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PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION


In the Matter of:

THE JOINT APPLICATION OF KENTUCKY- )  
AMERICAN WATER COMPANY AND )  
TRI-VILLAGE WATER DISTRICT FOR ) Case No. 2007-00367  
APPROVAL OF A CHANGE IN CONTROL OF )  
TRI-VILLAGE WATER DISTRICT )

CERTIFICATION OF DATA RESPONSES AND  
IDENTIFICATION OF RESPONSIBLE WITNESSES

This is to certify that I have supervised the preparation of Applicants' October 9, 2007 Responses to the Commission Staff's First Data Request and that the responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Date: 10-9-07

  
\_\_\_\_\_  
Lindsey W. Ingram III

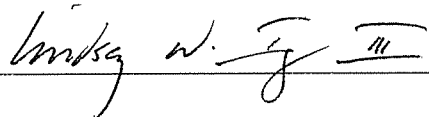
This is to also identify a responsible witness for each response. William P. O'Banion is the responsible witness for the responses to Request Nos. 1, 3, 4, 5, 6, 7 and 8. A.W. Turner, Jr. is the witness responsible for the responses to Request Nos. 2, 9 and 10.

Respectfully submitted,

A.W. Turner, General Counsel  
Kentucky-American Water Company  
2300 Richmond Road  
Lexington, Kentucky 40502

and

Lindsey W. Ingram III  
STOLL KEENON OGDEN PLLC  
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BY: 



KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

1. Provide a copy of Tri-Village's most current balance sheet and income statement.

**Response:**

Please see the attached audit reports. The most recent audit report is not yet complete and Tri-Village will supplement this response with the most recent audit report as soon as possible.

**TRI-VILLAGE WATER DISTRICT  
FINANCIAL STATEMENTS  
At December 31, 2002, and 2001**

**With  
Independent Auditors' Report**

TRI-VILLAGE WATER DISTRICT  
OWENTON, KENTUCKY  
FINANCIAL STATEMENTS  
At December 31, 2002, and 2001

With  
Independent Auditors' Report

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To the Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky 40359

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying regulatory basis financial statements of Tri-Village Water District as of and for the years ended December 31, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of Tri-Village Water District management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, Tri-Village Water District prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the practices prescribed by the Public Service Commission, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the District's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Tri-Village Water District as of December 31, 2002 and 2001, or the results of its operations, and cash flows for the years then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund equity of Tri-Village Water District as of December 31, 2002 and 2001, the revenues it earned and expenses it incurred, and its cash flows for the years then ended on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2003, on our consideration of Tri-Village Water District'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.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants

June 8, 2003

**TRI-VILLAGE WATER DISTRICT**  
**STATEMENTS OF ASSETS, LIABILITIES, AND FUND EQUITY**  
**REGULATORY BASIS**  
**December 31, 2002, and 2001**

| <u>ASSETS</u>                          | <u>2002</u>          | <u>2001</u>          |
|--|----------------------|----------------------|
| <u>Plant Assets</u>                    |                      |                      |
| Construction in Process                | \$ 181,272.33        | \$ -                 |
| Total Plant Assets                     | <u>\$ 181,272.33</u> | <u>\$ -</u>          |
| <u>Current Assets</u>                  |                      |                      |
| Cash - Unrestricted                    | \$ 245,625.15        | \$ 282,882.55        |
| Customer Accounts Receivable, Net      | -                    | 138.84               |
| Prepaid Expenses                       | <u>361.67</u>        | <u>1,081.85</u>      |
| Total Current Assets                   | <u>\$ 245,986.82</u> | <u>\$ 284,103.24</u> |
| Total Assets                           | <u>\$ 427,259.15</u> | <u>\$ 284,103.24</u> |
| <br><u>LIABILITIES AND FUND EQUITY</u> |                      |                      |
| <u>Fund Equity</u>                     |                      |                      |
| Retained Earnings - Unreserved         | \$ 245,986.82        | \$ 281,703.24        |
| Total Fund Equity                      | <u>\$ 245,986.82</u> | <u>\$ 281,703.24</u> |
| <u>Current Liabilities</u>             |                      |                      |
| Accounts Payable                       | \$ -                 | \$ 2,400.00          |
| Accounts Payable - Construction        | <u>181,272.33</u>    | <u>-</u>             |
| Total Liabilities                      | <u>\$ 181,272.33</u> | <u>\$ 2,400.00</u>   |
| Total Liabilities and Fund Equity      | <u>\$ 427,259.15</u> | <u>\$ 284,103.24</u> |

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



**TRI-VILLAGE WATER DISTRICT**  
**STATEMENTS OF REVENUES AND EXPENSES**  
**REGULATORY BASIS**  
For the Years Ended December 31, 2002, and 2001

|  | 2002           | 2001          |
|--|----------------|---------------|
| <b><u>OPERATING REVENUES</u></b>               |                |               |
| Metered Sales to Customers                     | \$ -           | \$ 388,657.92 |
| Bulk Sales                                     | -              | 3,571.00      |
| Penalties                                      | -              | 10,625.52     |
| Service Revenues                               | -              | 2,319.00      |
| Miscellaneous Income                           | 180.40         | 892.97        |
|  | \$ 180.40      | \$ 406,066.41 |
| <b><u>OPERATING EXPENSES</u></b>               |                |               |
| Purchased Water                                | \$ -           | \$ 151,046.83 |
| Operating Labor                                | -              | 27,682.14     |
| Maintenance of Main                            | -              | 19,418.48     |
| Chemicals/ Water Treatment Expense             | -              | 963.25        |
| Purchased Power                                | -              | 2,864.02      |
| Truck Expenses                                 | -              | 5,445.28      |
| Depreciation Expense                           | -              | 82,260.00     |
| Insurance                                      | 578.48         | 6,594.29      |
| Payroll Taxes                                  | 835.55         | 7,112.62      |
| Bad Debts                                      | -              | 2,882.63      |
| Other Interest Expense                         | -              | 238.82        |
| Amortization of Bond Issuance Costs            | -              | 414.75        |
| Office Supplies and Expense                    | 62.77          | 23,759.58     |
| Accounting and Collecting Labor                | 1,000.00       | 43,440.00     |
| Professional Services                          | -              | 8,880.00      |
| Employee Benefits                              | -              | 13,259.49     |
| Administrative Per Diem                        | 14,100.00      | 14,400.00     |
| Regulatory Fees                                | -              | 1,331.45      |
|  | \$ 16,576.80   | \$ 411,993.63 |
| Total Operating Expenses                       | \$ 16,576.80   | \$ 411,993.63 |
| Operating Income (Loss)                        | \$ (16,396.40) | \$ (5,927.22) |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b> |                |               |
| Gain (Loss) on Asset Disposition               | \$ -           | \$ 539,075.77 |
| Interest Income                                | 169.98         | 3,287.26      |
| Interest on Long-Term Debt                     | -              | (47,217.35)   |
| Capital Contribution                           | -              | -             |
| Kentucky American Water Company                | (19,490.00)    | -             |
| Total Nonoperating Revenues (Expenses)         | \$ (19,320.02) | \$ 495,145.68 |
| Net Income (Loss)                              | \$ (35,716.42) | \$ 489,218.46 |

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

**TRI-VILLAGE WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS - REGULATORY BASIS**  
For the Years-Ended December 31, 2002, and 2001

|   | 2002                  | 2001                  |
|---|-----------------------|-----------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                      |                       |                       |
| Operating Income (Loss)   | \$ (16,396.40)        | \$ (5,927.22)         |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: |                       |                       |
| Depreciation  | -                     | 82,260.00             |
| Amortization  | -                     | 414.75                |
| (Increase) Decrease in Receivables  | 138.84                | 93,518.45             |
| (Increase) Decrease in Prepaid Expenses   | 720.18                | 4,349.51              |
| Increase (Decrease) in Accounts Payable   | (2,400.00)            | (36,587.55)           |
| Increase (Decrease) in Customer Deposits  | -                     | (9,321.09)            |
| Increase (Decrease) in Employees Withholding Payable                                    | -                     | (2,727.88)            |
| Increase (Decrease) in Utility Tax Payable  | -                     | (1,374.22)            |
| Increase (Decrease) in Sales Tax Payable  | -                     | (312.51)              |
| Increase (Decrease) in Accrued Payroll Taxes/<br>Employee Benefits                      | -                     | (1,646.49)            |
| Increase (Decrease) in Accrued Interest   | -                     | (236.35)              |
| Increase (Decrease) in Accrued Compensated Absences                                     | -                     | (366.28)              |
|   | <b>\$ (17,937.38)</b> | <b>\$ 122,043.12</b>  |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                  |                       |                       |
| Acquisition of Equipment, Buildings and Land  | \$ -                  | \$ (153,755.65)       |
| Proceeds from Sale of Fixed Assets  | -                     | 1,685,567.92          |
| Repayment of Long-Term Debt   | -                     | (1,678,700.00)        |
| Interest Paid on Bonds  | -                     | (47,217.35)           |
| Increase in Contributions in Aid of Construction  | -                     | 27,560.00             |
| Increase (Decrease) Escrow - Customer Meter Deposits                                    | -                     | (4,420.00)            |
| Grant Proceeds  | -                     | 122,270.00            |
| Capital Contribution to Kentucky American Water Co.                                     | (19,490.00)           | -                     |
|   | <b>\$ (19,490.00)</b> | <b>\$ (48,695.08)</b> |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                      |                       |                       |
| Interest on Investments   | \$ 169.98             | \$ 3,287.26           |
|   | <b>\$ 169.98</b>      | <b>\$ 3,287.26</b>    |
| Net Cash Provided by Investing Activities   | <b>\$ 169.98</b>      | <b>\$ 3,287.26</b>    |
| Net Increase (Decrease) in Cash   | \$ (37,257.40)        | \$ 76,635.30          |
| Cash and Cash Equivalents at Beginning of Year  | 282,882.55            | 206,247.25            |
| Cash and Cash Equivalents at End of Year  | <b>\$ 245,625.15</b>  | <b>\$ 282,882.55</b>  |

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

At December 31, 2002, the District had incurred \$181,272.83 of construction costs included in construction in process and accounts payable, respectively.

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

**TRI-VILLAGE WATER DISTRICT**  
**STATEMENTS OF FUND EQUITY - REGULATORY BASIS**  
December 31, 2002, and 2001

|  | <u>Retained<br/>Earnings (Deficits)<br/>Unreserved</u> | <u>Contributions<br/>In Aid of<br/>Construction</u> | <u>Contributed<br/>Equity</u> |
|--|--|---|-------------------------------|
| Balance, January 1, 2001   | \$ (207,515.22)  | \$ 564,873.63                                       | \$ 968,175.69                 |
| Net Income (Loss) 2001   | 489,218.46   | -   | -                             |
| Customer Contributions for Services  | -  | 27,560.00   | -                             |
| Grant Proceeds - Rural Development   | -  | -   | 122,270.00                    |
| Capital Contributions Attributable<br>to Assets Sold - Transferred<br>to Kentucky American Water | -  | <u>(592,433.63)</u>                                 | <u>(1,090,445.69)</u>         |
| Balance, December 31, 2001   | \$ 281,703.24  | \$ -  | \$ -                          |
| Net Income (Loss) 2002   | <u>(35,716.42)</u>                                     | <u>-</u>  | <u>-</u>                      |
| Balance, December 31, 2002   | <u>\$ 245,986.82</u>                                   | <u>\$ -</u>   | <u>\$ -</u>                   |

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

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2002, and 2001

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The Tri-Village Water District is a rural water company serving customers in Owen, Grant, and Gallatin Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in June, 1961. On August 2, 2001 Kentucky American Water Company purchased all of the District's tangible assets used in the provision of water services. All bonded indebtedness of the District outstanding including accrued interest was paid in full at the closing. As part of its agreement with Kentucky American Water Company, Tri-Village Water District agreed to use its remaining funds for the construction of water lines and the general administration expenses of the District. Lines constructed are to be contributed to and/or leased to Kentucky American Water Company at their completion, depending on each project's finance sources. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Reporting Entity

In evaluating how to define Tri-Village Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

Basis of Accounting

The Water District maintains its records substantially on the accrual basis of accounting and in accordance with practices prescribed by the Public Service Commission. Revenues are generally recognized when services are billed rather than when collected. Expenses are recognized when paid, except at year-end when the appropriate adjustments are made for accounts payable and accruals in order to reflect the proper balances.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Contributed fixed assets are recorded at fair market value at the time received. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Deposits

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

At December 31, 2002, the carrying amount and bank balances of Tri-Village Water District's deposits were \$245,625.15 and \$245,922.20, respectively. At December 31, 2001, the carrying amounts and bank balance were \$282,807.55 and \$282,892.25 respectively. These deposits were covered by federal depository insurance and the depository's Bank Deposit Guaranty Bond in the amount of \$200,000.00.

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2002, and 2001

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Inventory

Inventories are stated at latest cost.

Income Taxes

The Tri-Village Water District is not subject to income taxes.

Contributions in Aid of Construction

In accordance with the Public Service Commission's regulations, amounts received from customers which represent an addition to the capital of the District and which are used to offset the costs of equipment supplies used to provide utility services to the customer, are capitalized under the title of "Contributions in Aid of Construction." This practice differs from generally accepted accounting principles under which these fees are recorded as operating income with the related costs expensed.

Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Tri-Village Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Issuance Costs

Bond issuance costs are amortized over the scheduled maturity of the associated bond issue.

Capitalized Interest

The District capitalizes net interest cost and interest earned as part of constructing water projects.

