217	446,289
<b>ADMINISTRATIVE EXPENSE</b>						
Salaries-commissioners	8,423	6,360	8,422	2,062	22,493	18,150
-office	30,125	40,120	49,491	41,445	154,742	183,766
-special	6,245	13,773	11,493	17,234	16,845	12,720
Office expense	11,843	7,564	14,946	9,006	99,616	81,565
Postage	5,006	4,594	5,036	5,940	17,738	31,907
Telephone and Telegraph	3,416	2,947	4,502	180	26,789	16,570
Professional fees	8,363	16,523	69,648	3,062	10,042	9,450
Insurance-health	10,967	8,856	83,720	5,928	78,011	6,009
Payroll tax	4,599	4,384	4,987	(774)	19,049	80,243
Retirement fund	5,644	4,810	5,765	227	17,712	1,337
Oldham County mapping service			4,794	971	9,588	9,144
Total Administrative	114,831	109,931	182,372	5,000	11,609	3,604
<b>TOTAL OPERATING EXPENSES</b>						
	688,482	802,581	793,437	20,010	487,826	450,000
<b>OPERATING INCOME, (LOSS)</b>						
	(114,831)	(109,931)	(182,372)	(5,000)	(297,203)	(269,024)
<b>NONOPERATING REVENUES, (EXPENSES)</b>						
Interest revenue	20,095	15,088	20,095	15,089	23,118	154,568
Miscellaneous	4,048	4,048	(29,297)	(1,727)	40,190	30,177
Total Nonoperating Revenues (Exp)	24,143	19,136	(9,202)	13,362	(29,297)	(7,570)
<b>NET INCOME, (LOSS)</b>						
BEFORE CAPITAL CONTRIBUTIONS	(90,688)	(90,795)	(191,574)	(18,638)	(337,500)	(376,601)
<b>CAPITAL CONTRIBUTIONS</b>						
GRANT INCOME	71,905	77,029	34,048	61,023	246,332	157,195
NET INCOME, (LOSS)	(18,783)	(13,766)	(157,526)	(79,615)	(191,168)	(319,406)
<b>NET INCOME, (LOSS)</b>						
	\$ 223,164	\$ 200,174	\$ 655,483	\$ 665,268	\$ 878,647	\$ 865,444

See accompanying notes to financial statements  
 Page 25