

RECEIVED

JUL 07 2009

PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION BY LAKE VILLAGE )  
WATER ASSOCIATION, INC., FOR )  
A CERTIFICATE OF CONVENIENCE )  
AND NECESSITY FOR A U.S. DEPT. )  
OF AGRICULTURE FUNDED )  
CONSTRUCTION PROJECT IN )  
MERCER COUNTY, KENTUCKY )

APPLICATION

Case No. 2009-00263

Comes now the applicant, Lake Village Water Association, Inc., and, for its application, would state as follows:

1. That the Applicant is engaged as a public utility in supplying potable water to portions of Boyle and Mercer Counties, Kentucky.
2. That the post office address of the Applicant is P. O. Box 303, Burgin, Kentucky 40310.
3. That the Applicant does hereby apply for a certificate of convenience and necessity for a construction project financed in part by a loan from the U. S. Department of Agriculture. The remaining funding comes from a grant from the Kentucky Infrastructure Authority and contribution by the Applicant.
4. That this application and notice are made pursuant to KRS 278.020(1), 807 KAR 5:.001, Section 8; KAR 5:069 and all other applicable law.
5. That the Applicant is a non-profit, non-stock Kentucky corporation. The Applicant's articles of incorporation were heretofore filed with the Public Service Commission (PSC) in a prior proceeding; specifically "In the Matter of THE NOTICE BY LAKE VILLAGE WATER ASSOCIATION, INC. OF A TARIFF AMENDMENT ADJUSTING RATES etc." and identified by the Commission as Case No. 9290.

6. That this application is submitted for a construction project to rehabilitate 52,000 linear feet of existing water line. The construction is located entirely within Mercer County.

7. The construction is designed to reduce the Association's water loss and maintenance costs. The existing mains to be replaced are of the original distribution system and will not extend into any new or unserved areas.

8. Attached as Lake Village Exhibit 1 is the USDA "Letter of Conditions" issued for the project.

9. Attached as Lake Village Exhibit 2 is the USDA "Letter of Concurrence" in the bid award.

10. Attached as combined Lake Village Exhibit 3 are sets [3] of the preliminary and final engineering reports.

11. Attached as Lake Village Exhibit 4 is the certification required by 807 KAR 5:069, Section 1(5).


WHEREFORE the Lake Village Water Association, Inc. respectfully requests that the Commission issue a certificate of convenience and necessity for this project funded in part by USDA.

Dated at Burgin, Kentucky, this 7<sup>th</sup> day of July, 2009.

TAYLOR & STEVENS  
ATTORNEYS FOR APPLICANT  
LAKE VILLAGE WATER  
ASSOCIATION, INC.  
337 West Broadway  
P.O. Box 901  
Danville, Kentucky 40423-0901  
Telephone: (859) 236-2167

LAKE VILLAGE WATER  
ASSOCIATION, INC.

BY:   
PRESIDENT

BY:   
WILLIAM L. STEVENS



**United States Department of Agriculture**  
**Rural Development**  
Kentucky State Office

July 16, 2008

Mr. Danny Noel, President  
Lake Village Water Association, Inc.  
P. O. Box 303  
Burgin, Kentucky 40310

Dear Mr. Noel:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$1,544,000; a Kentucky Tobacco Settlement grant in the amount of \$500,000; and an applicant cash contribution in the amount of \$185,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 210 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

771 Corporate Drive • Suite 200 • Lexington, KY 40503  
Phone: (859) 224-7336 • Fax: (859) 224-7444 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities

"USDA is an equal opportunity provider, employer and lender"  
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,  
1400 Independence Avenue, SW, Washington, DC 20250-9410  
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD)

**EXHIBIT 1**

1. Number of Users and Their Contribution:

There shall be 2,190 water users, of which all are existing users. The Area Director will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids.

2. Drug-Free Work Place:

Prior to loan closing, the Association will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

3. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the Promissory Note. Principal payment will not be deferred for a period in excess of two years from the date of the Promissory Note. The Association may be required to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the Promissory Note is held or insured by RUS. Monthly payments will be approximate amortized installments.

4. Recommended Repayment Method:

Payments on this loan shall be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form SF 5510, "Authorization Agreement for Preauthorized Payments," should be signed by the Association to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Area Director will furnish the necessary forms and further guidance on the PAD procedure.

5. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The Association will be required to deposit \$715 per month into a "Funded Depreciation Reserve Account" until the account reaches \$85,800. The deposits are to be resumed any time the account falls below the \$85,800.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the Association's prior loan resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

The Association also needs to fund an account for short-lived assets by depositing a sum of \$1,500 monthly to the account. The funds in the short-lived asset account may be used by the Association as needed to replace or add short-lived assets in the Association's water system.

6. Security Requirements:

The loan will be secured by a real estate mortgage, a financing statement, and a pledge of water revenue, in the Loan Resolution and Financing Statement.

7. Land Rights and Real Property:

The Association will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

8. Organization:

The Association will be legally organized under applicable KRS, which will permit them to perform this service, borrow and repay money.

9. Business Operations:

The Association will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Association after review by Rural Development. At no later than loan pre-closing, the Association will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, delayed payment penalties, disconnect/reconnect fees, bookkeeping, making and delivering required reports and audits.

10. Accounts, Records and Audits:

The Association will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits) in accordance with subsection 1780.47 of RUS Instruction 1780.

The enclosed audit booklet will be used as a guide for preparation of audits. The Association shall be required to submit a copy of its audit agreement for review and concurrence by Rural Development prior to pre-closing the loan.

11. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Association will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Association will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

12. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Association. The Association should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Association will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Association will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$271,000.
- D. Real Property Insurance - The Association will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Association from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Association will obtain and maintain adequate coverage on any facilities located in special flood and mudslide prone areas.

13. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "22" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 180 days from this date, and prepare bid documents. The Area Director is prepared to furnish the necessary guide to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
  - 1. Final plans, specifications and bid documents.
  - 2. Applicant's letter on efforts to encourage small business and minority - owned business participation.
  - 3. Legal Service Agreements.
  - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

14. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

15. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Association.

16. Compliance with Special Laws and Regulations:

The Association will be required to conform to any and all state and local laws and regulations affecting this type project.

17. System Operator:

The Association is reminded that the system operator must have an Operator's Certificate issued by the State.

18. Prior to Pre-Closing the Loan, the Association Will Be Required to Adopt:

- A. Form RD 1942-8, "Resolution of Members or Stockholders."
- B. Form RUS Bulletin 1780-28, "Loan Resolution Security Agreement."
- C. Form RD 400-1, "Equal Opportunity Agreement."
- D. Form RD 400-4, "Assurance Agreement."
- E. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- F. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- G. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."
- H. RUS Bulletin 1780-22, "Eligibility Certification."

19. Refinancing and Graduation Requirements:

The Association is reminded that if at any time it shall appear to the Government that the Association is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Association will apply for and accept such loan in sufficient amount to repay the Government.

20. Commercial Interim Financing:

The Association will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.



Before the loan is closed, the Association will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

21. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Association prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

For each "construction account" as established, if the amount of RUS loan funds plus any applicant contributions or funds from other sources to be deposited into the account are expected to exceed \$100,000 at any time, the financial institution will secure the amount in excess of \$100,000 by pledging collateral with the Federal Reserve Bank in an amount not less than the excess in accordance with 7 CFR, 1902.7(a).

During construction, the Association shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the Association, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the Association.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing \_\_\_\_\_," will be prepared by the Association and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Borrowers receiving federal loan funds by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

Monthly audits of the Association's construction account records shall be made by Rural Development.

22. Cost of Facility:

Breakdown of Costs:

|                                 |                                |
|---------------------------------|--------------------------------|
| Development                     | \$ 1,310,050                   |
| Land and Rights                 | 5,000                          |
| Legal and Administrative        | 41,254                         |
| Engineering                     | 167,270                        |
| Interest                        | 32,751                         |
| Refinance Farmers National Bank | <del>544,000</del> <i>omit</i> |
| Contingencies                   | <u>128,675</u>                 |
| TOTAL                           | \$ 2,229,000                   |

*1,400,000*

Financing:

|  |                |
|--|----------------|
| RUS Loan                               | \$ 1,544,000   |
| Tobacco Settlement                     | 500,000        |
| Applicant Contribution/Connection Fees | <u>185,000</u> |
| TOTAL                                  | \$ 2,229,000   |

23. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for Tobacco Settlement grant in the amount of \$500,000.