NOTE 2 - CASH

Cash as of December 31, 2002, and December 31, 2001, respectively consisted of the following:

|                    | <u>Balance at<br/>December 31, 2002</u> | <u>Balance at<br/>December 31, 2001</u> |
|--------------------|---|---|
| Cash, Unrestricted | <u>\$ 245,625.15</u>                    | <u>\$ 282,882.55</u>                    |

NOTE 3 - CUSTOMER ACCOUNTS RECEIVABLE

Amounts outstanding on customer accounts as of December 31, 2002, and 2001 not collected were deemed uncollectible and written off as bad debts.

NOTE 4 - CUSTOMER DEPOSITS/ESCROW

All deposits were refunded to customers in conjunction with the District's sale of assets in August, 2001.

TRI-VILLAGE WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2002, and 2001

**NOTE 5 - PLANT ASSETS**

As indicated in Note 1, the District's tangible assets were transferred to Kentucky American Water Company August 2, 2001. Assets included in the sale were as follows:

|                               |                 |
|-------------------------------|-----------------|
| Utility Plant                 | \$ 2,517,969.16 |
| Land & Land Rights            | 12,449.50       |
| Structures & Improvements     | 38,881.77       |
| Pumping Equipment             | 126,875.33      |
| Water Treatment Equipment     | 51,538.00       |
| Distribution Reservoirs       | 804,785.17      |
| Services                      | 60,264.28       |
| Meter & Meter Installations   | 308,988.51      |
| Office Equipment              | 19,458.48       |
| Transportation Equipment      | 20,487.32       |
| Tools-Shop & Garage           | 4,566.56        |
| Power Operated Equipment      | 35,703.90       |
| Communication Equipment       | 2,717.75        |
| Hydrants                      | 18,017.66       |
| Other Tangible Plant          | 5,100.00        |
| Construction in Process       | 36,192.50       |
|                               | \$ 4,063,995.89 |
| Less Accumulated Depreciation | (1,295,742.24)  |
|                               | \$ 2,768,253.65 |

Prior to the District's Asset Sale to Kentucky American Water Company, depreciation was calculated as follows:

|                                 | Lives      | Method        |
|---------------------------------|------------|---------------|
| Utility Plant in Service        | 5-40 Years | Straight-line |
| Furniture, Fixtures & Equipment | 3-10 Years | Straight-line |

Depreciation expense aggregated \$82,260.00 in 2001 prior to the asset sale.

**NOTE 6 - BOND AND INTEREST SINKING AND DEPRECIATION ACCOUNTS**

The Bond and Interest Sinking Account was to be established with the original RECD bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the 1966, 1985, 1993, 1998, and 1999 Bond Issues was as follows:

- one sixth (1/6) of the next semiannual interest payment
- + one twelfth (1/12) of next annual principal payment
- = monthly transfer

Transfers sufficient to meet the total obligation outstanding on all issues were made through July, 2001.

All issues were fully repaid on August 2, 2001.

TRI-VILLAGE WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2002, and 2001

**NOTE 6 - BOND AND INTEREST SINKING AND DEPRECIATION ACCOUNTS (Continued)**

Upon the issuance of the original 1960 Rural Development bonds, a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system and/or make up any deficiency in the Bond and Interest Sinking Account. After monthly deposits were made into the Bond and Interest Account, monthly transfers were required to be made to the Depreciation Account. The 1960 Bond Resolution required a monthly transfer of \$20 to accumulate to a balance of \$1,000. Each subsequent bond issue required additional monthly remittances to the depreciation fund until the monthly payment to be made was \$1,115 with a total accumulation of \$104,800.

The depreciation account was established in June, 1986. Monthly transfers were made as required by all bond resolutions until all bonds were retired in August, 2001.

There were no disbursements from the Depreciation Account during the year ended December 31, 2001. In February 2002, funds remaining in the account after the District's sale of assets to Kentucky American Water Company and repayment of all outstanding bonds were transferred to the District's Operation and Maintenance Account.

**NOTE 7 - RECD REVENUE BONDS PAYABLE**

All bonds outstanding on August 2, 2001, were paid in full with the sale of the District's Assets to Kentucky American Water Company.

The following is an analysis of the debt repaid as of that date:

| <u>Bond Issue</u>  | <u>Principal</u>    | <u>Interest Rate</u> |
|--------------------|---------------------|----------------------|
| 1966               | \$ 50,000           | 4%                   |
| 1985               | 295,000             | 5%                   |
| 1985 Second Series | 73,500              | 5%                   |
| 1993               | 233,000             | 4.5%                 |
| 1995               | 797,500             | 4.875%               |
| 1999               | 229,700             | 4.75%                |
|                    | <u>\$ 1,678,700</u> |                      |

**NOTE 8 - COMPENSATED ABSENCES**

Full-time employees receive one sick day per month for sick time after their probation period. There is no limit on time that can be accumulated, but only 30 days will be paid upon death or retirement from the district. Vacation days accumulate as follows:

|                        |   |  |
|------------------------|---|--|
| 1st year               | - | ½ day per month after 90 day probationary period |
| at the end of 2nd year | - | 10 days of vacation                              |
| at the end of 5th year | - | 15 days of vacation                              |

Vacation, if not taken in the calendar year due, is lost, unless approved for carryover by the Board.

The District accrues a liability for compensated absences which meet the following criteria:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2002, and 2001

NOTE 8 - COMPENSATED ABSENCES (Continued)

2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

Prior to the sale of assets to Kentucky American Water Company in August, 2001, the Commissioners approved payment for all accumulated sick leave and vacation days to its employees.

No vacation or sick time was accrued at December 31, 2002 or 2001.

NOTE 9 - THE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the Commissioners in June, 1992. Beginning August 1, 1992, electing employees and all new employees of the District were eligible to participate in the System. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2002. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 2002, and 2001, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems (Board) on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 2002 and 2001, participating employers contributed 7.17% of each employee's creditable compensation through June 30, 2001 and 6.41% of each employee's creditable compensation through June 30, 2002. These were the actuarially determined rates determined by the Board to be paid on creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The District's total payroll for 2001 was \$90,379.59. Contributions were based on \$66,538.20 (eligible gross wages). The total pension expense for the year ended December 31, 2001 was \$4,658.05 and \$3,326.91 for the employer and employees, respectively. All contributions were made as required during 2001. After the sale of the District's assets to Kentucky American Water Company on August 2, 2001, the District had no employees eligible to participate in the plan.

The District's contributions for the years ended December 31, 2002 and 2001, were 0% and .007% of the System's total contribution requirements for all employers, respectively.

For non-hazardous duty, the required contributions to the plan were as follows:



TRI-VILLAGE WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2002, and 2001

NOTE 9 - THE COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

|               | <u>ANNUAL<br/>REQUIRED<br/>CONTRIBUTIONS</u> | <u>ACTUAL<br/>CONTRIBUTIONS</u> | <u>PERCENTAGE<br/>CONTRIBUTIONS</u> |
|---------------|--|---------------------------------|-------------------------------------|
| June 30, 2002 | 105,445,842                                  | 107,678,891                     | 1.021                               |
| June 30, 2001 | 97,951,307                                   | 111,206,820                     | 1.135                               |
| June 30, 2000 | 105,709,840                                  | 106,587,219                     | 1.008                               |
| June 30, 1999 | 109,074,757                                  | 110,591,016                     | 1.014                               |
| June 30, 1998 | 124,351,931                                  | 107,490,256                     | .864                                |
| June 30, 1997 | 112,200,552                                  | 105,773,743                     | .942                                |

NOTE 10 - PURCHASED WATER CONTRACT

The City of Owenton Waterworks supplied all water to Tri-Village Water District until the sale of its assets in August, 2001. Tri-Village Water District had a long-term contract with the City of Owenton Waterworks for the purchase of treated water. The contract for water became effective January 5, 1993, and extended for a period of fifty (50) years. In 2001 (until the date of the sale), the charge for water actually delivered was billed at \$2.11 per 1,000 gallons.

NOTE 11 - INTEREST EXPENSE

No interest expense was incurred during the year ended December 31, 2002. Interest expense incurred for the year ended December 31, 2001, (prior to debt repayment) was \$47,456.17. No interest was capitalized.

NOTE 12 - CONSTRUCTION PROJECTS

Prior to January 1, 2001, Tri-Village Water District was awarded a RUS grant in the amount of \$178,000. \$55,730 was received in the year ended December 31, 2000. The remaining \$122,270 of the grant was received in 2001 and used on line enhancements in Wheatley and Monterey, Kentucky.

As agreed in the sale of its assets to Kentucky American Water Company, any remaining funds of Tri-Village Water District are to be used for the construction of water lines enhancing the distribution system sold. At the date of sale the commissioners of the District had identified possible projects. During the year ended December 31, 2002, \$19,490.00 of construction was completed and transferred to Kentucky American Water Company.

During 2002, a construction project on Highway 127 and Frank Clark Road (one of the projects approved by the Commissioners) was begun. The procurement of bids and oversight of the project's construction were handled by Kentucky American Water Company. In accordance with the sale agreement, Tri-Village will be billed for the costs incurred. At December 31, 2002, \$181,272.33 in construction costs had been incurred by Kentucky American Water Company. This amount has been recorded in the financial statements as construction in process and accounts payable. The water line will be the property of Kentucky American Water Company at its completion.

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2002, and 2001

**NOTE 13 - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of All Lines Fund (KALF). The District is also subject to the risks associated with employee injury. These risks were covered through premiums paid to the Kentucky Association of Counties, Workers' Compensation Self-Insurance Fund. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

**NOTE 14 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS**

In January, 2003, the District entered into an agreement with Kentucky American Water Company under which distribution facilities would be constructed to provide water services to areas currently unserved in Owen County, Kentucky. The project is known as the New Columbus Project.

Under this agreement the portion of the project financed and constructed by Tri-Village Water District will be owned by the District. Such facilities will ultimately be operated and maintained by Kentucky American Water Company for an annual use fee of \$20,000.

To finance its share of the project, Tri-Village Water District has been awarded \$900,000 in grant funds through the Kentucky Infrastructure Authority's 2020 Account/Infrastructure Revolving Fund (Fund B). Kentucky American Water Company's portion of the project is estimated at approximately \$1,800,000.

The project was bid in February 2003. The contract (District's portion) was awarded to Kenney, Inc. in the amount of \$969,115.10. Construction costs incurred in excess of the \$900,000 Kentucky Infrastructure Authority Grant, will be funded by and become property of Kentucky American Water Company.

**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 Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky

We have audited the regulatory basis financial statements of Tri-Village Water District, as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 8, 2003. In our report on the financial statements, our opinion was qualified because, as described in the third paragraph, the financial statements are prepared on a prescribed basis of accounting that demonstrates compliance with the practices prescribed by the Public Service Commission. 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 Tri-Village Water District's regulatory basis 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 Tri-Village Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the regulatory basis financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Tri-Village Water District's ability to record, process, summarize and report financial data consistent with the assertions of management in the regulatory basis financial statements.

Due to the size of Tri-Village Water District's administrative staff, internal control is limited. The staff size of the District limits the ability to rotate duties and implement checking procedures. This limitation may affect the ability to record, process, summarize and report financial data.

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 regulatory basis 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Tri-Village Water District in a separate letter dated June 8, 2003.

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

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants

June 8, 2003

**RAISOR, ZAPP & WOODS, P.S.C.**

Certified Public Accountants

513 HIGHLAND AVENUE  
P.O. BOX 354  
CARROLLTON, KENTUCKY 41008  
(502) 732-6655 FAX (502) 732-6161

To the Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky 40359

In planning and performing our audit of the regulatory basis financial statements of the Tri-Village Water District for the years ended December 31, 2002, and 2001 we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the regulatory basis financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of a few matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control structure in our report dated June 8, 2003, on the regulatory basis financial statements of the Tri-Village Water District.

As indicated in prior years, instances were observed where the minutes of the District did not include references to significant events. These most notably would be the details of construction contracts ongoing at the date of sale to Kentucky American Water Company and thereafter, and the obligation of the District in relation to each. The minutes are documentation for the Board's decisions and its underlying reasoning. It is important that they be as complete and accurate as possible.

It was also observed that important agreements such as grant applications and approvals, and lease agreements signed by both parties were not readily available. We would recommend that binders be used to organize all documentation for each future project starting with the grant and financing applications and including all payments made, etc.

The District changed bookkeepers during the audit period. Due to an oversight, the new bookkeeper was not bonded. We recommend that a bond be established as soon as possible.

In our review of cash, it was observed that the operating account of the district was not bearing interest. We would recommend that the account be changed to an interest bearing account.

It should be recognized that our suggestions for the most part represent by-products of observations made during the audit. Accordingly, in most instances we have not made a detailed review of them since this was not contemplated in the work being performed. Consequently, even though we consider each of these suggestions to have merit, they should be examined further before reaching a final decision regarding their disposition. We would welcome the opportunity to discuss any of these suggestions with you in more detail.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP, & WOODS, PSC  
Certified Public Accountants

June 8, 2003

**TRI-VILLAGE WATER DISTRICT  
FINANCIAL STATEMENTS  
At December 31, 2003, and 2002**

**With  
Independent Auditors' Report**

TRI-VILLAGE WATER DISTRICT  
OWENTON, KENTUCKY  
FINANCIAL STATEMENTS  
At December 31, 2003, and 2002

With  
Independent Auditors' Report

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To the Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky 40359

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of Tri-Village Water District as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of Tri-Village Water District management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-Village Water District as of December 31, 2003 and 2002, 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, we have also issued our report dated June 28, 2004, on our consideration of Tri-Village Water District'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.

