

APPLICATION FOR RATE ADJUSTMENT
BEFORE THE PUBLIC SERVICE COMMISSION

For Small Utilities
Pursuant to 807 KAR 5:076
(Alternative Rate Filing)

RECEIVED
OCT 09 2007
PUBLIC SERVICE
COMMISSION

South 641 Sewer District _____
Name of Utility

P.O. Box 126 _____

Hazel, Kentucky 42049 _____
Business Mailing Address

Telephone Number (270) 492-8857 _____
Area Code Number

I. Basic Information

NAME, TITLE, ADDRESS and Telephone number of the person to whom correspondence or communications concerning this application should be directed:

Name: Rebecca James, General Manager

Address: P.O. Box 126
Hazel, KY 42049

Telephone Number: (270) 492-8857

- | | | | |
|----|---|-----|----|
| 1) | Do you have 500 customers or fewer? | Yes | No |
| 2) | Do you have \$300,000 in Gross Annual Revenue or less? | Yes | No |
| 3) | Has the Utility filed an annual report with this Commission for the past year and the two previous years? | Yes | No |
| 4) | Are the utility's records kept separate from any other commonly-owned enterprise? | Yes | No |

NOTICE: To be eligible for consideration of a rate adjustment under this regulation, you must have answered yes to either question 1 or 2 and yes to both questions 3 and 4 above. If you answer no to questions 3 or 4, you must obtain written approval from the Commission prior to filing this Application. If these requirements are not met, you must file under the Commission's procedural rules, 807 KAR 5:001.

II. Increased Cost Information

(1) The most recent Annual Report will be used as the basic test period data in order to determine the reasonableness of the proposed rates. The Annual Report used as the basis for the 12 months ending December 31, 2006.

a. If you have reason to believe some of the items of revenue and expense listed in the Annual Report will increase or decrease, please list each item, the expected increase or decrease and the adjusted amount.

See Attachment A.

b. Please describe each item that you adjusted on page 2 and how you know it will change. (Please attach invoices, letters, contracts or receipts which will help in proving the change in cost).

Please see the notes to Attachment A for these descriptions.

i. Please list your present and proposed rates for each class (i.e., residential, commercial, etc.) of customer and the percentage of increase proposed for each class:

See attachments

III. Other Information

a. Please complete the following questions:

1) Please describe any events or occurrences, which may have an effect on this rate review that should be brought to the Commission's attention (e.g., excessive line losses, major repairs, planned construction).

2) Total number of Customers
as of the date of filing: 225

3) Total amount of increased
revenue requested: \$25,227

- 4) Please circle Yes or No:
- a) Does the utility have any outstanding indebtedness? Yes No

If yes, attach a copy of any documents such as promissory notes, bond resolutions, mortgage agreements, etc.

- b) Were all revenues and expenses listed in the Annual Report for 2006 incurred and collected from January 1 to December 31 of that year? Yes No

If no, list total revenues and total expenses incurred prior to or subsequent to this period and attach invoices or other analysis which show how amounts were calculated.

- 5) Attach a copy of the utility's depreciation schedule of utility plant in service. Reconcile any differences between total depreciation shown on the Annual Report for 2006 and the amount shown on this schedule. – **Depreciation schedule attached.**

- 6) If utility is a sewer utility:

- a) Attach a copy of the latest State and Federal Income Tax Returns. **Not applicable**

- b) How much of the utility plant was recovered through the sale of lots or other contributions? (If unknown, state the reason).

Not applicable

- b. Please state the reason or reasons why a rate adjustment is requested. (Attach additional pages if necessary).

South 641 Sewer District has not had a general rate increase in several years, and its costs have increased. In addition, the District needs to spend the money necessary to comply with increased regulatory requirements.

IV. Billing Analysis

The billing analysis is the chart reflecting the usage by the customers as well as the revenue generated by a specific level of rates. A billing analysis of both the current and proposed rates is mandatory for analysis of this rate filing. The following is a step-by-step description which may be used to complete the billing

Next 3,000 gallons x 1,830 bills = 5,490,000 gallons – record in Column 5.

Next 10,000 gallons – remainder of water over 3,000 = 7,118,700 gallons – record in Column 6.

Step4: Next 25,000 gallons rate level
650 Bills
15,275,000 gallons used
1st 2,000 minimum x 650 bills = 1,300,000 gallons – record in Column 4.
Next 3,000 gallons x 650 bills = 1,950,000 gallons – record in Column 5.
Next 10,000 gallons x 650 bills = 6,500,000 gallons – record in Column 6.
Next 25,000 gallons – remainder of water over 10,000 = 5,525,000 gallons – record in Column 7.

Step5: Over 40,000 gallons rate level
153 Bills
9,975,600 gallons used
1st 2,000 minimum x 153 bills = 306,000 gallons – record in Column 4.
Next 3,000 gallons x 153 bills = 459,000 gallons – record in Column 5.
Next 10,000 gallons x 153 bills = 1,530,000 gallons – record in Column 6.
Next 25,000 gallons x 153 bills = 3,825,000 gallons – record in Column 7.
Over 40,000 gallons – remainder of water over 25,000 = 3,855,600 gallons – record in Column 8.