24. Use of Remaining Project Funds:

The applicant contribution/connection fees shall be considered as the first funds expended. If there are any unused funds, that part would be RUS loan funds.

25. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, Operating Budget, or similar form may be utilized for this purpose.

26. Rates and Charges:

Rates and charges for facilities and services rendered by the Association must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

|          |        |              |                           |
|----------|--------|--------------|---------------------------|
| First    | 2,000  | gallons @ \$ | 22.30 - Minimum Bill.     |
| Next     | 18,000 | gallons @ \$ | 8.20 - per 1,000 gallons. |
| All Over | 20,000 | gallons @ \$ | 6.22 - per 1,000 gallons. |

Wholesale rate to North Point Training Center: \$1.85 - per 1,000 gallons.

27. Water Purchase Contract:

The Association will submit a Water Purchase Contract for approval by Rural Development before advertising for construction bids. If the contract is not on Form RD 442-30, "Water Purchase Contract," the contract will require approval by our Regional Attorney. The contract must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

28. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the Association will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA).

29. Floodplain Construction:

The Association will be required to pass and adopt a Resolution or amend its By-Laws whereby the Association will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Association and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

30. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Governor’s Office for Local Development letter dated March 20, 2008, from Ms. Lee Nalley.
- B. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without effect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- C. Any excavation by Contractor that uncovers a historical or archaeological artifact shall be immediately reported to Owner and a representative of Agency. Construction shall be temporarily halted pending the notification process and further directions issued by Agency after consultation with the State Historic Preservation Officer (SHPO).

- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.
- E. Best Management Practices shall be incorporated into the project design, construction, and maintenance.

31. Final Approval Conditions:

Final approval of this assistance will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,

  
KENNETH SLONE  
State Director

Enclosures

cc: Area Director - Shelbyville, Kentucky  
Bluegrass ADD - Lexington, Kentucky  
William L. Stevens - Danville, Kentucky  
Strand Associates - Lexington, Kentucky  
PSC - ATTN: Dennis Jones - Frankfort, Kentucky

6/18



JUN 29 2009

5710

United States Department of Agriculture  
Rural Development  
Kentucky State Office

June 26, 2009

SUBJECT: Lake Village Water Association  
Contract 13 Water- East Zone  
Contract Award Concurrence

TO: Area Director  
Williamstown, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder, Hubert Excavating, LLC, in the amount of \$863,000.00.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.

  
VERNON BROWN  
Acting State Director  
Rural Development

cc: Strand Associates, Inc.  
Lexington, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503  
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities

\*USDA is an equal opportunity provider, employer and lender.\*  
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 328-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-8410 or call (202) 720-5974 (voice or TDD).

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

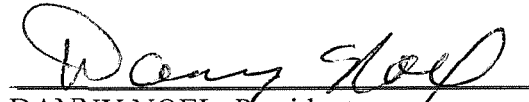
APPLICATION BY LAKE VILLAGE )  
WATER ASSOCIATION, INC., FOR )  
A CERTIFICATE OF CONVENIENCE )  
AND NECESSITY FOR A U.S. DEPT. )  
OF AGRICULTURE FUNDED ) CASE NO.  
CONSTRUCTION PROJECT IN )  
MERCER COUNTY )

**CERTIFIED STATEMENT OF UTILITY OFFICIAL**

This is submitted in support of the application of Lake Village in the above styled matter to certify the following:

1. That the undersigned is the President of the Lake Village Water Association, Inc. and these certifications are submitted upon information and believe following due investigation and review.
2. That the proposed plans and specifications for the project have been designed to meet the minimum construction and operating requirements established in 807 KAR 5:066, Section 4(3) and (4), Section 5(1), Sections 6 and 7, Section 8(1) through (3), Section 9(1) and Section 10.
3. That all other state approvals and/or permits have been obtained.
4. That construction is scheduled to begin July 20, 2009, and scheduled to be completed within six months.

CERTIFIED this 7<sup>th</sup> day of July, 2009.