*Raisor, Zapp & Woods, PSC*

**RAISOR, ZAPP & WOODS, PSC**  
Certified Public Accountants

June 28, 2004



**TRI-VILLAGE WATER DISTRICT  
BALANCE SHEETS  
December 31, 2003, and 2002**

| <b><u>ASSETS</u></b>                          | <b><u>2003</u></b>            | <b><u>2002</u></b>          |
|---|-------------------------------|-----------------------------|
| <b><u>Current Assets</u></b>                  |                               |                             |
| Cash - Unrestricted                           | \$ 219,658.44                 | \$ 245,625.15               |
| Accounts Receivable, Net                      | 20,000.00                     | -                           |
| Prepaid Expenses                              | 1,999.46                      | 361.67                      |
| Total Current Assets                          | <u>\$ 241,657.90</u>          | <u>\$ 245,986.82</u>        |
| <b><u>Plant Assets</u></b>                    |                               |                             |
| Distribution System                           | \$ 900,000.00                 | \$ -                        |
| Accumulated Depreciation                      | (1,875.00)                    | -                           |
| Construction in Process                       | -                             | 181,272.33                  |
| Total Plant Assets                            | <u>\$ 898,125.00</u>          | <u>\$ 181,272.33</u>        |
| Total Assets                                  | <u><u>\$ 1,139,782.90</u></u> | <u><u>\$ 427,259.15</u></u> |
| <br><b><u>LIABILITIES AND FUND EQUITY</u></b> |                               |                             |
| <b><u>Current Liabilities</u></b>             |                               |                             |
| Accounts Payable - Construction               | \$ 200,321.50                 | \$ 181,272.33               |
| Total Liabilities                             | <u>\$ 200,321.50</u>          | <u>\$ 181,272.33</u>        |
| <b><u>Fund Equity</u></b>                     |                               |                             |
| Retained Earnings - Unreserved                | \$ 39,461.40                  | \$ 245,986.82               |
| Contributed Capital                           | 900,000.00                    | -                           |
| Total Fund Equity                             | <u>\$ 939,461.40</u>          | <u>\$ 245,986.82</u>        |
| Total Liabilities and Fund Equity             | <u><u>\$ 1,139,782.90</u></u> | <u><u>\$ 427,259.15</u></u> |

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

**TRI-VILLAGE WATER DISTRICT**  
**STATEMENTS OF REVENUES AND EXPENSES**  
For the Years Ended December 31, 2003, and 2002

|  | 2003            | 2002           |
|--|-----------------|----------------|
| <b><u>OPERATING REVENUES</u></b>               |                 |                |
| Lease - Kentucky American Water Company        | \$ 20,000.00    | \$ -           |
| Miscellaneous Income                           | -               | 180.40         |
| Total Operating Revenues                       | \$ 20,000.00    | \$ 180.40      |
| <b><u>OPERATING EXPENSES</u></b>               |                 |                |
| Accounting Labor                               | \$ 2,400.00     | \$ 1,000.00    |
| Administrative Per Diem                        | 14,400.00       | 14,100.00      |
| Depreciation Expense                           | 1,875.00        | -              |
| Insurance                                      | 2,809.02        | 578.48         |
| Office Supplies and Expense                    | 345.55          | 62.77          |
| Payroll Taxes                                  | 1,357.11        | 835.55         |
| Professional Services                          | 3,995.00        | -              |
| Total Operating Expenses                       | \$ 27,181.68    | \$ 16,576.80   |
| Operating Income (Loss)                        | \$ (7,181.68)   | \$ (16,396.40) |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b> |                 |                |
| Interest Income                                | \$ 977.76       | \$ 169.98      |
| Capital Contribution                           |                 |                |
| Kentucky American Water Company                | (200,321.50)    | (19,490.00)    |
| Total Nonoperating Revenues (Expenses)         | \$ (199,343.74) | \$ (19,320.02) |
| Net Income (Loss)                              | \$ (206,525.42) | \$ (35,716.42) |

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

**TRI-VILLAGE WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2003, and 2002**

|   | 2003                  | 2002                  |
|---|-----------------------|-----------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                      |                       |                       |
| Operating Income (Loss)   | \$ (7,181.68)         | \$ (16,396.40)        |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: |                       |                       |
| Depreciation  | 1,875.00              | -                     |
| (Increase) Decrease in Receivables  | (20,000.00)           | 138.84                |
| (Increase) Decrease in Prepaid Expenses   | (1,637.79)            | 720.18                |
| Increase (Decrease) in Accounts Payable   | -                     | (2,400.00)            |
|   | <u>\$ (26,944.47)</u> | <u>\$ (17,937.38)</u> |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                  |                       |                       |
| Acquisition of Equipment, Buildings and Land  | \$ (900,000.00)       | \$ -                  |
| Grant Proceeds  | 900,000.00            | -                     |
| Capital Contribution to Kentucky American Water Company                                 | -                     | (19,490.00)           |
|   | <u>\$ -</u>           | <u>\$ (19,490.00)</u> |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                      |                       |                       |
| Interest on Investments   | \$ 977.76             | \$ 169.98             |
|   | <u>\$ 977.76</u>      | <u>\$ 169.98</u>      |
| Net Cash Provided by Investing Activities   | \$ (25,966.71)        | \$ (37,257.40)        |
| Net Increase (Decrease) in Cash   | 245,625.15            | 282,882.55            |
| Cash and Cash Equivalents at Beginning of Year  | \$ 219,658.44         | \$ 245,625.15         |
| Cash and Cash Equivalents at End of Year  | <u>\$ 219,658.44</u>  | <u>\$ 245,625.15</u>  |

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

At December 31, 2003 and 2002, the District had incurred construction costs of \$200,321.50 and \$181,272.83, respectively. At December 31, 2002, these costs were included in construction in process and accounts payable-construction, respectively. At December 31, 2003, these costs were included in accounts payable-construction. These assets were transferred to Kentucky American Water Company.

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

**TRI-VILLAGE WATER DISTRICT  
STATEMENTS OF FUND EQUITY  
For the Years Ended December 31, 2003, and 2002**

|   | Retained<br>Earnings (Deficits)<br>Unreserved | Contributed<br>Equity |
|---|---|-----------------------|
| Balance, January 1, 2002                            | \$ 281,703.24                                 | \$ -                  |
| Net Income (Loss) 2002                              | (35,716.42)                                   | -                     |
| Balance, December 31, 2002                          | \$ 245,986.82                                 | \$ -                  |
| Net Income (Loss) 2003                              | (206,525.42)                                  | -                     |
| Grant Proceeds-Kentucky<br>Infrastructure Authority | -   | 900,000.00            |
| Balance, December 31, 2003                          | \$ 39,461.40                                  | \$ 900,000.00         |

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

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003, and 2002

**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

The Tri-Village Water District is a rural water company serving customers in Owen, Grant, and Gallatin Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in June, 1961. On August 2, 2001 Kentucky American Water Company purchased all of the District's tangible assets used in the provision of water services owned as of that date. All bonded indebtedness of the District outstanding including accrued interest was paid in full at the closing. As part of its agreement with Kentucky American Water Company, Tri-Village Water District agreed to use its remaining funds for the construction of water lines and the general administration expenses of the District. Lines constructed are to be contributed to or leased to Kentucky American Water Company at their completion, depending on each project's finance sources. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**Reporting Entity**

In evaluating how to define Tri-Village Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

**Basis of Accounting**

The Water District maintains its records substantially on the accrual basis of accounting. Revenues are generally recognized when services are billed rather than when collected. Expenses are recognized when paid, except at year-end when the appropriate adjustments are made for accounts payable and accruals in order to reflect the proper balances.

**Fixed Assets**

Fixed assets are recorded at cost less accumulated depreciation. Contributed fixed assets are recorded at fair market value at the time received. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

**Deposits**

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

At December 31, 2003, the carrying amount and bank balances of Tri-Village Water District's deposits were \$219,658.44 and \$220,265.38, respectively. At December 31, 2002, the carrying amounts and bank balance were \$245,625.15 and \$245,922.20, respectively. These deposits were covered by federal depository insurance and the depository's Bank Deposit Guaranty Bond in the amount of \$200,000.00.

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2003, and 2002

**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)**

**Income Taxes**

The Tri-Village Water District is not subject to income taxes.

**Statement of Cash Flows**

For the purpose of the Statement of Cash Flows, the Tri-Village Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**Capitalized Interest**

The District capitalizes net interest cost and interest earned as part of constructing water projects.

**Change in Reporting Format**

For years ended on or before December 31, 2002, the District presented its financial statement on the regulatory basis of accounting in compliance with practices prescribed by the Public Service Commission. In accordance with the Public Service Commission's regulations, the District recorded contributions in Aid of Construction for customer connection fees. After the sale of its assets to Kentucky American Water Company, this accounting difference no longer exists. The financial statement presentation herein is based on United States generally accepted accounting principles. There was no effect on the financial position of the District. Only the financial statement format was changed.

**NOTE 2 - CASH**

Cash as of December 31, 2003, and December 31, 2002, respectively consisted of the following:

|                    | <u>Balance at<br/>December 31, 2003</u> | <u>Balance at<br/>December 31, 2002</u> |
|--------------------|---|---|
| Cash, Unrestricted | <u>\$ 219,658.44</u>                    | <u>\$ 245,625.15</u>                    |

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable as of December 31, 2003 represents lease revenue receivable from Kentucky American Water Company.

**NOTE 4 - PLANT ASSETS**

As indicated in Note 1, all of the District's tangible assets owned as of August 2, 2001 were transferred to Kentucky American Water Company (KAWC) in a sale on that date. The District, in conjunction with its transfer of assets to Kentucky American Water Company, agreed to use its remaining funds for construction of water lines and administrative expenses. Lines constructed are contributed, or leased, to Kentucky American Water Company, depending on the financing requirements for the individual project.

In 2003, projects on Highway 127 and Clark Road were completed. The District will reimburse Kentucky American Water District for the construction costs. Such costs are included in Accounts Payable-Construction. These assets are the property of Kentucky American Water Company. Also in 2003, construction known as the New Columbus Project was completed. This was a joint project with Kentucky American Water Company. The District's portion of the project was financed by a \$900,000 grant from the Kentucky Infrastructure Authority. These assets will remain the property of the District.

**TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2003, and 2002**

**NOTE 4 - PLANT ASSETS (Continued)**

The District's assets at December 31, 2003 and 2002 were as follows:

|   | 2003           | 2002          |
|---|----------------|---------------|
| Utility Plant                                 | \$ 900,000.00  | \$ -          |
| Construction in Process (transferred to KAWC) | -              | 181,272.33    |
|   | \$ 900,000.00  | \$ 181,272.33 |
| <br>Less Accumulated Depreciation             | <br>(1,875.00) | <br>-         |
|   | \$ 898,125.00  | \$ 181,272.33 |

Depreciation was calculated as follows:

|                          | <u>Lives</u> | <u>Method</u> |
|--------------------------|--------------|---------------|
| Utility Plant in Service | 40 Years     | Straight-line |

Depreciation expense aggregated \$1,875.00 in 2003. No depreciation was recorded for 2002.

**NOTE 5 - CONSTRUCTION PROJECTS**

As agreed in the sale of its assets to Kentucky American Water Company, the remaining funds of Tri-Village Water District are to be used for the construction of water lines enhancing the distribution system sold. At the date of sale, the commissioners of the District had identified possible projects. During the year ended December 31, 2002, improvements of \$19,490.00 were completed and transferred to Kentucky American Water Company.

Also during 2002, a construction project on Highway 127 and Frank Clark Road (one of the projects approved by the Commissioners) was begun. The procurement of bids and oversight of the project's construction were handled by Kentucky American Water Company. In accordance with the sale agreement, Tri-Village will reimburse Kentucky American Water Company for the costs incurred. At December 31, 2003 and 2002, respectively, \$200,321.50 and \$181,272.33 in construction costs had been incurred by Kentucky American Water Company for this project. At December 31, 2002 this amount was recorded in the financial statements as construction in process and accounts payable. During the year ended December 31, 2003 the project was completed and placed in service by Kentucky American Water Company. The District had not made payment to Kentucky American Water Company at December 31, 2003. Therefore, an accounts payable has been recorded to reflect this liability.

**NOTE 6 - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of Counties All Lines Fund (KACO).

**NOTE 7 - LEASE-KENTUCKY AMERICAN WATER COMPANY (KAWC)**

In January 2003, the District entered into a lease agreement with Kentucky American Water Company. Under this agreement, Kentucky American Water District will lease lines constructed by the District as part of the New Columbus Project (completed in 2003). Compensation to the District under the lease will be the lesser of (a) \$20,000 or (b) the District's actual and reasonable costs incurred for Commissioner fees, accounting, audit, and legal fees, director liability insurance and any other expense required under the lease.

The lease term is 40 years and may continue thereafter from year to year.

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2003, and 2002

**NOTE 8 – NEW REPORTING STANDARD**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The District is required to implement this standard for the fiscal year ending December 31, 2004. The District has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.



**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 Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky

We have audited the financial statements of Tri-Village Water District, as of and for the year ended December 31, 2003, and have issued our report thereon dated June 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**COMPLIANCE**

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered Tri-Village Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Tri-Village Water District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Due to the size of Tri-Village Water District's administrative staff, internal control is limited. The staff size of the District limits the ability to rotate duties and implement checking procedures. This limitation may affect the ability to record, process, summarize and report financial data.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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

*Raisor, Zapp & Woods, PSC*

**RAISOR, ZAPP & WOODS, PSC**  
Certified Public Accountants

June 28, 2004

**TRI-VILLAGE WATER DISTRICT  
BASIC FINANCIAL STATEMENTS  
AND INDEPENDENT  
AUDITORS' REPORTS**

**At December 31, 2004, and 2003**

TRI-VILLAGE WATER DISTRICT  
OWENTON, KENTUCKY

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December 31, 2004, and 2003

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**RAISOR, ZAPP & WOODS, P.S.C.**

Certified Public Accountants

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(502) 732-6655 FAX (502) 732-6161

To the Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky 40359

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the business-type activities of Tri-Village Water District as of and for the years ended December 31, 2004 and 2003, which comprises the Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tri-Village Water District management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Tri-Village Water District as of December 31, 2004 and 2003, and the respective changes in financial position 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, we have also issued our report dated July 11, 2005, on our consideration of Tri-Village Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

As described in Note 1, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended and interpreted, as of December 31, 2004.