Step6: Total each column for transfer to Revenue Table.

b. Revenue Table (Revenue by Rate Increment)

The Revenue Table is used to determine the revenue produced from the Usage Table. Column No. 1 is the incremental rate steps in the rate schedule for which the analysis is being made. Column No. 2 indicates the total number of bills. Column No. 3 is the number of gallons accumulated in each rate increment (Totals from Columns 4, 5, 6, 7, and 8 of the above usage table). Column No. 4 is the rates to be used in determining revenue. Column No. 5 contains the revenue produced.

SAMPLE

Revenue from Present/Proposed Rates
 Test Period from 01-01-XX to 12-31-XX

USAGE TABLE
Usage by Rate Increment

Class: Residential

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2,000	(5) Next 3,000	(6) Next 10,000	(7) Next 25,000	(8) Over 40,000	(9) Total
First 2,000 Minimum Bill	432	518,400	518,400					518,400
Next 3,000 Gallons	1,735	4,858,000	3,470,000	1,388,000				4,858,000
Next 10,000 Gallons	1,830	16,268,700	3,660,000	5,490,000	7,118,700			16,268,700
Next 25,000 Gallons	650	15,275,000	1,300,000	1,950,000	6,500,000	5,525,000		15,275,000
Over 40,000 Gallons	153	9,975,600	306,000	459,000	1,530,000	3,825,000	3,855,600	9,975,600
Totals	4,800	46,895,700	9,254,400	9,287,000	15,148,700	9,350,000	3,855,600	46,895,700

REVENUE TABLE
Revenue by Rate Increment

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	4,800	9,254,400	\$ 5.00 Minimum Bill	\$ 24,000.00
Next 3,000 Gallons		9,287,000	\$ 2.50 per 1,000 Gal.	23,217.50
Next 10,000 Gallons		15,148,700	\$ 2.00 per 1,000 Gal.	30,297.40
Next 25,000 Gallons		9,350,000	\$ 1.25 per 1,000 Gal.	11,687.50
Over 40,000 Gallons		3,855,600	\$ 0.75 per 1,000 Gal.	2,891.70
Totals	4,800	46,895,700		\$ 92,094.10 Total Revenue

Instructions for Completing Revenue Table:

- (1) Complete Columns No. 1, 2, and 3 using information from Usage Tables.
- (2) Complete Column No. 4 using rates either present or proposed.
- (3) Column No. 5 is completed by first multiplying the bills times the minimum charge.
- (4) Then, starting with the second rate increment, multiply Column No. 3 by Column No. 4 and total.

V. General Information/Customer Notice

1) Filing Requirements:

a. If the applicant is a corporation, a certified copy of its articles of incorporation must be attached to this application. If the articles and any amendments thereto have already been filed with the Commission in a prior proceeding, it will be sufficient to state that fact in the application and refer to the style and case number of the prior proceeding.

b. An original and 10 copies of the completed application should be sent to:

Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Post Office Box 615
Frankfort, Kentucky 40602

Telephone: 502 / 564 – 3940

c. One Copy of the completed application should also be sent at the same time to:

Public Service Litigation Branch
Office of the Attorney General
Post Office Box 2000
Frankfort, Kentucky 40602-2000

2) A copy of the customer notice must be filed with this application. Proper notice must comply with Section 4 of this regulation.

3) Copies of this form and the regulation may be obtained from the Commission's Office of Executive Director; or by calling 502 / 564 – 3940.

4) I have read and completed this application, and to the best of my knowledge all the information contained in this application is true and correct.

Signed

Marfales

Officer of the Company

Title

Chairman Commissioner

Date

October 2, 2007

South 641 Combined Attachment A*	2006 Water	2006 Sewer	Comb.	Adjstmnts	Ref	Adjusted Combined	60% Water Expense Allocation	40% Sewer Alloc.
Water Revenue	\$109,774		\$109,774	(\$3,172)		\$106,602	\$106,602	
Sewer Rev.		\$29,304	\$29,304	\$1,054		\$30,358		\$30,358
Total Revenue	\$109,774	\$29,304	\$139,078	(\$2,118)	A	\$136,960		
Empl. Salaries	\$24,227	\$19,822	\$44,049	(\$5,175)	B	\$38,874	\$23,324	\$15,550
Empl. Benefits	\$201	\$164	\$365	\$67	C	\$432	\$259	\$173
Purch. Water	\$34,368	0	\$34,368	0		\$34,368	\$34,368	0
Purch. Power	\$3,008	\$2,461	\$5,469	0	D	\$5,469	\$2,453	\$3,016
Mats/Supplies	\$1,122	\$918	\$2,040	0		\$2,040	\$1,224	\$816
Repairs/Maint.	\$5,929	\$4,851	\$10,780	\$3,600 \$480	E	\$14,860	\$8,800	\$6,060
Office Supplies	\$2,863	\$2,343	\$5,206	0		\$5,206	\$3,124	\$2,082
Contract Serv.	\$3,337	\$2,730	\$6,067	(\$764)	F	\$5,303	\$3,182	\$2,121
Transport. Exp.	\$2,492	\$2,039	\$4,531	0		\$4,531	\$2,719	\$1,812
Insurance	\$1,834	\$1,501	\$3,335	0		\$3,335	\$2,001	\$1,334
Misc. Exp	\$10,312 (\$5,929) (\$2,863) \$1,520	\$1,243	\$2,763	0	G	\$2,763	\$1,658	\$1,105
<i>Operating Exp.</i>	<i>\$80,901</i>	<i>\$38,072</i>	<i>\$118,973</i>	<i>(\$1,792)</i>		<i>\$117,181</i>	<i>\$83,112</i>	<i>\$34,069</i>
Depreciation Exp.	\$32,283	\$5,599	\$37,882	Water \$533 Sewer \$2,757	H	\$44,972	\$36,616	\$8,356
Taxes OTI	\$1,844	\$1,546	\$3,390	(\$416)	I	\$2,974	\$1,784	\$1,190
Total Op. Exp.	\$115,028	\$45,217	\$160,245	\$4,882		\$165,127	\$121,512	\$43,615
Net Op. Income	(\$5,254)	(\$15,913)	(\$21,167)	(\$7,000)		(\$28,167)	(\$14,900)	(\$13,257)
Interest Income	\$1,075	\$583	\$1,658	(\$1,658)	J	0	0	0
Nonutil. Income	\$1,317	\$350	\$1,667	(\$1,667)	K	0	0	0
Interest Exp.	(\$9,425)	(\$5,075)	(\$14,500)	0		(\$14,500)	(\$9,425)	(\$5,075)
Net Income	(\$12,287)	(\$20,055)	(\$32,342)	(\$10,325)		(\$42,667)	(\$24,335)	(\$18,332)