  
DANNY NOEL, President,  
Lake Village Water Association, Inc.

dan.work\lvwa\psc\ccn.contract 13—cert state.doc

RECEIVED

JUL 07 2009

PUBLIC SERVICE  
COMMISSION

Report

**Preliminary  
Engineering Report  
Contract 13  
East Zone Upgrade**

**Lake Village Water  
Association, KY**

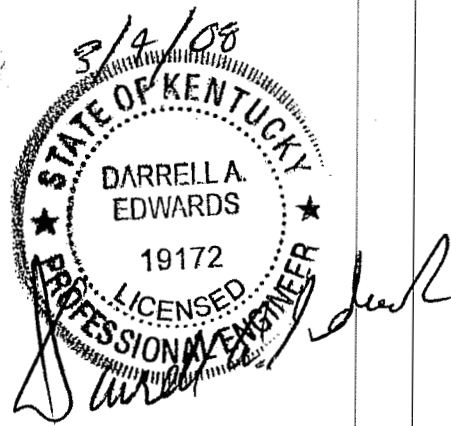
March 2008



# Report for Lake Village Water Association, Kentucky

---

Preliminary Engineering Report  
Contract 13  
East Zone Upgrade



Prepared by:

STRAND ASSOCIATES, INC.®  
1525 Bull Lea Road, Suite 100  
Lexington, KY 40511  
strand.com

March 2008



# TABLE OF CONTENTS

Page No.  
or Following

## SECTION 1 – INTRODUCTION AND PURPOSE

|      |                              |     |
|------|------------------------------|-----|
| 1.01 | Purpose of Report.....       | 1-1 |
| 1.02 | General Background Data..... | 1-1 |
| 1.03 | Existing System .....        | 1-1 |
| 1.04 | Definitions .....            | 1-2 |

## SECTION 2 – SCOPE OF THE PROJECT

|      |                             |     |
|------|-----------------------------|-----|
| 2.01 | Scope of Project.....       | 2-1 |
| 2.02 | Estimated Water Usage ..... | 2-1 |
| 2.03 | Design Criteria .....       | 2-1 |
| 2.04 | Financial .....             | 2-2 |

## SECTION 3 – CONCLUSIONS AND RECOMMENDATIONS

|      |                               |     |
|------|-------------------------------|-----|
| 3.01 | Summary and Conclusions ..... | 3-1 |
|------|-------------------------------|-----|

### **APPENDIX**

#### APPENDIX A – SUPPORTING FIGURES AND EXHIBITS

##### **LIST OF TABLES**

|        |                                    |     |
|--------|------------------------------------|-----|
| 2.04-1 | Construction and Project Cost..... | 2-2 |
| 2.04-2 | Summary of Proposed Funding.....   | 2-3 |

**SECTION 1**  
**INTRODUCTION AND PURPOSE**

---

## 1.01 PURPOSE OF REPORT

This report describes the scope of the proposed project, known as Contract 13 East Pressure Zone Upgrade, and presents the general background data used in its planning and development. Design criteria and financial data are presented and discussed.

## 1.02 GENERAL BACKGROUND DATA

In December 2003, Strand Associates, Inc. (SAI) assisted the Lake Village Water Association (LVWA) in developing a project to construct water system improvements within the existing east service zone. The project will replace existing water main generally located east of Burgin, beginning at the Mercer/Boyle County line, and extending north along Hughley Lane, KY 152 and Curdsville Road. The new project will improve pressure, flow and service continuity within the project area. A project profile reflecting this scope, designated WX21167009, was submitted to Bluegrass Area Development District (BGADD). Figure 1 in the Appendix shows the location of the proposed project.

The project scope was later modified to replace existing water main serving Paradise Camp. The existing water main is subject to line breakage, resulting in service disruption and water loss. Replacing this water main is required to improve service reliability to existing customers, and to reduce the amount of water lost due to line breakages.

Project funding includes a \$500,000 Kentucky Infrastructure Grant that is currently committed. LVWA has submitted an application to Rural Development for an additional \$1,000,000 in project funding. The remainder of project funding will be provided by connection fees and the LVWA construction fund.

Kentucky State Clearinghouse comments have been received. No major conflicts with the Commonwealth's goals, plans or objectives were identified. The proposed system improvements have been reviewed by the BGADD, and appear to be consistent with the BGADD Comprehensive Plan.

## 1.03 EXISTING SYSTEM

The LVWA was first formed in the late 1960's to provide water service to rural Mercer and Boyle County residents. LVWA presently purchases all its water from the cities of Danville and Harrodsburg. Danville's raw water supply is drawn from Herrington Lake and its treatment plant has a capacity of 10 million gallons per day (mgd). Harrodsburg's raw water supply is drawn from the Kentucky River and its treatment plant has a capacity of 4 mgd. Both cities presently have ample unused water treatment capacity to accommodate the improvements to LVWA system.