Tri-Village Water District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined necessary to supplement, although not required to be a part of the basic financial statements.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants

July 11, 2005

**TRI-VILLAGE WATER DISTRICT  
STATEMENTS OF NET ASSETS  
December 31, 2004, and 2003**

| <u>ASSETS</u>  | <u>2004</u>                    | <u>2003</u>                    |
|--|--------------------------------|--------------------------------|
| <br>   |                                |                                |
| <u>Current Assets</u>  |                                |                                |
| Cash   | \$ 36,713.95                   | \$ 219,658.44                  |
| Accounts Receivable, Net   | -                              | 20,000.00                      |
| Prepaid Expenses   | 2,002.46                       | 1,999.46                       |
|  | <u>38,716.41</u>               | <u>241,657.90</u>              |
| Total Current Assets   | \$ 38,716.41                   | \$ 241,657.90                  |
| <br>   |                                |                                |
| <u>Non-Current Assets</u>  |                                |                                |
| Capital Assets, Net  | \$ 875,625.00                  | \$ 898,125.00                  |
| Total Non-Current Assets   | \$ 875,625.00                  | \$ 898,125.00                  |
| Total Assets   | \$ 914,341.41                  | \$ 1,139,782.90                |
| <br>   |                                |                                |
| <u>LIABILITIES</u>   |                                |                                |
| <br>   |                                |                                |
| <u>Current Liabilities</u>   |                                |                                |
| Accounts Payable   | \$ -                           | \$ 200,321.50                  |
| Total Liabilities  | \$ -                           | \$ 200,321.50                  |
| <br>   |                                |                                |
| <u>NET ASSETS</u>  |                                |                                |
| Invested in Capital Assets, Net<br>of Related Debt<br>Unrestricted | <u>875,625.00</u><br>38,716.41 | <u>898,125.00</u><br>41,336.40 |
| Total Net Assets   | <u>\$ 914,341.41</u>           | <u>\$ 939,461.40</u>           |

**TRI-VILLAGE WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Years Ended December 31, 2004, and 2003

|  | 2004           | 2003          |
|--|----------------|---------------|
| <b><u>OPERATING REVENUES</u></b>                         |                |               |
| Lease - Kentucky American Water Company                  | \$ 20,000.00   | \$ 20,000.00  |
| Total Operating Revenues                                 | \$ 20,000.00   | \$ 20,000.00  |
| <b><u>OPERATING EXPENSES</u></b>                         |                |               |
| Accounting Labor   | \$ 2,400.00    | \$ 2,400.00   |
| Administrative Per Diem                                  | 14,400.00      | 14,400.00     |
| Depreciation Expense                                     | 22,500.00      | 1,875.00      |
| Insurance  | 3,873.40       | 2,809.02      |
| Office Supplies and Expense                              | 25.40          | 345.55        |
| Payroll Taxes  | 1,285.20       | 1,357.11      |
| Professional Services                                    | 1,995.00       | 3,995.00      |
| Total Operating Expenses                                 | \$ 46,479.00   | \$ 27,181.68  |
| Operating Income (Loss)                                  | \$ (26,479.00) | \$ (7,181.68) |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b>           |                |               |
| Interest Income  | \$ 1,359.01    | \$ 977.76     |
| Net Income (Loss) Before Contributions                   | \$ (25,119.99) | \$ (6,203.92) |
| <b><u>Capital Contributions</u></b>                      |                |               |
| Capital Contributions - Rural Development                | \$ -           | \$ 900,000.00 |
| Capital Contributions to Kentucky American Water Company | -              | (200,321.50)  |
| Total Capital Contributions                              | \$ -           | \$ 699,678.50 |
| Net Income (Loss)  | \$ (25,119.99) | \$ 693,474.58 |
| Net Assets, Beginning of Year                            | 939,461.40     | 245,986.82    |
| Net Assets, End of Year                                  | \$914,341.41   | \$ 939,461.40 |

**TRI-VILLAGE WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2004, and 2003**

|  | 2004                   | 2003                  |
|--|------------------------|-----------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>   |                        |                       |
| Receipts - Lease   | \$ 40,000.00           | \$ -                  |
| Payments to Employees  | (16,800.00)            | (16,800.00)           |
| Other Receipts   | (7,182.00)             | (10,144.47)           |
|  | <b>\$ 16,018.00</b>    | <b>\$ (26,944.47)</b> |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                                   |                        |                       |
| Capital Contributions  | \$ (200,321.50)        | \$ 900,000.00         |
| Purchase of Capital Assets   | -                      | (900,000.00)          |
|  | <b>\$ (200,321.50)</b> | <b>\$ -</b>           |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>   |                        |                       |
| Interest Received  | \$ 1,359.01            | \$ 977.76             |
| Net Increase (Decrease) in Cash  | \$ (182,944.49)        | \$ (25,966.71)        |
| Cash at Beginning of Year  | 219,658.44             | 245,625.15            |
| Cash at End of Year  | <b>\$ 36,713.95</b>    | <b>\$ 219,658.44</b>  |
| <b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO<br/>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b> |                        |                       |
| Operating Income (Loss)  | \$ (26,479.00)         | \$ (7,181.68)         |
| Adjustments to Reconcile Operating Income to Net Cash<br>Provided (Used) by Operating Activities:        |                        |                       |
| Cash Flows Reported in Other Categories:   |                        |                       |
| Depreciation Expense   | 22,500.00              | 1,875.00              |
| Change in Assets and Liabilities:  |                        |                       |
| Receivables, Net   | 20,000.00              | (20,000.00)           |
| Prepaid Expenses   | (3.00)                 | (1,637.79)            |
| Net Cash Provided (Used) By Operating Activities   | <b>\$ 16,018.00</b>    | <b>\$ (26,944.47)</b> |



TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004, and 2003

**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

The Tri-Village Water District is a rural water company serving customers in Owen, Grant, and Gallatin Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in June, 1961. On August 2, 2001 Kentucky American Water Company purchased all of the District's tangible assets used in the provision of water services owned as of that date. All bonded indebtedness of the District outstanding including accrued interest was paid in full at the closing. As part of its agreement with Kentucky American Water Company, Tri-Village Water District agreed to use its remaining funds for the construction of water lines and the general administration expenses of the District. Lines constructed are to be contributed to or leased to Kentucky American Water Company at their completion, depending on each project's financing sources. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**Reporting Entity**

In evaluating how to define Tri-Village Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

These financial statements include the implementation of GASB No. 34, Basic Financial Statements – Management's Discussion and Analysis, for State and Local Governments and related standards. This new standard provides for significant changes in terminology; recognition of contributions in the statement of revenues, expenses and changes in net assets; inclusion of a management discussion and analysis as supplementary information; and other changes.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District 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 on the Statement of Net Assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, unrestricted resources are used first.

**Revenues and expenses:** Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of lease income. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

**Property and equipment:** Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated usefulness lives by type of asset is as follows:



TRI-VILLAGE WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2004, and 2003

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

December 31, 2004

| Type of Deposits      | Total Bank<br>Balance | Custody Credit Risk Category |      |      | Total Carrying<br>Value |
|-----------------------|-----------------------|------------------------------|------|------|-------------------------|
|                       |                       | 1                            | 2    | 3    |                         |
| Time/Savings Deposits | \$ 36,746.35          | \$ 36,746.35                 | \$ - | \$ - | \$ 36,713.95            |
| Total Deposits        | \$ 36,746.35          | \$ 36,746.35                 | \$ - | \$ - | \$ 36,713.95            |

December 31, 2003

| Type of Deposits      | Total Bank<br>Balance | Custody Credit Risk Category |      |      | Total Carrying<br>Value |
|-----------------------|-----------------------|------------------------------|------|------|-------------------------|
|                       |                       | 1                            | 2    | 3    |                         |
| Time/Savings Deposits | \$ 220,265.38         | \$ 220,265.38                | \$ - | \$ - | \$ 219,658.44           |
| Total Deposits        | \$ 220,265.38         | \$ 220,265.38                | \$ - | \$ - | \$ 219,658.44           |

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable as of December 31, 2003 represents lease revenue receivable from Kentucky American Water Company.

**NOTE 4 – CAPITAL ASSETS**

As indicated in Note 1, all of the District's tangible assets owned as of August 2, 2001 were transferred to Kentucky American Water Company (KAWC) in a sale on that date. The District, in conjunction with its transfer of assets to Kentucky American Water Company, agreed to use its remaining funds for construction of water lines and administrative expenses. Lines constructed are contributed, or leased, to Kentucky American Water Company, depending on the financing requirements for the individual project.

In 2003, projects on Highway 127 and Clark Road were completed. The District reimbursed Kentucky American Water District for the construction costs during 2004. At December 31, 2003, such costs were included in accounts payable. At December 31, 2003, these assets were the property of Kentucky American Water Company. Also in 2003, construction known as the New Columbus Project was completed. This was a joint project with Kentucky American Water Company. The District's portion of the project was financed by a \$900,000 grant from the Kentucky Infrastructure Authority. These assets will remain the property of the District.

**NOTE 5 - CONSTRUCTION PROJECTS**

As agreed in the sale of its assets to Kentucky American Water Company, the remaining funds of Tri-Village Water District are to be used for the construction of water lines enhancing the distribution system sold. At the date of sale, the commissioners of the District had identified possible projects. During the year ended December 31, 2002, improvements of \$19,490.00 were completed and transferred to Kentucky American Water Company.

During 2002, a construction project on Highway 127 and Frank Clark Road (one of the projects approved by the Commissioners) was begun. The procurement of bids and oversight of the project's construction were handled by Kentucky American Water Company. In accordance with the sale agreement, Tri-Village reimbursed Kentucky American Water Company for the costs incurred. At December 31, 2003, \$200,321.50 in construction costs had been incurred by Kentucky American Water Company for this project. During the year ended December 31, 2003 the project was completed and placed in service by Kentucky American Water Company. The District had not made payment to Kentucky American Water Company at December 31, 2003. Therefore, an accounts payable was recorded to reflect this liability. Kentucky American Water Company was repaid in 2004.

**NOTE 6 - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of Counties All Lines Fund (KACO).

**TRI-VILLAGE WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2004, and 2003

**NOTE 7 – LEASE-KENTUCKY AMERICAN WATER COMPANY (KAWC)**

In January 2003, the District entered into a lease agreement with Kentucky American Water Company. Under this agreement, Kentucky American Water District will lease lines constructed by the District as part of the New Columbus Project (completed in 2003). Compensation to the District under the lease will be the lesser of (a) \$20,000 or (b) the District's actual and reasonable costs incurred for Commissioner fees, accounting, audit, and legal fees, director liability insurance and any other expenses required under the lease.

The lease term is 40 years and may continue thereafter from year to year.

**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2004 and 2003, was as follows:

|                                | Balance at<br>January 1, 2004 | Additions            | Disposals              | Balance at<br>December 31, 2004 |
|--------------------------------|-------------------------------|----------------------|------------------------|---------------------------------|
| Distribution System            | \$ 900,000.00                 | \$ -                 | \$ -                   | \$ 900,000.00                   |
| Totals at Historical Cost      | <u>\$ 900,000.00</u>          | <u>\$ -</u>          | <u>\$ -</u>            | <u>\$ 900,000.00</u>            |
| Less: Accumulated Depreciation |                               |                      |                        |                                 |
| Distribution System            | \$ 1,875.00                   | \$ 22,500.00         | \$ -                   | \$ 24,375.00                    |
| Total Accumulated Depreciation | <u>\$ 1,875.00</u>            | <u>\$ 22,500.00</u>  | <u>\$ -</u>            | <u>\$ 24,375.00</u>             |
| Capital Assets, Net            | <u>898,125.00</u>             | <u>(22,500.00)</u>   | <u>-</u>               | <u>875,625.00</u>               |
|                                |                               |                      |                        |                                 |
|                                | Balance at<br>January 1, 2003 | Additions            | Disposals              | Balance at<br>December 31, 2003 |
| Distribution System            | \$ -                          | \$ 900,000.00        | \$ -                   | \$ 900,000.00                   |
| Construction in Process        | 181,272.33                    | 19,049.17            | (200,321.50)           | -                               |
| Totals at Historical Cost      | <u>\$ 181,272.33</u>          | <u>\$ 919,049.17</u> | <u>\$ (200,321.50)</u> | <u>\$ 900,000.00</u>            |
| Less: Accumulated Depreciation |                               |                      |                        |                                 |
| Distribution System            | \$ -                          | \$ 1,875.00          | \$ -                   | \$ 1,875.00                     |
| Total Accumulated Depreciation | <u>\$ -</u>                   | <u>\$ 1,875.00</u>   | <u>\$ -</u>            | <u>\$ 1,875.00</u>              |
| Capital Assets, Net            | <u>\$ 181,272.33</u>          | <u>\$ 917,174.17</u> | <u>\$ (200,321.50)</u> | <u>\$ 898,125.00</u>            |

Depreciation expense aggregated \$22,500 and \$1,875 in 2004 and 2003, respectively.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To The Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky

We have audited the financial statements of the business-type activities of Tri-Village Water District, as of and for the year ended December 31, 2004, which comprises the Water District's basic financial statements and have issued our report thereon dated July 11, 2005. 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.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered Tri-Village Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Tri-Village Water District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Due to the size of Tri-Village Water District's administrative staff, internal control is limited. The staff size of the District limits the ability to rotate duties and implement checking procedures. This limitation may affect the ability to record, process, summarize and report financial data.