Revenue Increase	Combined	Water	Sewer
Operating Expenses	\$165,127	\$121,512	\$43,615
Debt Service Coverage	34,200	\$22,230	\$11,970
Rev. Requirement	\$199,327	\$143,742	\$55,585
Less Normalized Revenues	(136,960)	(106,602)	(30,358)
Justified Increase	\$62,367	\$37,140	\$25,227
Percentage Increase	45.6%	34.8%	83.1%

Debt Service	2007	2008	2009	Total	3-yr. avg.	X 1.2 DSC
Water Principal	\$8,450	\$9,100	\$9,750	\$27,300	\$9,100	
Water Interest 06	\$9,425				\$9,425	
Total Water DS	\$17,875				\$18,525	\$22,230
Sewer Principal	\$4,550	\$4,900	\$5,250	\$14,700	\$4,900	
Sewer Interest 06	\$5,075				\$5,075	
Total Sewer DS	\$9,625				\$9,975	\$11,970

Reference Notes:

**Please note that joint expenses have traditionally been allocated on a basis of 55% to water and 45% to sewer. In this case, joint expenses have been allocated 60% to water and 40% to sewer to approximate the current ratio of water to sewer customers.*

A. Normalized Water and Sewer Revenues as determined by Commission Staff's billing analysis.

B. Normalized Salaries Expense based on salaries in effect during 2007 for three employees, as follows:

Employee	2006 Salary	Adjustment	Proforma	Notes
Office Manager	\$16,480	(\$16,480)	0	No longer there.
Operator	\$22,294	\$3,380	\$25,674	\$65/ wk. increase
Office Worker	\$5,275	0	\$6,000	\$10 x 50 hrs x 12 mo.
General Manager	0	\$7,200	\$7,200	\$12 x 50 hrs. x 12 mo.
Total	\$44,049	(\$5,175)	\$38,874	

C. Employee Benefits Expense pro forma based on Delta Dental insurance for two employees of \$36 per month, or \$432 per year.

D. Purchased Power Expense has been traditionally allocated by the District between water and sewer operations. Upon closer examination, it appears that \$1,068 of the 2006 purchased power cost could be directly assigned to water operations and \$2,092 could be directly assigned to sewer operations. The remaining \$2,309 of joint costs were allocated 60% to water and 40% to sewer, resulting in additional allocated amounts of \$1,385 for water and \$923 for sewer, and total purchased power amounts of \$2,453 for water and \$3,016 for sewer.

E. Repairs and Maintenance Expense totaled \$10,780 combined in 2006, and was allocated 55% to water and 45% to sewer according to the 2006 PSC Annual Reports. Upon closer examination, amounts totaling \$4,738 for water and \$5,751 for sewer could be directly assigned. An additional \$292 of joint costs were allocated 60% to water and 40% to sewer, resulting in test period repair expenses of \$4,913 for water and \$5,868 for sewer.

In addition, an adjustment was made to recognize new water testing expenses of \$3,600 which South 641 will incur on a pro forma basis. Finally, another adjustment was made to recognize additional fuel expenses of \$480 which South 641 will incur from a testing contractor, and those expenses were allocated 60% to water and 40% to sewer, resulting in total pro forma Repairs and Maintenance Expense of \$8,800 for water and \$6,060 for sewer.

F. Contract Services Expense was adjusted to remove \$764 of nonrecurring contract service payments.

UNITED STATES DEPARTMENT OF AGRICULTURE
 RURAL DEVELOPMENT
 ANNUAL STATEMENT OF LOAN ACCOUNT

SAVE THIS INFORMATION
 FOR INCOME TAX PURPOSES

DESCRIPTION	ADVANCES	INTEREST	PRINCIPAL	TOTAL	T	INTEREST RATE	EFFECTIVE DATE
BEGIN LOAN BALNCE		7,630.48	303,000.00	310,630.48			010106
PAYMENT		7,575.00	13,000.00	20,575.00	R	05.0000	010106
PAYMENT		7,250.00	0.00	7,250.00	R	05.0000	070106
TOTAL LOAN PMTS		14,825.00	13,000.00	27,825.00			
TOTAL PAID ON ALL LOANS THIS YEAR		14,825.00	13,000.00	27,825.00			
LOAN ACTIVITY	0.00	14,825.00	13,000.00	27,825.00			
LOAN BALANCE	UNPD INTEREST	7,307.26 **	UNPD PRIN	290,000.00 **			
NXT AMT DUE	20,250.00		DATE DUE	010107			
PAYMENT STATUS	ON SCHEDULE						
ALL LOAN ACTIVITY	0.00	14,825.00	13,000.00	27,825.00			
BORR BAL	UNPD INTEREST	7,307.26	UNPD PRIN	290,000.00			

*These unpaid balances may not reflect the total amount due to the Agency at payoff.