LVWA has faced many challenges since its inception to become one of the better rural water suppliers in the Commonwealth. The system is operated by a staff of experienced and motivated individuals, while the members of the Board of Directors are diligent in their efforts to provide the highest quality water service at a fair rate to all of its customers. LVWA water system is regulated by the Kentucky Department of Environmental Protection and the Public Service Commission and is subject to meeting state and federal regulations. This project is for line replacement; therefore new customer demand should be zero. There may be a small number of new taps.

#### 1.04 DEFINITIONS

BGADD -Bluegrass Area Development District  
LVWA -Lake Village Water Association  
mil gal -million gallons  
mgd -million gallons per day  
PVC -polyvinyl chloride  
RD -Rural Development  
SAI -Strand Associates, Inc.

**SECTION 2**  
**SCOPE OF THE PROJECT**

---

## 2.01 SCOPE OF PROJECT

The proposed Contract 13 East Zone Upgrade consists of approximately 14,700 linear feet of 8-inch, approximately 25,600 linear feet of 6-inch, and approximately 12,200 linear feet of 4-inch polyvinyl chloride (PVC) pipe as well as all necessary appurtenances. This project will improve service to existing customers by reducing leaks and the loss of service due to repairs and maintenance. According to a LVWA self-audit, over 38 million gallons (mil gal) were counted as nonrevenue water loss through leaks and breaks in 2007. Of that total, over mil gal (26.5%) of the loss occurred along the 8-inch and 6-inch water mains to be replaced under the original scope of this project. Another 9.9 mil gal (25.9%) of the loss occurred along the 4-inch and 3-inch water mains along Paradise Camp Road. Although not originally included in Contract 13, the LVWA is adding this proposed replacement to the project scope. In addition to eliminating water loss, system pressures, and flushing velocities will be improved.

## 2.02 ESTIMATED WATER USAGE

As of February 2008, LVWA serves 2,190 customers, with 98.4% of those being residential customers. The average monthly water usage in 2007, as determined by billings/sales for January 2007 through December 2007, was 11.8 mil gals. The average monthly water usage for the entire LVWA was 15.8 mil gal. This includes water loss from pipe leaks, main breaks, and maintenance activities related to flushing lines.

LVWA is served by the City of Harrodsburg and/or the City of Danville Water Treatment Plant. The rated 24-hour capacity of the Harrodsburg plant is 4.0 mil gal and the average daily production in 2006 was 2.66 mil gal with a peak day production of 4.0 mil gal. The rated 24-hour capacity of the Danville plant is 10.0 mil gal and the average daily production in 2006 was 5.05 mil gal with a peak day production of 6.7 mil gal.

LVWA currently has water purchase contracts with the cities of Danville and Harrodsburg. LVWA may purchase up to 20 mil gal per month from Harrodsburg. The original 30-year contract has been extended into the first of three 10-year extensions. LVWA may purchase up to 9 mil gal per month from Danville. The original contract for 9 mil gal a month was renewed in 1999 for an additional 30 years. These contracts are automatically extended unless LVWA notifies the cities of Danville and Harrodsburg more than 90 days before the contract expires stating that LVWA does not want the extension option.

## 2.03 DESIGN CRITERIA

### A. Hydraulic Considerations

Hydraulic calculations are based on the Hazen and Williams formula with a "C" value of 140 for PVC pipe and 130 for ductile iron pipe. The economy of PVC pipe has caused it to be the predominant material for rural water system pipelines. The relatively high flow coefficient of C = 140 is a common value for PVC water systems and is, therefore, used in the design of this

system. Ductile iron pipe will be utilized in selected locations requiring mechanical strength. A flow coefficient of  $C = 130$  is used for ductile iron.

Peak flows for determining line sizes are calculated using the relationship between demand per customer and total customers shown in the figures for Maximum Domestic Demand. The class 3 curve was utilized in determining the maximum domestic demand for the proposed extensions. These values have proven to be slightly conservative in practice, but since their use leaves room for expansion, they are considered valid for design purposes. Additional future capacity is provided by including a minimum of 5 gallons per minute into each dead end line.

Line sizes are designed to maintain a minimum of 30 pounds per square inch at the service meter during peak flows.