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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Tri-Village Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants

July 11, 2005

**TRI-VILLAGE WATER DISTRICT  
BASIC FINANCIAL STATEMENTS  
AND INDEPENDENT  
AUDITORS' REPORTS**

**At December 31, 2005, and 2004**

TRI-VILLAGE WATER DISTRICT  
OWENTON, KENTUCKY

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**RAISOR, ZAPP & WOODS, P.S.C.**

Certified Public Accountants

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To the Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky 40359

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the business-type activities of Tri-Village Water District as of and for the years ended December 31, 2005 and 2004, which comprises the Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tri-Village Water District's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Tri-Village Water District as of December 31, 2005 and 2004, and the respective changes in financial position 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, we have also issued our report dated November 9, 2006, on our consideration of Tri-Village Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in assessing the results of our audit.

Tri-Village Water District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined necessary to supplement, although not required to be part of, the basic financial statements.

*Raisor, Zapp & Woods, PSC*

**RAISOR, ZAPP & WOODS, PSC**  
Certified Public Accountants

November 9, 2006

**TRI-VILLAGE WATER DISTRICT  
STATEMENTS OF NET ASSETS  
December 31, 2005, and 2004**

| <u><b>ASSETS</b></u>                               | <u><b>2005</b></u>                 | <u><b>2004</b></u>                 |
|--|------------------------------------|------------------------------------|
| <u><b>Current Assets</b></u>                       |                                    |                                    |
| Cash   | \$ 35,527.98                       | \$ 36,713.95                       |
| Prepaid Expenses                                   | 2,333.96                           | 2,002.46                           |
| <b>Total Current Assets</b>                        | <u><b>\$ 37,861.94</b></u>         | <u><b>\$ 38,716.41</b></u>         |
| <u><b>Non Current Assets</b></u>                   |                                    |                                    |
| Capital Assets, Net                                | \$ 853,125.00                      | \$ 875,625.00                      |
| <b>Total Non Current Assets</b>                    | <u><b>\$ 853,125.00</b></u>        | <u><b>\$ 875,625.00</b></u>        |
| <b>Total Assets</b>                                | <u><b>\$ 890,986.94</b></u>        | <u><b>\$ 914,341.41</b></u>        |
| <br><u><b>LIABILITIES</b></u>                      |                                    |                                    |
| <u><b>Current Liabilities</b></u>                  |                                    |                                    |
| Kentucky State Income Tax Withheld                 | \$ 75.00                           | \$ -                               |
| <b>Total Liabilities</b>                           | <u><b>\$ 75.00</b></u>             | <u><b>\$ -</b></u>                 |
| <br><u><b>NET ASSETS</b></u>                       |                                    |                                    |
| Invested in Capital Assets, Net<br>of Related Debt | \$ 853,125.00                      | \$ 875,625.00                      |
| Unrestricted                                       | 37,786.94                          | 38,716.41                          |
| <b>Total Net Assets</b>                            | <u><u><b>\$ 890,911.94</b></u></u> | <u><u><b>\$ 914,341.41</b></u></u> |

**TRI-VILLAGE WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Years Ended December 31, 2005, and 2004

|  | <u>2005</u>                | <u>2004</u>                 |
|--|----------------------------|-----------------------------|
| <b><u>OPERATING REVENUES</u></b>               |                            |                             |
| Lease - Kentucky American Water Company        | \$ 24,436.00               | \$ 20,000.00                |
| Total Operating Revenues                       | <u>\$ 24,436.00</u>        | <u>\$ 20,000.00</u>         |
| <b><u>OPERATING EXPENSES</u></b>               |                            |                             |
| Accounting Labor                               | \$ 2,400.00                | \$ 2,400.00                 |
| Administrative Per Diem                        | 14,400.00                  | 14,400.00                   |
| Depreciation Expense                           | 22,500.00                  | 22,500.00                   |
| Insurance                                      | 4,207.90                   | 3,873.40                    |
| Office Supplies and Expense                    | 50.54                      | 25.40                       |
| Payroll Taxes                                  | 2,478.42                   | 1,285.20                    |
| Penalties                                      | 25.00                      | -                           |
| Professional Services                          | 1,995.00                   | 1,995.00                    |
| Total Operating Expenses                       | <u>\$ 48,056.86</u>        | <u>\$ 46,479.00</u>         |
| Operating Income (Loss)                        | <u>\$ (23,620.86)</u>      | <u>\$ (26,479.00)</u>       |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b> |                            |                             |
| Interest Income                                | \$ 191.39                  | \$ 1,359.01                 |
| Net Income (Loss)                              | \$ (23,429.47)             | \$ (25,119.99)              |
| Net Assets, Beginning of Year                  | <u>914,341.41</u>          | <u>939,461.40</u>           |
| Net Assets, End of Year                        | <u><u>\$890,911.94</u></u> | <u><u>\$ 914,341.41</u></u> |

**TRI-VILLAGE WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2005, and 2004**

|  | <b>2005</b>          | <b>2004</b>            |
|--|----------------------|------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>   |                      |                        |
| Receipts - Lease   | \$ 24,436.00         | \$ 40,000.00           |
| Payments to Employees/Commissioners  | (16,800.00)          | (16,800.00)            |
| Other Disbursements  | (9,013.36)           | (7,182.00)             |
| Net Cash Provided (Used) by Operating Activities   | <b>\$ (1,377.36)</b> | <b>\$ 16,018.00</b>    |
| <br><b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                               |                      |                        |
| Capital Contributions-Kentucky American Water Company  | \$ -                 | \$ (200,321.50)        |
| Net Cash Provided (Used) by Capital and Related Financing Activities                                     | <b>\$ -</b>          | <b>\$ (200,321.50)</b> |
| <br><b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>   |                      |                        |
| Interest Received  | \$ 191.39            | \$ 1,359.01            |
| Net Increase (Decrease) in Cash  | \$ (1,185.97)        | \$ (182,944.49)        |
| Cash at Beginning of Year  | 36,713.95            | 219,658.44             |
| Cash at End of Year  | <b>\$ 35,527.98</b>  | <b>\$ 36,713.95</b>    |
| <br><b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b> |                      |                        |
| Operating Income (Loss)  | \$ (23,620.86)       | \$ (26,479.00)         |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:           |                      |                        |
| Cash Flows Reported in Other Categories:   |                      |                        |
| Depreciation Expense   | 22,500.00            | 22,500.00              |
| Change in Assets and Liabilities:  |                      |                        |
| Receivables, Net   | -                    | 20,000.00              |
| Prepaid Expenses   | (331.50)             | (3.00)                 |
| Employee Withholding   | 75.00                | -                      |
| Net Cash Provided (Used) By Operating Activities   | <b>\$ (1,377.36)</b> | <b>\$ 16,018.00</b>    |

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005, and 2004

**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

The Tri-Village Water District is a rural water company serving customers in Owen, Grant, and Gallatin Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in June, 1961. On August 2, 2001 Kentucky American Water Company purchased all of the District's tangible assets used in the provision of water services owned as of that date. All bonded indebtedness of the District outstanding including accrued interest was paid in full at the closing. As part of its agreement with Kentucky American Water Company, Tri-Village Water District agreed to use its remaining funds for the construction of water lines and the general administration expenses of the District. Lines constructed are to be contributed to or leased to Kentucky American Water Company at their completion, depending on each project's financing sources. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**Reporting Entity**

In evaluating how to define Tri-Village Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District 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 on the Statement of Net Assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, unrestricted resources are used first.

**Revenues and expenses:** Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of lease income. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

**Property and equipment:** Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated usefulness lives by type of asset is as follows:

|                       |          |
|-----------------------|----------|
| - Distribution System | 40 years |
|-----------------------|----------|

**Income Taxes:** Tri Village Water District is not subject to income taxes.

TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2005, and 2004

**NOTE 1 – SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)**

**Contributed capital:** On January 1, 2004, the District was required to adopt Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires governments to recognize capital contributions to proprietary funds as revenues, instead of contributed capital. Previously, the fair market value of donated property received by the District, and grants which were restricted for the acquisition or construction of capital assets, were recorded as contributed capital. No grant monies were received in 2004 and 2005.

**Net assets:** Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

**Estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Statement of Cash Flows:** For the purpose of the Statement of Cash Flows, Tri-Village Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**NOTE 2 – CASH AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Tri-Village Water District's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2005 and 2004. The categories of credit risk are defined as follows:

- Category 1 – Insured by FDIC or collateralized with securities held by the District (public trust) or by its agent in its name.
- Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with non-written or approved collateral agreement.

**TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2005, and 2004**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**December 31, 2005**

| <u>Type of Deposits</u> | <u>Total Bank<br/>Balance</u> | <u>Custody Credit Risk Category</u> |             |             | <u>Total Carrying<br/>Value</u> |
|-------------------------|-------------------------------|-------------------------------------|-------------|-------------|---------------------------------|
|                         |                               | <u>1</u>                            | <u>2</u>    | <u>3</u>    |                                 |
| Time/Savings Deposits   | \$ 35,527.98                  | \$ 35,527.98                        | \$ -        | \$ -        | \$ 35,527.98                    |
| Total Deposits          | <u>\$ 35,527.98</u>           | <u>\$ 35,527.98</u>                 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35,527.98</u>             |

**December 31, 2004**

| <u>Type of Deposits</u> | <u>Total Bank<br/>Balance</u> | <u>Custody Credit Risk Category</u> |             |             | <u>Total Carrying<br/>Value</u> |
|-------------------------|-------------------------------|-------------------------------------|-------------|-------------|---------------------------------|
|                         |                               | <u>1</u>                            | <u>2</u>    | <u>3</u>    |                                 |
| Time/Savings Deposits   | \$ 36,746.35                  | \$ 36,746.35                        | \$ -        | \$ -        | \$ 36,713.95                    |
| Total Deposits          | <u>\$ 36,746.35</u>           | <u>\$ 36,746.35</u>                 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,713.95</u>             |

**NOTE 3 – CAPITAL ASSETS**

As indicated in Note 1, all of the District's tangible assets owned as of August 2, 2001 were transferred to Kentucky American Water Company (KAWC) in a sale on that date. The District, in conjunction with its transfer of assets to Kentucky American Water Company, agreed to use its remaining funds for construction of water lines and administrative expenses. Lines constructed are contributed, or leased, to Kentucky American Water Company, depending on the financing requirements for the individual project.

In 2003, construction known as the New Columbus Project was completed. This was a joint project with Kentucky American Water Company. The District's portion of the project was financed by a \$900,000 grant from the Kentucky Infrastructure Authority. These assets will remain the property of the District.

**NOTE 4 - CONSTRUCTION PROJECTS**

As agreed in the sale of its assets to Kentucky American Water Company, the remaining funds of Tri-Village Water District are to be used for the construction of water lines enhancing the distribution system sold and administrative expenses. At the date of sale, the commissioners of the District had identified possible projects.

During 2002, a construction project on Highway 127 and Frank Clark Road was begun. The procurement of bids and oversight of the project's construction were handled by Kentucky American Water Company. In accordance with the sale agreement, Tri-Village reimbursed Kentucky American Water Company \$200,321.50 during the year ended December 31, 2004 for the costs incurred.

**NOTE 5 - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of Counties All Lines Fund (KACO).

**NOTE 6 – LEASE-KENTUCKY AMERICAN WATER COMPANY (KAWC)**

In January 2003, the District entered into a lease agreement with Kentucky American Water Company. Under this agreement, Kentucky American Water District will lease lines constructed by the District as part of the New Columbus Project (completed in 2003). Compensation to the District under the lease will be the lesser of (a) \$20,000 or (b) the District's actual and reasonable costs incurred for Commissioner fees, accounting, audit, an legal fees, director liability insurance and any other expenses required under the lease.

The lease term is 40 years and may continue thereafter from year to year.

**TRI-VILLAGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2005, and 2004**

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2005 and 2004, was as follows:

|                                | Balance at<br>January 1, 2005 | Additions             | Disposals   | Balance at<br>December 31, 2005 |
|--------------------------------|-------------------------------|-----------------------|-------------|---------------------------------|
| Distribution System            | \$ 900,000.00                 | \$ -                  | \$ -        | \$ 900,000.00                   |
| Totals at Historical Cost      | <u>\$ 900,000.00</u>          | <u>\$ -</u>           | <u>\$ -</u> | <u>\$ 900,000.00</u>            |
| Less: Accumulated Depreciation |                               |                       |             |                                 |
| Distribution System            | \$ 24,375.00                  | \$ 22,500.00          | \$ -        | \$ 46,875.00                    |
| Total Accumulated Depreciation | <u>\$ 24,375.00</u>           | <u>\$ 22,500.00</u>   | <u>\$ -</u> | <u>\$ 46,875.00</u>             |
| Capital Assets, Net            | <u>875,625.00</u>             | <u>(22,500.00)</u>    | <u>-</u>    | <u>853,125.00</u>               |
|                                |                               |                       |             |                                 |
|                                | Balance at<br>January 1, 2004 | Additions             | Disposals   | Balance at<br>December 31, 2004 |
| Distribution System            | \$ 900,000.00                 |                       | \$ -        | \$ 900,000.00                   |
| Totals at Historical Cost      | <u>\$ 900,000.00</u>          | <u>\$ -</u>           | <u>\$ -</u> | <u>\$ 900,000.00</u>            |
| Less: Accumulated Depreciation |                               |                       |             |                                 |
| Distribution System            | \$ 1,875.00                   | \$ 22,500.00          | \$ -        | \$ 24,375.00                    |
| Total Accumulated Depreciation | <u>\$ 1,875.00</u>            | <u>\$ 22,500.00</u>   | <u>\$ -</u> | <u>\$ 24,375.00</u>             |
| Capital Assets, Net            | <u>\$ 898,125.00</u>          | <u>\$ (22,500.00)</u> | <u>\$ -</u> | <u>\$ 875,625.00</u>            |

Depreciation expense aggregated \$22,500 and \$22,500 in 2005 and 2004, respectively.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To The Commissioners of the  
Tri-Village Water District  
Owenton, Kentucky

We have audited the accompanying financial statements of the business-type activities of Tri-Village Water District, as of and for the year ended December 31, 2005, which comprises the Tri-Village Water District's basic financial statements and have issued our report thereon dated November 9, 2006. 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.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered Tri-Village Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Tri-Village Water District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Due to the size of Tri-Village Water District's administrative staff, internal control is limited. The staff size of the District limits the ability to rotate duties and implement checking procedures. This limitation may affect the ability to initiate, record, process, and report financial data.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Tri-Village Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants

November 9, 2006



KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

2. Provide the journal entries that Kentucky-American will record to reflect the acquisition of Tri-Village.

**Response:**

Kentucky American Water ("KAW") will record the value of the utility plant at original cost and record any related depreciation or contributions. The journal entries to record the acquisition of the Tri Village New Columbus project (based on year ending 2006) would be as follows:

|                |  |           |
|----------------|--|-----------|
| 123005.101000  | Debit the original cost of the facilities owned by Tri Village                             | \$900,000 |
| 1123005.108005 | Credit Tri Village per books accumulated depreciation                                      | (69,375)  |
| 123005.271110  | Credit contributions for the difference between utility plant and accumulated depreciation | (830,625) |
| 123005.131000  | Debit cash for Tri Village transfer of funds   | 22,500    |
| 123005.271110  | Credit contributions for cash balance (to be used to construct additional mains)           | (22,500)  |



KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

3. Provide the journal entries that Tri-Village will record to reflect the transfer of its assets to Kentucky-American.

**Response:**

To the extent a final audit and journal entries are made for Tri-Village, the entries will simply reflect a conveyance of all assets and liabilities to KAW.



KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

4. Provide a copy of Tri-Village's depreciation schedule.

**Response:**

Please see the attached depreciation schedule.







KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

5. State the total amount of Tri-Village's current liabilities.

**Response:**

Please see the audit reports attached to the response to Item No. 1. The most recent audit report is not yet complete and Tri-Village will supplement this response with the most recent audit report as soon as possible.



KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

6. Provide an analysis of Tri-Village's current and long-term debts, including the lender's name, the date the debt was incurred, the original amount of the indebtedness, and the amount outstanding.

**Response:**

Tri-Village has no long-term debt as reflected on the audit reports attached to the response to Item No. 1.



KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

7. Provide a list of all of Tri-Village's current employees.
- a. For each Tri-Village employee who will not be hired by Kentucky-American, explain why that employee will not be hired and the amount of any severance package, including benefits.
  - b. Provide the job duties and salary of each Tri-Village employee to be hired by Kentucky-American.
  - c. Will the hiring of any Tri-Village employee fill a current vacancy at Kentucky-American? If yes, state the current vacant position and how long that position has been vacant.
  - d. Who will supervise the Tri-Village employees hired by Kentucky-American?

**Response:**

Tri-Village has no employees. Therefore, sub-parts (a) – (d) of this question are inapplicable.





KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

8. Provide a copy of the minutes of each meeting of the Tri-Village Board of Commissioners since March 15, 2001.

**Response:**

Please see the attached meeting minutes. Meetings were not held every month, but the minutes for the meetings that occurred are attached.

**COMMISSIONER'S MEETING 1-10-01 Present – Sidney Gullion, Charlie Noel, Joe Peters, Gilbert England and Carol Tudor**

**Motion was made by Joe to approve the minutes of the last meeting, seconded by Sidney with approval by all.**

**After a review of the disbursements Sidney made the motion to approve with the exception of the Kentucky Motor's bill, which Charlie is supposed to make sure is correct, Joe seconded with approval by all.**

**Sidney made the motion to give Carol the approval to purchase a new copier, seconded by Joe with approval by all.**

**Charlie told Carol to order the parts to fix the Long Ridge loading station and get it back in operation as soon as possible.**

**Motion was made by Sidney to approve Charlie finding an attorney for the closing with Kentucky American, the motion was seconded by Gilbert with approval by all. Charlie said he would talk to the board members before making a final decision.**

**Gilbert had talked to Don Wainscott about the gap between the two fences around the Wheatley tank and he had requested that the woven wire fence be taken down. The board decided to take it down and use electric fence if needed to keep the cows from tearing down the chain link fence.**

**Gilbert made the motion to use PDR for the Carroll county connection, seconded by Sidney with approval by all. They will be paid from F.H.A. funds pending their approval. Carol is to contact Gene Floyd to get his approval.**

**Move to adjourn.**

COMMISSIONER'S MEETING—February 15, 2001 Present -- Charles Noel, Sidney Gullion, Joe Peters, Gilbert England, Olene Dunaway, Carol Tudor, Billy Obanion, David Baker, Lisa Helton, and Chuck Gill

Chuck Gill met with the board, because he is the new chairman of the Owenton Water Board and he wanted to start off on the right foot. Their main objective at this time is to get the intake out in the river.

Motion was made by Sidney Gullion to approve the minutes of the last meeting, after which Gilbert England requested that the minutes of the last meeting be amended to say that we would try to get the Carroll County hook up paid for by FHA; Gilbert England made the motion to approve the amended minutes, motion seconded by Joe Peters with approval by all.

Sidney Gullion made the motion to approve the disbursements, seconded by Joe Peters with approval by all.

Tommy Lewis will be doing the loading station and Jr. Anderson will be doing the sidewalk in Glencoe.

David Baker met with the board and gave them a letter concerning his relocation to Illinois. Copy of the letter will be attached to the minutes.

David also informed the board they needed an attorney immediately to proceed with the paper work being prepared for the Public Service Commission and also for the final closing.

Gary Settles met with board requesting that he be allowed to put in water meters and pay for them when the lots were sold, which he was told could not be done. Meters are installed by Tri-Village personnel and paid for before installed.

A Mr. Gordon from Swope road also met with the board requesting water line about one mile down the road and he was told his options and he said he would meet with his neighbors and get back with the board.

Meeting adjourned.

*Charles F Noel*

*3-14-01*

TRI-VILLAGE WATER DISTRICT  
COMMISSIONER'S MEETING

March 14, 2001

PRESENT – Charles Noel, Joe Peters, Gilbert England,  
Carol Tudor, Jerlyn Zapp, and Roy Mundy

Jerlyn Zapp from Raisor, Zapp and Woods met with the Board to present the 2000 Audit.

Mr. Mundy with Kentucky American met with the Board to update them on the buyout procedures and what was being done. Mr. Mundy also informed the Board that he had a very good meeting with the Owenton people that morning.

Gilbert England made the motion to approve the minutes of the last meeting seconded by Joe Peters with approval by all.

Gilbert England made the motion to give Carol permission to hire one or two service men part time as needed seconded by Joe Peters with approval by all.

Gilbert England made the motion to adjourn seconded by Joe Peters approval by all.

*Charles F. Noel*  
4-11-01

TRI-VILLAGE WATER DISTRICT  
3700 Highway 127 North  
Owenton, Ky. 40359

Commissioners Meeting –April 11, 2001 – Present – Charlie Noel,  
Joe Peters, Sidney Gullion, and Carol Tudor

Joe Peters made the motion to approve the minutes of the last meeting, seconded by Sidney Gullion with approval by all.

Sidney Gullion made the motion to approve the disbursements, seconded by Joe Peters with approval by all.

There was no old business.

Sidney Gullion made the motion to raise the pay of the commissioners to \$300.00 per month seconded by Joe Peters with approval by all.

If Monterey Fire Department wants a water service they will have to pay for it and Joe says they can fill at the fire hydrants in town.

Meeting adjourned



5-9-01

**Tri-Village Water District**

**3700 Highway 127N**

**Owenton, KY 40359-9309**

**Phone 502-484-5774**

**1-800-443-9069 FAX 502-484-0966**

COMMISSIONER'S MEETING - Present - Charles Noel, Olene Dunaway,  
Carol Tudor, and Gilbert England

Motion was made by Gilbert England to approve the minutes of  
the last meeting seconded by Olene Dunaway and approved by all.

Gilbert suggested that Carol attach a note to the Engineer's  
check on the Monterey project stating that we are concerned  
about paying bills for work not performing properly.

Gilbert said that the Wheatley project is a little behind  
schedule, the primarily Engineering is done and the easements  
are being drawn up.

*Charles F. Noel*  
6-13-01

## **Tri-Village Water District**

**3700 Highway 127N**

**Owenton, KY 40359-9309**

**Phone 502-484-5774**

**1-800-443-9069 FAX 502-484-0966**

**COMMISSIONER'S MEETING - Present - Charlie Noel, Joe Peters,  
Sidney Gullion, Carol Tudor, Gilbert England and Herb Miller**

After a review of the minutes of the last meeting Gilbert England made the motion to approve seconded by Joe Peters with approval by all.

Sidney Gullion having reviewed the disbursements made the motion to approve seconded by Joe Peters with approval by all.

Herb Miller discussed with the board things needed in order to proceed with the August 1, 2001 take over by Kentucky American. Mr. Miller felt we needed a letter of approval from F.H.A. and we would probably need to sit up a meeting with rural devevelopment and Mr. Clark. Carol is to inquire about tail coverage insurance and check on how to proceed with the insurance coverage. Mr. Miller felt it would probably be best for the Judge to sit up a meeting with FHA.

Meeting adjourned.

TRI-VILLAGE WATER DISTRICT  
3700 Highway 127 North  
Owenton, Ky. 40359

October 10, 2001

RE: COMMISSIONER'S MEETING

PRESENT – Charles Noel, Joe Peters, Sidney Gullion, Gilbert England and Judge Billy O'Banion.

The Meeting was called to order by Chairman Charles Noel.

The motion was made by Sidney Gullion to dissolve Tri-Village Water District as of this date and to send correspondence to The Kentucky American Water Company in care of President Roy Mundy regarding the remaining funds in the Tri-Village accounts to be used as follows on the below listed projects. Also any unknown outstanding bills which may come due will be paid from these funds. The aforementioned projects are to be initiated as soon as possible. The motion was seconded by Joe Peters with approval by all.

PROJECTS

1. Wheatley Project Connection
2. Gallatin County Project Connection
3. 127 South to the Franklin County Line including the Frank Clark Road
4. Closing the Gap between the lines on the Old Monterey Road
5. If any money is left it is to go toward 607 to Herman Greene Road back  
To 368 and then back to 127 South



As of this date the money to be sent to Kentucky American will be from the Operation and Maintenance account \$140,657.38, Customer deposits \$245.68, Special Account \$1,695.12, Depreciation Reserve \$65,328.68, Bond & Sinking \$24,723.89, Wheatley Construction \$38,923.91 and the Payroll Account \$1,550.12. There is also \$9,009.10 due from the KACCco Insurance company as a refund on premiums paid on the Worker's comp. Fund and the Liability Insurance for the 2001 to 2002 year (copy of invoice enclosed) and Tri-Village should be refunded the amount paid for the new water line to the High School at a cost of \$17,909.00 (copy of these paid invoices enclosed). These amounts will be sent as soon as we get the money from the Insurance Company along with a copy of the bank statements.

A copy of these minutes are to be sent to Roy Mundy along with a letter, and a copy of the minutes are to be sent to each Commissioner and also a letter sent to Judge Zubaty of Gallatin County and Judge Link of Grant County stating the fact that Tri-Village as of this date has been dissolved.

COMMISSIONER'S MEETING January 22, 2002

PRESENT Charles Noel, Joe Peters, Gilbert England , Sidney Gullion and Carol Tudor

A motion was made by Sidney Gullion to call the meeting to order and seconded by Joe Peters.

After calling the meeting to order Sidney Gullion made the motion to rescind their actions in October regarding the discontinuance of a water district, since the statutory requirements of KRS 74.367 were not followed and an order of the county judge/executive was not entered dissolving the district, the motion was seconded by Gilbert England with approval by all.

Charlie noted that Mr. Mundy had given the Board permission to use the office building to hold their meetings and also to let Carol meet with them to take the minutes and to help them when she could. Sidney Gullion made the motion to pay the board members back pay which amounted to \$600.00 each and each board member is to receive \$300.00 monthly, and Carol is to still sign the checks (anything over \$500.00 is to be co-signed by one of the board members), the motion was seconded by Gilbert England with approval by all. The monthly meetings will be held at 2:00 p.m. the second Wednesday of the month.

Meeting adjourned.

COMMISSIONER'S MEETING - February 12, 2002

Present – Sidney Gullion, Joe Peters, Charles Noel, Gilbert England, Rich Svinland and Carol Tudor

Meeting was called to order by Chairman Charles Noel. After a review of the KIA grant papers, which will give the people of Owen County more money for more water lines; the motion was made by Gilbert England to approve the application seconded by Sidney Gullion with approval by all. Rich also told the board that some of the lines in Monterey would be replaced with ductile iron pipe because the pressures need to be raised in order to up the pressures on Old Frankfort Pike. Motion was made by Gilbert England and seconded by Joe Peters to hire Mark Cobb as attorney to take care of the KIA funds.

Motion was made by Sidney Gullion to close all the Tri-Village accounts and put all the money into the Operation and Maintenance account and to open a Tri-Village construction account to put the KIA funds into.

There was concern by the board members that the errors and omissions insurance was cancelled and Charlie Noel was to see what could be done about it.

Meeting adjourned.

COMMISSIONER'S MEETING

March 12, 2002 Present – Charlie Noel, Joe Peters, and Sidney Gullion.

Paid the bills. Judge Obanion told Charlie that the errors and omissions would be covered through the county. Carol is to talk to Herb Miller concerning paper work to be kept.

Meeting adjourned



TRI-VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING - JUNE 14, 2002

Present from Ky. American, Bill Bunch, Rich Svinland, and Herb Miller: Charles Noel, Joe Peters, Gilbert England and Carol Tudor.