RECIPIENT'S/LENDER'S name, address, and telephone number USDA, RURAL DEVELOPMENT PHONE#(314)457-4310 P.O. BOX 200011 FC-351 ST. LOUIS, MO 63120-0011	CAUTION: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.	OMB NO. 1545-0901 2006 Form 1098	<input type="checkbox"/> CORRECTED (if checked) Mortgage Interest Statement
RECIPIENT'S Federal Identification no. 431757115	PAYER'S social security number 610979997	1 Mortgage interest received from payer(s)/borrower(s) \$ 0.00	COPY B FOR PAYER The information in boxes 1, 2, and 3 is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for this mortgage interest or for these points or because you did not report this refund of interest on your return.
PAYER'S/BORROWER'S name and address 20-701 SOUTH 641 WATER DISTRICT P O BOX 2 HAZEL KY		2 Points paid on purchase of principal residence (See Box 2 instructions.) \$	
20-701 SOUTH 641 WATER DISTRICT P O BOX 2 HAZEL KY		3 Refund of overpaid interest (See Box 3 instructions.) \$	
Account number (see instructions) 20018061097999793 01		4 IRS FORM 1098 DOES NOT APPLY TO YOUR LOAN TYPE. PLEASE SEE IRS INSTRUCTIONS.	

From MIDWEST BANK NOTE COMPANY, 16580 Northville Road, P.O. Box 89, Plymouth, Mich. 48170
Area Code 313 348-1510

Date Submitted JAN 7 1981
Gentlemen: Attached are your proofs for approval. Telephone approvals are always welcome.
Nate Whiteside III, Pres., Skip Mather, V.P.

Orig. to: Joe Rubin

Copies to:

MATURITY SCHEDULE

JOB # 2938

ISSUER South 641 Water District, Calloway Co., Kentucky

PURPOSE Water and Sewer Revenue Bond of 1981

QUANTITY AND DENOMINATION 9 \$472,000

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTY OF CALLOWAY

South 641 Water District

WATER AND SEWER REVENUE BOND OF 1981

KNOW ALL MEN BY THESE PRESENTS: That the South 641 Water District, acting by and through its Commission, a public body corporate, organized and existing pursuant to Chapter 74 of the Kentucky Revised Statutes, in Calloway County, Kentucky, for value received, hereby promises to pay to the registered owner hereof, solely from the special fund hereinafter identified, the sum of

FOUR HUNDRED SEVENTY-TWO THOUSAND DOLLARS (\$472,000)

UNITED STATES OF AMERICA
COMMONWEALTH OF
KENTUCKY
COUNTY OF CALLOWAY

**South 641
Water District**

472,000

5%
**Water and Sewer
Revenue Bond of 1981**

Dated _____

Interest Payable semi-annually
on January 1 and July 1
in each year

Principal and Interest Payable at the
address of the registered
owner shown on the
registration book of the District

PROVISION FOR REGISTRATION

This Bond shall be registered on the book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or his attorney, such transfer to be made on said book and endorsed hereon.

REGISTRATION

Date of Registration	Name and Address of Registered Owner	Signature of Secretary of the South 641 Water District, Bond Registrar
	United States of America — Farmers Home Administration 1520 Market Street St. Louis, Missouri 63103	

mission, covenants that so long as this Bond is outstanding, the System will be continuously owned and operated by the District as a revenue-producing undertaking within the meaning of the aforesaid statutes, for the security and source of payment of this Bond, and that the District will fix and revise such rates and charges for the services and facilities of the System and collect and account for the same and revenues therefrom sufficient to pay the principal of and interest on this Bond promptly as the same become due, and to pay the cost of operation and maintenance of the System, and to provide for the depreciation thereof.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the book of the District kept for that purpose.

As provided in the Bond Resolution, this Bond is exchangeable at the expense of the registered owner hereof at any time, upon ninety days' written notice, at the request of such registered owner and upon surrender of this Bond to the District, for negotiable coupon bonds, payable to bearer, registrable as to principal only, in an amount or amounts not exceeding \$10,000 per coupon bond, or a lesser denomination in a multiple of \$1,000, consistent with the maturities hereof, in an aggregate principal amount equal to and maturing in conformity with the unpaid principal amount of this Bond, and in the form of such coupon bonds as provided in the Bond Resolution, with semi-annual coupons annexed presenting the accrual of interest corresponding to the rate herein provided.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 1991, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One thousand Dollars (\$1,000), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States Government, or any agency hereof, the entire principal amount of this Bond, or installments in multiples of \$1,000, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with the provisions of the Bond Resolution, the registered owner may, at his option, institute all rights and remedies provided by law or by said Resolution.

This Bond is exempt from taxation in the Commonwealth of Kentucky.