Fire protection capacity is not designed into the system. Hydrants are normally for blow-off purposes. Service meters, valves, and other appurtenances are designed for basically rural-domestic water supply service only.

**B. Construction Considerations**

These new water mains are designed to replace existing water mains. It is anticipated that almost all of the new force main will be laid in right-of-way and existing easements. The construction cost estimates reflects this where easement costs are zero.

**2.04 FINANCIAL**

**A. Construction and Project Costs**

Detailed construction and cost estimates for each phase of the contract and the total project are presented in Exhibits 1 and 2 of the Appendix. Estimated total construction and project costs are respectively \$1,310,050 and \$1,683,746. Construction cost estimates are based on current bid prices for similar projects. Table 2.04-1 shows the breakdown of construction and project costs.

| <b>Category</b>     | <b>Cost</b> |
|---------------------|-------------|
| Construction        | \$1,310,050 |
| Total Project Costs | \$1,683,746 |

**Table 2.04-1 Construction and Project Cost**



B. Project Budget

A summary of the proposed funding is provided in Table 2.04-2.

| <b>Funding Source</b>  | <b>Contract 13</b> |
|------------------------|--------------------|
| RD Loan                | \$1,000,000        |
| Coal/Tobacco           | 500,000            |
| LVWA Construction Fund | 180,000            |
| Connection Fees        | 5,000              |
| <br>                   |                    |
| Total Project Funding  | \$1,685,000        |

**Table 2.04-2 Summary of Proposed Funding**

C. Rate Analysis

A rate analysis along with the existing and projected operation and maintenance costs and debt service requirements is being developed and will be included in the Summary/Addendum. This analysis will include a statement regarding the income necessary to meet estimated obligations for both the existing and proposed system and, if required, a rate increase will be proposed.

**SECTION 3**  
**CONCLUSIONS AND RECOMMENDATIONS**

---

### 3.01 CONCLUSIONS AND RECOMMENDATIONS

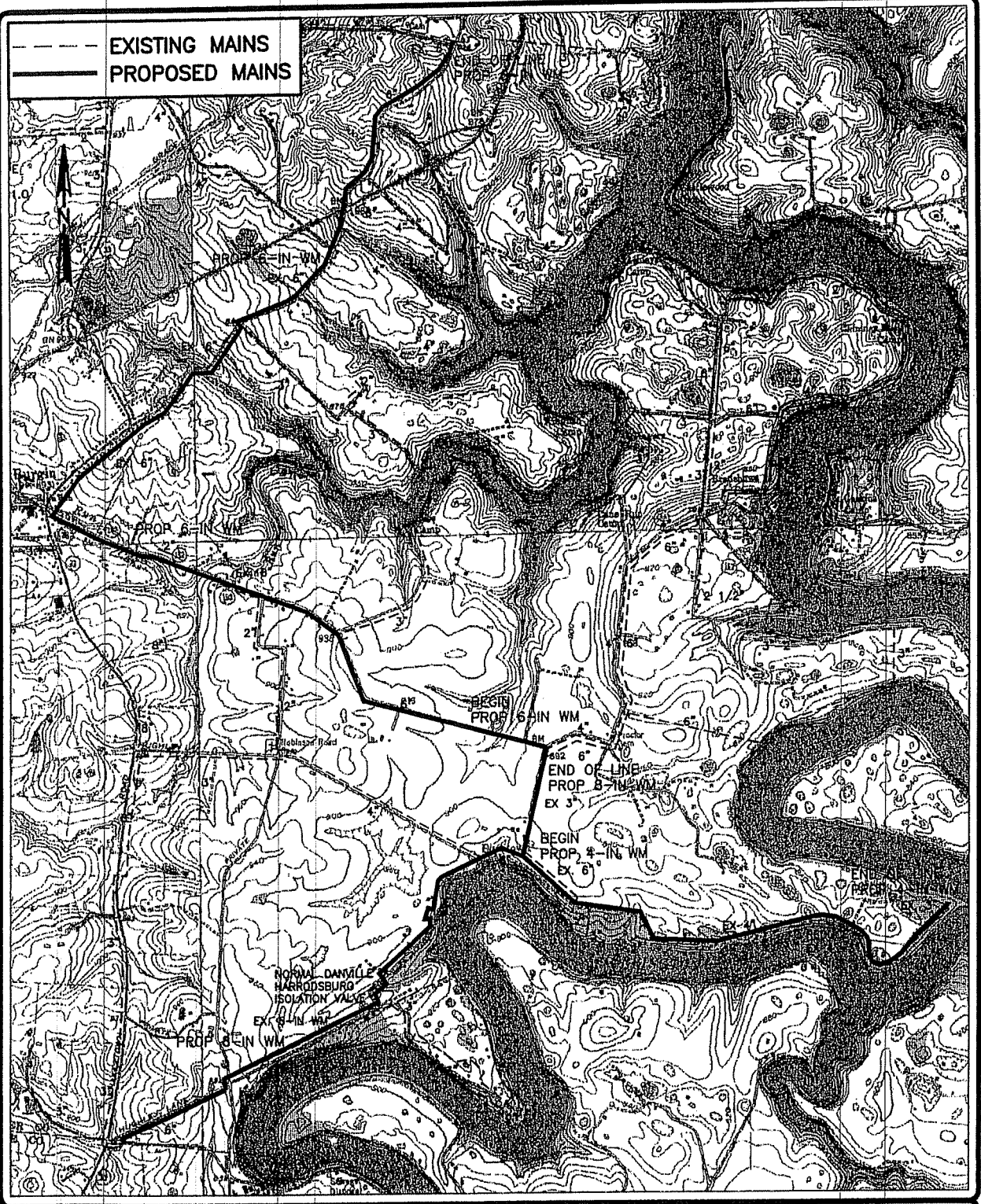
The Contract 13 East Zone Upgrade project consists of water mains to replace portions of the existing LVWA public water supply system. This project will replace water mains that accounted for almost 20 mil gal of water loss, or 50% of LVWA water lost in 2007. No alternative project is available that addresses all project goals.