Ky. American staff felt that it was better business not to have Carol doing the books or writing checks for the Tri-Village board. Tri-Village board was going to contact Pam Miller to see if she would be available, this was to be done before the next meeting and Carol was to be available until then. Bill Bunch and Herb Miller were to get some information together and send to the Tri-Village Board concerning what records would need to be kept to stay in compliance with all agencies concerned. Meeting adjourned.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

JULY 9, 2002

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion, Carol Tudor & Pam Miller.

\*Charlie Noel recommended Pam Miller to do bookkeeping for Tri Village. Starting salary to be \$200.00 per month. As work load increases, so will the pay. Motion by Joe; seconded by Sidney.

\*Motion for Pam to sign checks up to \$500.00. Anything over \$500.00 must be co-signed by a commissioner. Motion by Sidney; seconded by Joe

\*Motion to adjourn by Sidney; seconded by Joe.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

AUGUST 13, 2002

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion, Carol Tudor & Pam Miller.

\*Charlie called meeting to order. Joe made motion to approve minutes of last meeting. 2<sup>nd</sup> by Sidney. Motion carries.

\*Sidney made motion to pay the bond for the commissioners in the amount of \$629.30 to KACo. 2<sup>nd</sup> by Joe. Motion carries.

\*Discussed water quality in city of Glencoe. Customers complaining about hard water. Matter discussed with Carol Tudor of KAWC.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Sidney.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

SEPTEMBER 10, 2002

Commissioners present: Charles Noel, Joe Peters, Gilbert England, Carol Tudor & Pam Miller.

\*Charlie called meeting to order. Gilbert made motion to approve minutes of last meeting. 2<sup>nd</sup> by Joe. Motion carries.

\*Gilbert gave update on Wheatley Project.

\*Discussion concerning the "127 South" Project.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Gilbert.



TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

OCTOBER 8, 2002

Commissioners present: Charles Noel, Joe Peters, Gilbert England, Sidney Gullion, Carol Tudor & Pam Miller

\*Charlie called meeting to order. Gilbert made motion to approve minutes of last meeting. 2<sup>nd</sup> by Joe. Motion carries.

\*Gilbert gave update on Wheatley Project. Plans have been submitted to the Division of Water.

\*Sidney made motion to pay bill of \$25.00 to Ky Unemployment Insurance for late fee. 2<sup>nd</sup> by Joe. Motion carries

\*Sid made motion to adjourn. 2<sup>nd</sup> by Joe.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

NOVEMBER 19, 2002

Commissioners present: Charles Noel, Joe Peters, Gilbert England, Carol  
Tudor & Pam Miller

\*Charlie called meeting to order. Gilbert made motion to approve minutes of last meeting. 2<sup>nd</sup> by Joe. Motion carries.

\*Everyone agreed that the Judge/Executive needs to set up a meeting with Kentucky American and Owen Co. Advisory Water Board. Charlie will talk to Judge O'Banion about this.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Gilbert.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

December 18, 2002

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion & Pam Miller

\*Charlie called meeting to order. Sidney made motion to approve minutes. 2<sup>nd</sup> by Joe.

\***Old business** - Kentucky American meet with the Owen Co. Water Advisory Board on December 3, 2002.

\*Joe made motion to approve signing of agreement between Tri-Village and Kentucky American Water. 2<sup>nd</sup> by Sidney.

\*Discussion regarding the need of liability insurance in amount of 1 million dollars. Charlie will ask Judge O'Banion to check on this.

\*Need to contact Raisor & Zapp for audit

\*Sidney made motion to adjourn. 2<sup>nd</sup> by Joe.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

January 14, 2003

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion & Gilbert England

\*Charlie called meeting to order. Joe made motion to approve minutes. 2<sup>nd</sup> by Sidney.

\*Discussion regarding liability insurance. Judge O'Banion told Charlie that Tri-Village has 3 million dollars with KACo. Charlie talked with Coleman Bush of Kentucky American regarding liability insurance and new lines laid in Owen County to the county line and other roads. These lines are not in contract to be leased to Kentucky American.

\*Sidney made motion to adjourn. 2<sup>nd</sup> by Joe.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

February 11, 2003

Commissioners present: Charles Noel, Joe Peters & Gilbert England

\*Charlie called meeting to order. Joe made motion to approve minutes. 2<sup>nd</sup> by Gilbert.

\*Charlie said he had talked with Geraldine at Raisor, Zapp & Woods regarding the audit. The audit will have to go back for 2 years to the point of Tri-Village selling to Kentucky American. This could be an expensive audit. Gilbert made motion to let Raisor, Zapp & Woods complete the audit as necessary. 2<sup>nd</sup> by Joe.

\*Gilbert will send e-mail to Coleman Bush of Kentucky American regarding several issues Tri Village has with Kentucky American. Request that he come down and meet with the commissioners.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Gilbert.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

March 11, 2003

Commissioners present: Charles Noel, Joe Peters Sidney Gullion & Gilbert England.

Guests present: Coleman Bush from KAWC and Judge O'Banion

\*Charlie called meeting to order. Joe made motion to approve minutes. 2<sup>nd</sup> by Gilbert.

\*Charlie asked Coleman if he knew about the problem with the contractor. He did. Asked Coleman where we stood on getting the contract signed between KAWC and Tri Village Water Dist. He will check on the status of this.

\*Discussion regarding the New Columbus Project. Bids were opened last week and lowest bid was \$969,000.00 which includes a 5% bid bond from Kenney Construction. Sidney made motion to accept this bid. Joe 2<sup>nd</sup>. Motion carries.

\*Gilbert had talked with Coleman about clarification of the liability insurance issue. Coleman said he had talked with Larry Denny of KACo. Larry had asked for footage, but Coleman had been unsuccessful in getting back with Larry on this matter. Coleman asked Pam to see if she could get in contact with Larry.

\*New lines left after the sale of Tri Village will be covered by KAWC. Tri Village will pay the cost of \$165,000.00

\*A 2 year audit will be done by Raisor & Zapp at a charge not to exceed \$3900.00

\*Projects that KAWC wants to do through Tri Village are as follows:

- Wheatley - (before sale) KAWC will fund the shortfall
- Old Monterey - Bid this spring
- New Columbus - bid discussed earlier in meeting
- Hwy 607 to Herman Greene - Still in discussion stage

\*Judge O'Banion mentioned that he had talked with Representative Royce Adams and had sent him a list of 7 projects Owen County would like to see done. State only listed \$750,000.00 in budget for Owen County. Considering this will be funded with Tobacco Settlement money, Owen County was listed 2<sup>nd</sup> in state and the funding should be more than listed.

\*Filing this week with PSC for agreement between Tri Village and KAWC for New Columbus Project. Probably hear in 30 days. Then KAWC will cut a check for \$20,000.00.

\*Line to High School traded off for others they are going to finish.

\*Gilbert asked Coleman could KAWC replace a fire hydrant in Wheatley that had been removed due a car accident and was never put back. Hydrant does not serve purpose of fire protection, only flushing purpose.

\*Sidney mentioned a new driveway on Eagle Hill road that is very close to a water line. Charlie will check on this.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Sidney.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

June 10, 2003

Commissioners present: Charles Noel, Joe Peters & Gilbert England.

\*Charlie called meeting to order. Joe made motion to approve minutes. 2<sup>nd</sup> by Gilbert.

\*Budget for Fiscal Year 2003-04 was discussed. Joe made motion to accept budget as presented. 2<sup>nd</sup> by Gilbert.

\*Gilbert made motion to pay KACO for liability insurance at the cost of \$3099.00. 2<sup>nd</sup> by Charlie.

\*Talked with Coleman Bush of Kentucky American Water in Lexington via phone regarding the agreement between KAWC and Tri-Village dated 12/18/02. Asked if he could send us a signed copy. He agreed to do so. Also spoke with him concerning the payment of funds due Tri-Village Water in the amount of \$26,500.00 which is the amount on the budget. He assured us that he would get the \$20,000.00 in the mail (per the agreement) and would talk with Herb Miller of KAWC regarding the remainder. We will look for this in early July 2003.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Gilbert.



TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

July 7, 2003

Commissioners present: Charles Noel, Joe Peters & Sidney Gullion.

\*Charlie called meeting to order. Joe made motion to approve minutes. 2<sup>nd</sup> by Sid.

\*Jerilyn Zapp presented audit for F/Y 2001 & 2002. Sid made motion to accept audit as presented. 2<sup>nd</sup> by Joe.

\*Discussion regarding the signing of checks. Any commissioner of Tri-Village may co-sign check with Pam if Charlie cannot be reached. This will be in regards to checks over \$500.00 requiring 2 signatures. Each commissioner will need to go to First Farmers Bank and sign the signature card. This will be Sidney Gullion, Joe Peters & Gilbert England. Motion made by Joe; 2<sup>nd</sup> by Sid.

\*Sid made motion to pay the bills. 2<sup>nd</sup> by Joe.

KACo - \$3099.00 Liability Insurance for FY 2003-04

KACo - \$576.41 Liability Insurance pro-rated for April thru June 2003

KACo - \$771.40 Bond for FY 2003-04.

\*Discussion took place concerning the situation of Lexington's takeover of Kentucky American Water. Tri Village Water will sign a resolution to keep Lexington out of Kentucky American Owen Co. if needed.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Sid.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

August 12, 2003

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion.& Gilbert England

\*Charlie called meeting to order. Joe made motion to approve minutes. 2<sup>nd</sup> by Sid.

\*Sid made motion to pay Raisor, Zapp & Woods for the 2 year audit in the amount of \$3995.00. 2<sup>nd</sup> by Joe.

\*Gilbert mentioned that Coleman Bush had E-mailed him on 8/11/03 and said Kentucky American will be putting a hydrant in Wheatley in the next couple weeks.

\*Gilbert made motion to adjourn. 2<sup>nd</sup> by Sid.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

October 14, 2003

Commissioners present: Charles Noel, Joe Peters.& Gilbert England

\*Charlie called meeting to order. Joe made motion to approve minutes of August Meeting. 2<sup>nd</sup> by Gilbert. (There was no meeting in September; no quorum.)

All members were appointed to another term at Fiscal Court meeting by Judge O'Banion. Term to expire October 31, 2007.

Peaks Mill Water District wants to provide water to customers on Highway 368.

Gilbert gave update on Carroll Co. project.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Gilbert.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

December 9, 2003

Commissioners present: Charles Noel, Joe Peters.& Sidney Gullion

\*Charlie called meeting to order. Joe made motion to approve minutes of October Meeting. 2<sup>nd</sup> by Sidney. (There was no meeting in November; no quorum.)

\*Discussion regarding the New Columbus Project and the Wheatley Project.

\*Discussed having a Christmas Party. No decision made.

\*Sidney made motion to adjourn. 2<sup>nd</sup> by Joe.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

January 13, 2004

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion & Gilbert England

\*Charlie called meeting to order. Joe made motion to approve minutes of December's Meeting. Gilbert 2<sup>nd</sup>.

\*Gilbert made motion to sign the documentation to have Raiser, Zapp & Woods do the audit for the 2003 year. Sidney 2<sup>nd</sup>.

\*Joe made motion to adjourn. 2<sup>nd</sup> by Sidney.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

March 9, 2004

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion & Gilbert England

\*Charlie called meeting to order.

\*Discussed complaints from customers regarding not being able to get in touch with local office by phone. Charlie will have Judge O'Banion set a meeting with Coleman Bush of Kentucky American Water in Lexington.

\*Discussed proposed budget for 2004-05. Sid made motion to accept budget; 2<sup>nd</sup> by Joe.

\*Gilbert made motion to adjourn; 2<sup>nd</sup> by Joe.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

June 8, 2004

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion & Gilbert England

\*Charlie called meeting to order.

\*Gilbert made motion to pay bills: Postmaster for P. O. Box fee and a book of stamps

\*Discussion on New Columbus Project. Need invoice on Monterey project. Bids were opened on Wheatley Project on April 27 per Gilbert.

\*Sid made motion to adjourn; 2<sup>nd</sup> by Joe.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

August 10, 2004

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion & Gilbert England

\*Charlie called meeting to order.

\*Discussion regarding the Amendment to engagement letter for audit. Joe made motion to accept said letter. 2<sup>nd</sup> by Sid.

\*Jerilyn Zapp presented audit. Gilbert made motion to accept audit as presented. 2<sup>nd</sup> by Joe.

\*September 14<sup>th</sup> meeting will be at Fairway Golf Course.

\*Gilbert made motion to adjourn; 2<sup>nd</sup> by Joe.



TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

September 14, 2004

Commissioners present: Charles Noel, Joe Peters, Sidney Gullion & Gilbert England  
Meeting was at Fairway Golf Course

\*Charlie called meeting to order.

\*Minutes of last meeting approved. Motion by Gilbert; 2<sup>nd</sup> by Joe

\*Sidney made motion to pay invoice from Raisor, Zapp and Woods in the amount of \$1995.00 for audit; 2<sup>nd</sup> by Joe.

\*Statement from KAWC to be held until next month when we will receive corrected invoice.

\*Sidney made motion to adjourn; 2<sup>nd</sup> by Gilbert.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

October 12, 2004

Commissioners present: Charles Noel, Joe Peters & Sidney Gullion

\*Charlie called meeting to order.

\*Minutes of last meeting approved. Motion by Joe; 2<sup>nd</sup> by Sid

\*Sidney made motion to pay the invoice to Kentucky American Water in the amount of \$160,321.50; 2<sup>nd</sup> by Joe

\*Sidney made motion to adjourn; 2<sup>nd</sup> by Joe.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

December 14, 2004

Commissioners present: Charles Noel, Joe Peters, Gilbert England & Sidney Gullion

\*Charlie called meeting to order.