It is hereby certified, recited, and declared that all acts, conditions, and things required to exist, happen, and be performed, precedent to and in the issuance of this Bond do exist, have happened, and have been performed, in due time, form, and manner as required by law and that the face amount of this bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF, said South 641 Water District, in the Commonwealth of Kentucky, by its Commission, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

SOUTH 641 WATER DISTRICT
Calloway County, Kentucky

SOUTH 641 WATER DISTRICT
\$472,000 ORIGINAL LOAN AMOUNT

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DEBT SERVICE SCHEDULE

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DATE	PRINCIPAL	COUPON	INTEREST	PERIOD TOTAL	FISCAL TOTAL
6/30/88			11,325.00	11,325.00	
12/31/88	5,000.00	5.000000	11,325.00	16,325.00	27,650.00
6/30/89			11,200.00	11,200.00	
12/31/89	6,000.00	5.000000	11,200.00	17,200.00	28,400.00
6/30/90			11,050.00	11,050.00	
12/31/90	6,000.00	5.000000	11,050.00	17,050.00	28,100.00
6/30/91			10,900.00	10,900.00	
12/31/91	6,000.00	5.000000	10,900.00	16,900.00	27,800.00
6/30/92			10,750.00	10,750.00	
12/31/92	6,000.00	5.000000	10,750.00	16,750.00	27,500.00
6/30/93			10,600.00	10,600.00	
12/31/93	7,000.00	5.000000	10,600.00	17,600.00	28,200.00
6/30/94			10,425.00	10,425.00	
12/31/94	7,000.00	5.000000	10,425.00	17,425.00	27,850.00
6/30/95			10,250.00	10,250.00	
12/31/95	7,000.00	5.000000	10,250.00	17,250.00	27,500.00
6/30/96			10,075.00	10,075.00	
12/31/96	8,000.00	5.000000	10,075.00	18,075.00	28,150.00
6/30/97			9,875.00	9,875.00	
12/31/97	8,000.00	5.000000	9,875.00	17,875.00	27,750.00
6/30/98			9,675.00	9,675.00	
12/31/98	9,000.00	5.000000	9,675.00	18,675.00	28,350.00
6/30/99			9,450.00	9,450.00	
12/31/99	9,000.00	5.000000	9,450.00	18,450.00	27,900.00
6/30/00			9,225.00	9,225.00	
12/31/00	10,000.00	5.000000	9,225.00	19,225.00	28,450.00
6/30/01			8,975.00	8,975.00	
12/31/01	10,000.00	5.000000	8,975.00	18,975.00	27,950.00
6/30/02			8,725.00	8,725.00	
12/31/02	11,000.00	5.000000	8,725.00	19,725.00	28,450.00
6/30/03			8,450.00	8,450.00	
12/31/03	11,000.00	5.000000	8,450.00	19,450.00	27,900.00
6/30/04			8,175.00	8,175.00	
12/31/04	12,000.00	5.000000	8,175.00	20,175.00	28,350.00
6/30/05			7,875.00	7,875.00	
12/31/05	12,000.00	5.000000	7,875.00	19,875.00	27,750.00
6/30/06			7,575.00	7,575.00	
12/31/06	13,000.00	5.000000	7,575.00	20,575.00	28,150.00
6/30/07			7,250.00	7,250.00	
12/31/07	13,000.00	5.000000	7,250.00	20,250.00	27,500.00
6/30/08			6,925.00	6,925.00	
12/31/08	14,000.00	5.000000	6,925.00	20,925.00	27,850.00
6/30/09			6,575.00	6,575.00	
12/31/09	15,000.00	5.000000	6,575.00	21,575.00	28,150.00
6/30/10			6,200.00	6,200.00	
12/31/10	16,000.00	5.000000	6,200.00	22,200.00	28,400.00
6/30/11			5,800.00	5,800.00	
12/31/11	16,000.00	5.000000	5,800.00	21,800.00	27,600.00
6/30/12			5,400.00	5,400.00	
12/31/12	17,000.00	5.000000	5,400.00	22,400.00	27,800.00
6/30/13			4,975.00	4,975.00	
12/31/13	18,000.00	5.000000	4,975.00	22,975.00	27,950.00
6/30/14			4,525.00	4,525.00	
12/31/14	19,000.00	5.000000	4,525.00	23,525.00	28,050.00
6/30/15			4,050.00	4,050.00	
12/31/15	20,000.00	5.000000	4,050.00	24,050.00	28,100.00
6/30/16			3,550.00	3,550.00	
12/31/16	21,000.00	5.000000	3,550.00	24,550.00	28,100.00
6/30/17			3,025.00	3,025.00	
12/31/17	22,000.00	5.000000	3,025.00	25,025.00	28,050.00
6/30/18			2,475.00	2,475.00	
12/31/18	23,000.00	5.000000	2,475.00	25,475.00	27,950.00
6/30/19			1,900.00	1,900.00	
12/31/19	24,000.00	5.000000	1,900.00	25,900.00	27,800.00
6/30/20			1,300.00	1,300.00	
12/31/20	25,000.00	5.000000	1,300.00	26,300.00	27,600.00
6/30/21			675.00	675.00	
12/31/21	27,000.00	5.000000	675.00	27,675.00	28,350.00

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APPROVING LEGAL OPINION

LAW OFFICE
Rubin & Hays
Suite 300 Fireside Building
209 South Fifth Street
Louisville, Kentucky 40202

Telephone (502) 585-2153

In re: South 641 Water District (Calloway County,
Kentucky) Water and Sewer Revenue Bonds of
1981, in the amount of \$472,000.

