

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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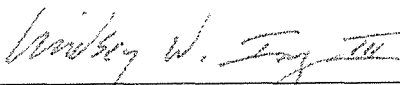
In the Matter of:

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 SUPPLEMENTAL DATA RESPONSE

This is to certify that I have supervised the preparation of Applicants' October 31, 2007 Supplemental Response to the Commission Staff's First Data Request and that the response is true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Date: 10/31/07



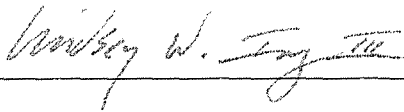
Lindsey W. Ingram III

Respectfully submitted,

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

and

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BY: 

KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2007-00367

APPLICANTS' SUPPLEMENTAL RESPONSE
TO COMMISSION STAFF'S FIRST DATA REQUEST
ITEM 1

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.

Supplemental Response:

Please see the attached most recent audit report.

TRI-VILLAGE WATER DISTRICT

**BASIC FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITORS' REPORTS**

At December 31, 2006, and 2005

**TRI-VILLAGE WATER DISTRICT
OWENTON, KENTUCKY**

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December 31, 2006, and 2005**

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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, 2006 and 2005, which comprise 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 audits.

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, 2006 and 2005, and the respective changes in financial position and cash flows thereof 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 October 9, 2007, 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 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 is 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

October 9, 2007

**TRI-VILLAGE WATER DISTRICT
STATEMENTS OF NET ASSETS
December 31, 2006, and 2005**

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
<u>Current Assets</u>		
Cash	\$ 10,175.47	\$ 35,527.98
Lease Account Receivable	20,000.00	-
Prepaid Expenses	<u>2,108.96</u>	<u>2,333.96</u>
Total Current Assets	<u>\$ 32,284.43</u>	<u>\$ 37,861.94</u>
<hr/>		
<u>Non Current Assets</u>		
Capital Assets, Net	<u>\$ 830,625.00</u>	<u>\$ 853,125.00</u>
Total Non Current Assets	<u>\$ 830,625.00</u>	<u>\$ 853,125.00</u>
Total Assets	<u>\$ 862,909.43</u>	<u>\$ 890,986.94</u>
 <u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Kentucky State Income Tax Withheld	<u>\$ 300.00</u>	<u>\$ 75.00</u>
Total Liabilities	<u>\$ 300.00</u>	<u>\$ 75.00</u>
 <u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	<u>\$ 830,625.00</u>	<u>\$ 853,125.00</u>
Unrestricted	<u>31,984.43</u>	<u>37,786.94</u>
Total Net Assets	<u><u>\$ 862,609.43</u></u>	<u><u>\$ 890,911.94</u></u>

TRI-VILLAGE WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2006, and 2005

	2006	2005
<u>OPERATING REVENUES</u>		
Lease - Kentucky American Water Company	\$ 20,000.00	\$ 24,436.00
Total Operating Revenues	\$ 20,000.00	\$ 24,436.00
<u>OPERATING EXPENSES</u>		
Accounting Labor	\$ 3,600.00	\$ 2,400.00
Administrative Per Diem	14,400.00	14,400.00
Depreciation Expense	22,500.00	22,500.00
Insurance	4,566.34	4,207.90
Office Supplies and Expense	43.22	50.54
Payroll Taxes	1,377.00	2,478.42
Penalties	-	25.00
Professional Services	1,995.00	1,995.00
Total Operating Expenses	\$ 48,481.56	\$ 48,056.86
Operating Income (Loss)	\$ (28,481.56)	\$ (23,620.86)
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest Income	\$ 179.05	\$ 191.39
Net Income (Loss)	\$ (28,302.51)	\$ (23,429.47)
Net Assets, Beginning of Year	890,911.94	914,341.41
Net Assets, End of Year	\$862,609.43	\$ 890,911.94

**TRI-VILLAGE WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006, and 2005**

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts - Lease	\$ -	\$ 24,436.00
Payments to Employees/Commissioners	(18,000.00)	(16,800.00)
Other Disbursements	<u>(7,531.56)</u>	<u>(9,013.36)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (25,531.56)</u>	<u>\$ (1,377.36)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	<u>\$ 179.05</u>	<u>\$ 191.39</u>
Net Increase (Decrease) in Cash	\$ (25,352.51)	\$ (1,185.97)
Cash at Beginning of Year	<u>35,527.98</u>	<u>36,713.95</u>
Cash at End of Year	<u>\$ 10,175.47</u>	<u>\$ 35,527.98</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ (28,481.56)	\$ (23,620.86)
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	225.00	(331.50)
Employee Withholding	<u>225.00</u>	<u>75.00</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ (25,531.56)</u>	<u>\$ (1,377.36)</u>

TRI-VILLAGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2006, and 2005

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 2006 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 and contributors, laws, and 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, 2006 and 2005. 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 no written or approved collateral agreement.

**TRI-VILLAGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2006, and 2005**

NOTE 2 – CASH AND INVESTMENTS (Continued)

December 31, 2006

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody Credit Risk Category</u>			<u>Total Carrying Value</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Time/Savings Deposits	\$ 10,193.47	\$ 10,193.47	\$ -	\$ -	\$ 10,175.47
Total Deposits	\$ 10,193.47	\$ 10,193.47	\$ -	\$ -	\$ 10,175.47

December 31, 2005

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody Credit Risk Category</u>			<u>Total Carrying 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	\$ 35,527.98	\$ 35,527.98	\$ -	\$ -	\$ 35,527.98

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 are the property of the District.

NOTE 4 – 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 5 – 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 leases lines constructed by the District as part of the New Columbus Project (completed in 2003). Compensation to the District under the lease is 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.

At December 31, 2006, there is a \$20,000 account receivable for the 2006 lease amount due to the District.

**TRI-VILLAGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2006, and 2005**

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2006 and 2005, was as follows:

	Balance at January 1, 2006	Additions	Disposals	Balance at December 31, 2006
Distribution System	\$ 900,000.00	\$ -	\$ -	\$ 900,000.00
Totals at Historical Cost	\$ 900,000.00	\$ -	\$ -	\$ 900,000.00
Less: Accumulated Depreciation				
Distribution System	\$ 46,875.00	\$ 22,500.00	\$ -	\$ 69,375.00
Total Accumulated Depreciation	\$ 46,875.00	\$ 22,500.00	\$ -	\$ 69,375.00
Capital Assets, Net	<u>\$ 853,125.00</u>	<u>\$ (22,500.00)</u>	<u>\$ -</u>	<u>\$ 830,625.00</u>

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

Depreciation expense aggregated \$22,500 and \$22,500 in 2006 and 2005, respectively.

NOTE 7 – SUBSEQUENT EVENTS

On March 20, 2007, the commissioners voted to abandon the Kentucky American Water Company (KAWC) lease agreement and dissolve Tri-Village Water District with the following conditions:

1. All legal proceedings including contracts, closing costs, final audits, etc. are the responsibility of KAWC.
2. All pending liabilities are the responsibility of KAWC.
3. Tri-Village Water Board members will be held harmless for any future litigation resulting from this closeout.
4. Any funds left from Tri-Village Water District are to be used for construction of new water lines.

**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 40359

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, 2006, which comprise the Tri-Village Water District's basic financial statements and have issued our report thereon dated October 9, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-Village Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tri-Village Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Tri-Village Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Tri-Village Water District's financial statements that is more than inconsequential will not be prevented or detected by the Tri-Village Water District's internal control.

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. We consider the above deficiency to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Tri-Village Water District's internal control.

INTERNAL CONTROL OVER FINANCIAL REPORTING (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency 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

October 9, 2007