\*Discussion regarding rate increase by Kentucky American Water

\*Discussion regarding law suit in Monterey; (Lady fell in hole)

\*Pam mentioned the construction account at the bank is not being used any longer and asked if could close this account. Joe made motion to close account; Sid 2<sup>nd</sup>. Pam will close the account.

\*Discussion on getting our allotment from Kentucky American for the upcoming year. The statement will be mailed to Kentucky American on March 1 and should be paid to Tri Village upon receipt. Send to attention, Nick

\*Gilbert made motion to adjourn; 2<sup>nd</sup> by Sidney.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

March 8, 2005

Commissioners present: Charles Noel, Joe Peters & Gilbert England

\*Charlie called meeting to order.

\*Discussion regarding the bill owed to IRS for 2<sup>nd</sup> quarter 2002. Joe made motion to pay the bill in the amount of \$1193.22. Gilbert 2<sup>nd</sup>. Motion carries.

Also stated that beginning next month no payroll taxes will be withheld from their pay. A 1099-misc will be issued at the end of the year instead of a Form W-2.

\*Joe made motion to adjourn; 2<sup>nd</sup> by Gilbert.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

June 14, 2005

Commissioners present: Charles Noel, Joe Peters, Gilbert England & Sid Gullion

\*Charlie called meeting to order.

\*Gilbert made motion to pay KACo for the insurance premium for 2005-06 in the amount of \$3768.00. Joe 2<sup>nd</sup>. Motion carries.

\*Sid made motion to pay the invoice to KACO for the bond fees for 2005-06 in the amount of \$771.40. Joe 2<sup>nd</sup>. Motion carries.

\*Sid made motion to accept the bid of Raisor, Zapp & Woods to prepare the audit. Cost will not exceed \$1995.00. Joe 2<sup>nd</sup>. Motion carries.

\*All members agreed to pay the \$18.00 fee to rent the post office box for another year.

\*Joe made motion to adjourn; 2<sup>nd</sup> by Gilbert.

TRI VILLAGE WATER DISTRICT  
COMMISSIONER'S MEETING

October 11, 2005

Commissioners present: Charles Noel, Joe Peters, Gilbert England. Jerilyn Zapp was present to review audit.

\*Charlie called meeting to order.

\*Jerilyn reviewed audit. Joe made motion to pay the bill for the audit in the amount of \$1995.00. Gilbert 2<sup>nd</sup>.

\*Gilbert made motion to adjourn. Joe 2<sup>nd</sup>.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

February 14, 2006

Commissioners present: Charles Noel, Joe Peters, Gilbert England & Sid Gullion.

\*Charlie called meeting to order.

\*Joe made motion to name Pam Miller as Treasurer. 2<sup>nd</sup> by Sidney. Any checks over \$500.00 should be signed by a commissioner for a total of 2 signatures.

\*Discussed the notice received from IRS regarding the 12/2001 quarter and 3/2002 quarter of taxes. Pam will call and see what is needed.

\*Motion by Sid to adjourn. Gilbert 2<sup>nd</sup>

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

June 12, 2006

Commissioners present: Charles Noel, Joe Peters & Gilbert England

\*Charlie called meeting to order.

\*Gilbert made motion to pay the bill for the 2006-07 Insurance Premium to Kaco in the amount of \$3569.94 and to pay the annual fee to Postmaster for P. O. Box in amount of \$18.00. Joe 2<sup>nd</sup> motion.

\*Discussed who would do the audit and decided to stay with Raisor, Zapp & Woods. Will contact Jerilyn.

\*Motion by Joe to adjourn. Gilbert 2<sup>nd</sup>



TRI VILLAGE WATER DISTRICT  
COMMISSIONER'S MEETING

July 18, 2006

Commissioners present: Charles Noel, Joe Peters & Gilbert England

\*Charlie called meeting to order.

\*Joe made motion to pay the invoice to KACo for the bond in the amount of \$771.40 for the upcoming year. Gilbert 2<sup>nd</sup>.

\*Charlie signed the request from International Fidelity Insurance Company regarding the New Columbus Area Main Extensions Ph II, Contract 4 to provide information of when project was completed.

\*Pam has contacted Jerilyn regarding the audit, but has not heard from her to this date. Gilbert made motion to let Raisor, Zapp & Woods do the audit if they can do it for same amount as last year or less (\$1995.00). Joe 2<sup>nd</sup>.

\*Motion by Gilbert to adjourn. Joe 2<sup>nd</sup>

TRI VILLAGE WATER DISTRICT  
COMMISSIONER'S MEETING

November 14, 2006

Commissioners present: Charles Noel, Joe Peters & Gilbert England

\*Charlie called meeting to order.

\*Jerilyn presented audit for 2005. Some suggestions she made that we may want to check out are: check with KACo about reducing the bond amounts and maybe only have bond on the 2 people who sign checks; check with KACo on the insurance, looks like we are carrying insurance on several items we may not need to.

\*Jerilyn asked about lawsuit that was pending with Tri Village from several years ago. I checked with Carol Tudor and the case was settled out of court.

\*Gilbert made motion to accept the audit and pay the invoice. Joe 2<sup>nd</sup> motion.

\*Send letter to Kentucky American Water to request our funds for this year.

\*Motion by Joe to adjourn. Gilbert 2nd

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

January 9, 2007

Commissioners present: Charles Noel, Joe Peters, Gilbert England & Sidney Gullion

\*Charlie called meeting to order.

\*Larry Denny from KACo was present to explain the insurance coverage was a package. Even though we only want to insure the lines in the ground, we also get other coverage as well. KACo cannot insure lines only. Discussed the bonds also; determined that the bonds are as they should be.

\*Pam told the board members that reimbursement from Kentucky American had been received in the amount of \$20,000.00 for the 2006 year.

\*Motion by Sid to adjourn. Gilbert 2<sup>nd</sup>

Next Meeting – February 13<sup>th</sup>.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

March 20, 2007

Commissioners present: Charles Noel, Joe Peters, Gilbert England & Sidney Gullion  
Judge O'Banion was present as a guest.

\*The meeting was called to order by Chairman Charlie Noel.

\*Discussion regarding the letter from Nick Rowe concerning abandoning the arrangement between Kentucky American Water Company & Tri Village Water Board. The motion was made as follows:

Motion to disband Tri Village Water Board with the following conditions:

\*All legal proceedings including contracts, closing costs, final audits, etc being the responsibility of Kentucky American Water Company.

\*All pending liabilities be the responsibility of Kentucky American Water Co.

\*Tri Village Water Board Members will be held harmless for any future litigation resulting from this closeout.

\*Any funds left from Tri Village Water Board to be used for construction of new water lines, primarily Stewart Lane in Owen County.

A motion was made by Gilbert England and 2<sup>nd</sup> by Sidney Gullion. All board member in agreement. Motion carries.

A motion was made by Sidney Gullion to contact Raisor, Zapp & Woods to do the final audit. Joe Peters 2<sup>nd</sup>. Motion carries.

A motion by Joe Peters to adjourn this meeting. Sidney Gullion 2<sup>nd</sup> the motion. Motion carries.

Next Meeting will be April 24, 2007 at 2:00 p.m.

TRI VILLAGE WATER DISTRICT

COMMISSIONER'S MEETING

August 14, 2007

Commissioners present: Charles Noel, Joe Peters, Gilbert England & Sidney Gullion

\*The meeting was called to order by Chairman Charlie Noel.

\*Discussion regarding the progress of Tri Village merging with Kentucky American Water. Judge O'Banion has signed the Application for discontinuance of Tri Village Water and also the Joint Application to the Public Service Commission and sent on July 30, 2007. It will take two to three months to finalize the transaction.

\*Refund from the Owenton Postmaster for \$9.00 for overpayment for the post office box. This was brought to Pam's attention by Jerilyn Zapp. Refund was deposited in the checking account.

\*Motion was made by Gilbert to pay KACo for the bond in the amount of \$812.00 and the liability insurance in the amount of \$3458.00 so Tri Village won't be without coverage until the merger can be finalized. Sid 2<sup>nd</sup> the motion.

\*Motion to adjourn by Joe; Sid 2<sup>nd</sup>.



KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

9. Provide a copy of the agreement to transfer Tri-Village's New Columbus Facility and current cash assets to Kentucky-American. If no written documents memorialize the agreement to transfer assets, state the understood terms of the transfer.

**Response:**

The attached documents are the only documents that memorialize the Applicants' agreement in this case. The terms of the transfer are that Tri-Village's Board of Commissioners will cease all operations, dissolve itself, and transfer its current cash assets to KAW, which assets will be used for the construction of a water distribution main to serve Stewarts Lane in Owen County. KAW will construct, own and operate the Stewarts Lane distribution main. KAW will receive the portion of the New Columbus Facility that is currently owned by Tri-Village.

KAW customers who are already being served by the New Columbus Facility by virtue of KAW's operation and maintenance of that facility will continue to be served. The transition will be seamless and unnoticed by those customers.

Nick Rowe/KAWC/AWWSC  
03/20/2007 05:31 PM

To Linda Bridwell/KAWC/AWWSC@AWW  
cc A W Turner/ADMIN/CORP/AWWSC  
bcc  
Subject Re: Fw: Request

History: This message has been replied to.

The Judge, AW and I discussed the \$20,000 Board fee payment today. he wants to use the balance of the funds from Tr-Village and put toward a pipeline project. I think we should discuss once you know for sure how much we need to contribute. We will be receiving a letter from the Tri-Village Board this week and you, AW, and I can discuss. We won't have any problem using the remaining funds, plus whatever dollars the Judge can get , but will need to discuss our contribution.

\*\*\*\*\*

Nick O. Rowe  
President  
Kentucky American Water  
2300 Richmond Road  
Lexington, KY 40502  
Ph: 859 268 6333  
Fax: 859 268 6327  
Cell: 859 533 7705  
E-mail: nick.rowe@amwater.com

Please note new cell number and e-mail address.  
Linda Bridwell

Linda Bridwell  
03/20/2007 01:31 PM

To: Nick Rowe/KAWC/AWWSC@AWW  
cc:  
Subject: Fw: Request

I'd appreciate your thoughts.

Linda Bridwell, PE  
Project Delivery & Developer Services Manager - WV, KY TN  
Southeast Region  
2300 Richmond Road  
Lexington, KY 40502  
Tel: 859-268-6373  
Fax: 859-268-6374

----- Forwarded by Linda Bridwell/KAWC/AWWSC on 03/20/2007 01:32 PM -----



"Billy O'Banion"  
<owenjudge@bellsouth.net>  
03/20/2007 02:26 PM

To: <linda.bridwell@amwater.com>  
cc:  
Subject: Request

**Dear Linda:**



***I hope this message finds you well. I am writing to make an offer on finishing up this Phase III project. Right now the only road that is left is Stewart Lane. I believe the price tag is around \$93,000. The Fiscal Court has some excess fees that have been turned over to us from our sheriff and County Clerk. It is around \$70,000. I am willing to ask my court for permission to use \$40,000 to go toward the completion of this road. Also, the Tri-Village board is meeting today to vote to disband the board upon Nick's request. I don't believe they have anyone who is against this proposal. One condition will be to use any left over money to go toward the Stewart Ln. project. I am not sure what that amount is at this time, but if we were able to use these funds, plus the money from the Fiscal Court, would KAWC be willing to put in the remainder to finish Stewart Ln.?***

***Thank you for your consideration,***

# **William P. O'Banion**

*Owen County Judge/Executive*

*100 N. Thomas St .*

*Owenton , KY 40359*

*502-484-3405*

Nick O. Rowe  
President  
509 268 6000

February 6, 2007

Charles F. Noel, Chairman  
Tri-Village Water District  
P O Box 543  
Owenton, KY 40359

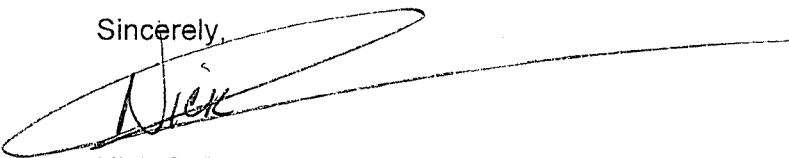
Dear Charles,

I wanted to take a moment to bring to your attention a matter involving Tri-Village Water District ("TVWD"). In January 2003, Kentucky American Water ("KAW") executed an agreement with TVWD which called for KAW to pay up to \$20,000 annually to TVWD for Commissioners' fees, outside accounting, audit and legal professional fees, directors' liability insurance, and other expenses as outlined in Section V of that agreement. The purpose of that agreement was for installation of the New Columbus project through a partnership arrangement between KAW and TVWD. KAW has honored that commitment and has paid the \$20,000 fee since the agreement was signed in 2003, and I believe the use fee in the agreement has served its purpose.

Since the acquisition by KAW of the Owenton system in late 2005, an Owen County Water Board was established due to some facilities ownership in that transaction. As you are aware, the Tri-Village, Elk Lake and Owenton systems are now combined into one operation—Kentucky American Water, Northern District. In order to streamline KAW's involvement and investment opportunities in Owen County, I am requesting your consideration in abandoning the arrangement for the TVWD use fee, and moving several members onto the Owen County Water Board. This board meets periodically, and each director is paid a \$50 meeting fee.

I have discussed this arrangement with Judge O'Banion and would like to make this change as soon as possible. I am available to discuss at your convenience.

Sincerely,



Nick O. Rowe

c: Hon. William P. O'Banion, Owen Co. Judge Executive  
Pam Miller, Treasurer, Tri-Village Water District  
A.W. Turner, Corporate Counsel, Kentucky American Water  
Dan Bickerton, Regional Business Development Mgr, American Water

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KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2007-00367

APPLICANTS' RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUEST  
ITEMS 1-10

10. Provide a copy of any and all agreements between Tri-Village and Kentucky-American entered into since the October 13, 1999 purchase agreement.

**Response:**

No such documents exist other than those attached to these responses.