We hereby certify that we have examined a transcript of the proceedings of the Commission of the South 641 Water District of Calloway County, Kentucky, in connection with the issuance by said District of the above-styled Bonds (the "Bonds") in the amount of \$472,000, dated as of the date of this legal opinion, bearing interest from that date at the rate of 5% per annum, payable semi-annually on January 1 and July 1 of each year, and due serially in numerical order on January 1 in each of the respective years, as follows: 1984, \$4,000; 1985-88, \$5,000; 1989-92, \$6,000; 1993-95, \$7,000; 1996-97, \$8,000; 1998-99, \$9,000; 2000-01, \$10,000; 2002-03, \$11,000; 2004-05, \$12,000; 2006-07, \$13,000; 2008, \$14,000; 2009, \$15,000; 2010-11, \$16,000; 2012, \$17,000; 2013, \$18,000; 2014, \$19,000; 2015, \$20,000; 2016, \$21,000; 2017, \$22,000; 2018, \$23,000; 2019, \$24,000; 2020, \$25,000; and in 2021, \$27,000; provided, however, that Bonds of said issue maturing on or after January 1, 1992, are optional for redemption prior to maturity on any interest payment date falling on or after January 1, 1991, in the manner and upon the terms provided in said Bonds. Said Bonds are issued pursuant to a Bond Resolution (the "Bond Resolution"), duly adopted by the Commission of the District, for the purpose of defraying the cost of acquiring and constructing a new waterworks and sewer system (the "System") for the District.

We are of the opinion that such proceedings show lawful authority for said issue under the laws of the Commonwealth of Kentucky and the proceedings of said Water District now in force; provided, however, that said Bonds have been initially issued in the form of a single, Fully Registered Installment Bond, payable to the registered owner (initially the Farmers Home Administration), numbered R-1, bearing interest at the rate of 5% per annum, payable semi-annually on January 1 and July 1 of each year, with annual installments being payable on January 1 in each of the respective years, 1984 through 2021, inclusive, as set out above, and with the further provision that said Fully Registered Bond is exchangeable at the expense of the Registered Owner, at any time, upon ninety days' written notice, for negotiable Coupon Bonds, payable to bearer, registrable as to principal only, in an amount or amounts not exceeding \$10,000 per Coupon Bond, or a lesser denomination in a multiple of \$1,000, consistent with the maturities of such Bonds, in an aggregate principal amount equal to and maturing in conformity with the unpaid principal amount of said Fully Registered Bond.

We have examined the organizational documents of the District and we are of the opinion that the District was duly created by Order of the County Judge/Executive of Calloway County, Kentucky, on May 7, 1979, which Order is on file in the office of the Calloway County Clerk, in County Order Book No. 10, page 13.

We further certify that we have examined said executed single, Fully Registered Installment Bond, numbered R-1, in the amount of \$472,000, as issued and delivered, and an executed counterpart of the Bond Resolution. Based on such examination, it is our opinion that said Bond is in conformity with the aforesaid proceedings of the District, that said issue, in the amount stated, is valid and legally binding upon the District according to the import thereof, is secured by a statutory mortgage lien against the System, and is payable from the gross revenues of the System, a sufficient portion of said revenues having been ordered set aside and pledged to the payment of the interest on and principal installments of the Bonds as the same become due. We express no opinion concerning the sufficiency of such revenues for that purpose.

The District has reserved the right to issue additional Bonds ranking on a parity as to security and source of payment with said \$472,000 Bond if necessary in order to complete the aforesaid construction. The District has also reserved the right to issue additional parity bonds to finance future extensions, additions, and/or improvements to the System, provided the necessary showings as to the earnings coverage required by the Bond Resolution are in existence and properly certified.

We are of the opinion that in the event such single, Fully Registered Bond is exchanged for Coupon Bonds in the denomination(s) permitted and provided for in the Bond Resolution and in said Fully Registered Bond, said Coupon Bonds, without priority or distinction of one over the other, shall be secured in the same manner and by the same covenants and shall constitute the identical obligations of said District as the aforesaid Fully Registered Bond exchanged therefor. Principal of and interest on such Coupon Bonds will be payable at the Dees Bank of Hazel, Hazel, Kentucky, and principal of said Coupon Bonds will be registrable on the registration book of the Secretary of the Water District.

~~It is our opinion, based on current rulings and official interpretations, that interest on said Bonds is exempt from present Federal and Kentucky income taxes and that the principal of said Bonds is exempt from ad valorem taxation by the Commonwealth of Kentucky or by any political subdivision of Kentucky; provided, however, that it is provided in the Consolidated Farm and Rural Development Act that if said Bonds are sold out of the Agricultural Credit Insurance Fund or out of the Rural Development Insurance Fund as an insured loan, the interest thereon paid to an insured holder shall be included in taxable income of such holder.~~

Commission, covenants that so long as this bond is outstanding, the system will be owned, maintained and operated by the District as a revenue-producing undertaking within the meaning of the aforesaid Statutes, for the security and source of payment of this Bond, and that the District will fix and revise such rates and charges for the services and facilities of the System and collect and account for the income and revenues therefrom sufficient to pay the principal of and interest on this Bond promptly as the same become due, and to pay the cost of operation and maintenance of the System, and to provide for the depreciation thereof.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the book of the District kept for that purpose.

As provided in the Bond Resolution, this Bond is exchangeable at the expense of the registered owner hereof at any time, upon ninety days' written notice, at the request of such registered owner and upon surrender of this Bond to the District, for negotiable coupon bonds, payable to bearer, registrable as to principal only, in an amount or amounts not exceeding \$10,000 per coupon bond, or a lesser denomination in a multiple of \$1,000, consistent with the maturities hereof, in an aggregate principal amount equal to and maturing in conformity with the unpaid principal amount of this Bond, and in the form of such coupon bonds as provided in the Bond Resolution, with semi-annual coupons annexed representing the accrual of interest corresponding to the rate herein provided.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 1991, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Thousand Dollars (\$1,000), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States Government, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$1,000, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with the provisions of the Bond Resolution, the registered owner may, at his option, institute all rights and remedies provided by law or by said Resolution.

This Bond is exempt from taxation in the Commonwealth of Kentucky.

It is hereby certified, recited, and declared that all acts, conditions, and things required to exist, happen, and be performed, precedent to and in the issuance of this Bond do exist, have happened, and have been performed, in due time, form, and manner as required by law and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF, said South 641 Water District, in the Commonwealth of Kentucky, by its Commission, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

SOUTH 641 WATER DISTRICT
Calloway County, Kentucky

By _____
Chairman

G. Water Miscellaneous Expense of \$10,312 per the 2006 PSC Annual Report was adjusted to reclassify water Repairs Expenses and Office Supplies into those accounts, reducing Water Miscellaneous Expense to \$1,520 before allocations.

H. Depreciation Expense was adjusted to include the Depreciation Expense on certain projects needed to provide adequate service, as follows:

Project	Estimated cost- (Materials only)	Useful Life (yrs.)	Annual amount (Matis. Only)
Water			
Telemetry System Replacement	\$20,000	10	\$2,000
4 New Shut-off valves this year	\$18,000	10	\$1,800
Total Water Depreciation Adj.	\$38,000		\$3,800
Sewer			
New Flow Meter	\$8,000	10	\$800
Chlorination system	\$11,000	10	\$1,100
Waste Water Pump	\$6,000	7	\$857
Total Sewer Depreciation Adj.	\$25,000		\$2,757

In addition, water depreciation expense was adjusted to include additional depreciation expense for meters that South 641 had been depreciating over 5 years. The Commission's Engineering Branch normally uses a 10-year life for water meter replacements, resulting in an adjustment of \$533, as follows:

Date	Amount	Over 10 yrs.	2006 @ 5 yrs.
8/15/98	\$449.00	\$44.90	0
8/1/98	\$3,801.00	\$380.10	0
7/1/99	\$8,398.00	\$839.80	0
7/1/00	\$4,885.50	\$488.55	0
7/1/01	\$2,642.00	\$264.20	\$264.20
7/1/02	\$3,171.50	\$317.15	\$634.30
7/1/03	\$2,704.50	\$270.45	\$540.90
7/1/04	\$3,494.32	\$349.43	\$698.86
7/1/05	\$2,827.50	\$282.75	\$565.50
7/1/06	\$6,610.00	\$661.00	\$661.00
		\$3,898.33	\$3,364.76
		Proper Amt.	Booked Amt.
		Increase	\$533.57

I. Taxes Other Than Income Expense was adjusted to reflect pro forma FICA taxes of \$2,974 based on pro forma Salaries Expense of \$38,874 x 7.65%.

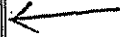
J. Interest Income was removed because South 641 has drawn down its reserves - most of which are restricted - to pay expenses.

K. Nonutility Income was adjusted to remove \$1,667 of nonrecurring revenue.

South 641 Water
Depreciation-sewer
December 31, 2006

	Date	Cost	method	Life	Acc. Depr. Prior Years	Current Year	Balance to Depreciate
#301							
Organization costs		46,500.00	SL	40yr	27,906.00	1,163.00	17,431.00
Totals		46,500.00			27,906.00	1,163.00	17,431.00
#303 Misc. Intangible							
Regional Plan	10/17/03	8,100.00	SL	20yr	894.38	405.00	6,800.62
Totals		8,100.00			894.38	405.00	6,800.62
#352							
Collection sewers		75,450.00	SL	40yr	45,267.00	1,886.00	28,297.00
Collection sewers		83,000.00	SL	40yr	83,000.00	0.00	0.00
Totals		158,450.00			128,267.00	1,886.00	28,297.00
#353							
Other collection plant		10,400.00	SL	40yr	6,240.00	260.00	3,900.00
Totals		10,400.00			6,240.00	260.00	3,900.00
#354							
Services		4,725.00	SL	40yr	2,042.00	118.00	2,565.00
Services	7/1/98	1,760.00	SL	40yr	330.00	44.00	1,386.00
Services	7/1/01	2,100.00	SL	40yr	236.25	52.50	1,811.25
Capacity Analysts	4/18/03	2,900.00	SL	40yr	202.38	72.50	2,625.12
2004 Tap on	7/1/04	350.00	SL	5yr	73.50	70.00	206.50
Totals		11,835.00			2,884.13	357.00	8,593.87
#362							
Rec. wells & pump pits		20,000.00	SL	5yr	20,000.00	0.00	0.00
Totals		20,000.00			20,000.00	0.00	0.00
#372							
Oxidation lagoon		30,000.00	SL	40yr	18,000.00	750.00	11,250.00
Oxidation lagoon		22,900.00	SL	31.5yr	11,269.00	727.00	10,904.00
Totals		52,900.00			29,269.00	1,477.00	22,154.00
#391							
Computer		2,444.00	SL	5yr	2,444.00	0.00	0.00
Computer program		216.00	SL	5yr	216.00	0.00	0.00
Filing cabinet		79.00	SL	10yr	79.00	0.00	0.00
Copy machine	6/16/05	445.00	SL	5yr	445.00	0.00	0.00
Air conditioner	7/14/95	243.00	SL	5yr	243.00	0.00	0.00
Software	7/18/95	194.00	SL	5yr	194.00	0.00	0.00
Office Eq.	7/1/97	162.00	SL	5yr	162.00	0.00	0.00
Software	8/1/99	1,008.00	SL	5yr	1,008.00	0.00	0.00
Fax machine	4/15/00	67.48	SL	5yr	67.48	0.00	0.00
Office Eq.	1/3/03	251.55	SL	5yr	125.78	50.31	75.46
Totals		5,110.03			4,984.26	50.31	75.46
Totals		313,295.03			220,444.77	5,598.31	87,251.95

Total Accum. Depr 226,043.08



FOR _____
Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

CANCELLING P.S.C. KY. NO. _____

_____ SHEET NO. _____

SOUTH 641 WATER DISTRICT
(Name of Utility)

CONTENTS

Monthly Sewer Rates

Customer Charge	\$ 8.99 minimum bill
Per 1,000 gallons	2.14 per 1,000 gallons

Monthly Sewer Rates for Sewer Customers Only

Flat Rate Minimum Bill	\$19.69 minimum bill
------------------------	----------------------

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE _____

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

FOR ENTIRE AREA SERVED
P.S.C. KY. NO. _____ 10

4TH revised SHEET NO. _____ 5

CANCELLING P.S.C. KY. NO. _____ 5

3rd revised SHEET NO. _____ 5

SOUTH 641 WATER DISTRICT
(Name of Utility)

RULES AND REGULATIONS

Monthly Sewer Rates

Flat Rate Minimum Bill _____ \$10.95

Monthly Sewer Rates

Customer Charge \$8.99 minimum bill
Per 1,000 gallons 2.14 per 1,000 gallons

Sewer Customers Only

Flat Rate Minimum Bill \$19.69 per month

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE _____

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

SOUTH 641 WATER DISTRICT

ALLOCATION OF SEWER EXPENSE

	TOTAL	VARIABLE	FIXED
Employee Salaries	\$15,550	\$8,216	\$7,334
Employee Benefits	173	91	82
Purchased Power	3,016	3,016	
Materials & Supplies	816	816	
Repairs & Maintenance	6,060	6,060	
SUBTOTAL	\$25,615	\$18,199	\$7,416
PERCENT	100.00%	71.05%	28.95%
Office Supplies	2,082	1,479	603
Contractual Services - CPA & Attorney	2,121	1,507	614
Insurance	1,334	948	386
Taxes other than Income	1,190	845	345
Depreciation	8,356	5,937	2,419
Transportation Expense	1,812	1,287	525
Miscellaneous Expense	1,105	785	320
	\$43,615	\$30,988	\$12,627
DEBT SERVICE COVERAGE			\$11,970
TOTAL	\$55,585	\$30,988	\$24,597
Customer Charge = Fixed Costs / Number of Customers			
Customer Charge = \$24,597/228 (per year)			
Customer Charge = \$8.99 per month			
Per 1,000 gallon rate = Variable Costs / Total Gallons Consumed			
Per 1,000 gallon rate = \$30,989 / 14,506,415			
Per 1,000 gallon rate = \$2.14			
Note: Figures used were derived from 2006 annual report			

NOTICE

South 641 Water District has filed an application with the Public Service Commission to increase its rates for sewer service. These rates apply to those customers who have sewer service only. The proposed effective date of the change is _____, 2007.

Monthly Rate:

<u>Current</u>		<u>Proposed</u>	<u>Rate</u>
Flat Rate Minimum Bill	\$10.95	Flat Rate Minimum Bill	\$19.69
	MONTHLY	MONTHLY	PERCENT
	BILL AT	BILL AT	INCREASE
MONTHLY	CURRENT	PROPOSED	OVER
<u>USAGE</u>	<u>RATE</u>	<u>RATE</u>	<u>CURRENT</u>
NO USAGE	\$10.95	\$19.69	44.3%

The rates contained in this notice are the rates proposed by the South 641 Water District. However, the Public Service Commission may order rates to be charged that are higher or lower than the rates proposed in this notice.

Any corporation, association, body politic, or person may request leave to intervene, by motion within thirty (30) days after notice of the proposed rate change is given. A motion to intervene shall be in writing, shall be submitted to the Executive Director, Public Service Commission, Post Office Box 615, Frankfort, KY 40602, and shall set forth the grounds for the motion, including the status and interest of the party movant. Copies of the application may be obtained at no charge from the District office at Highway 641 South in Hazel, KY 42049. Upon request from an intervenor, the District shall furnish to the intervenor a copy of the application and supporting documents.

South 641 Water District