Recommended financing for the project includes a RD loan in the amount of \$1,000,000, Coal/Tobacco Development grant funds of \$500,000, along with \$185,000 from local funds.

**APPENDIX A**  
**SUPPORTING FIGURES AND EXHIBITS**


---

File: S:\@peh\351--400\360\157\Acad\CONTRACT 13.FIGURE 1.dwg Time: Mar 04, 2008 -- 2:10pm



**PROJECT AREA: HUGHLEY LANE, KY 152, CURDSVILLE ROAD  
USGS: DANVILLE, HARRODSBURG, WILMORE, AND BRYANTSVILLE**

**EAST ZONE UPDATE  
CONTRACT 13  
LAKE VILLAGE WATER ASSOCIATION  
MERCER COUNTY, KENTUCKY**



**STRAND**  
ASSOCIATES, INC.<sup>®</sup>  
ENGINEERS

2-360.156  
FIGURE NO. 1

## Exhibit 1

### OPINION OF PROBABLE CONSTRUCTION COST

| Item               | Unit Cost  | Phase I | Phase II | Totals |                    |
|--------------------|------------|---------|----------|--------|--------------------|
| 8" PVC Pipe        | \$30 LF    | 14,700  |          | 14,700 | \$441,000          |
| 6" PVC Pipe        | \$25 LF    | 25,600  |          | 25,600 | \$640,000          |
| 4" PVC Pipe        | \$13.50 LF | 12,200  |          | 12,200 | \$164,700          |
| Road Bore          | \$200 LF   | 80      |          | 80     | \$16,000           |
| 8" Gate Valve      | \$1,000 EA | 7       |          | 7      | \$7,000            |
| 6" Gate Valve      | \$750 EA   | 13      |          | 13     | \$9,750            |
| 4" Gate Valve      | \$600 EA   | 6       |          | 6      | \$3,600            |
| Blowoff            | \$1,500 EA | 2       |          | 2      | \$3,000            |
| AARV               | \$500 EA   | 8       |          | 8      | \$4,000            |
| Stream Crossing    | \$130 LF   | 150     |          | 150    | \$19,500           |
| Rock Surface       | \$10 LF    |         |          | 0      | \$0                |
| Bituminous Surface | \$30 LF    |         |          | 0      | \$0                |
| Tie-in             | \$1,500 EA | 1       |          | 1      | \$1,500            |
| <b>TOTALS</b>      |            |         |          |        | <b>\$1,310,050</b> |

## Exhibit 2

### Estimated Project Costs (with RD template)

| Item   | Costs              |
|--|--------------------|
| Construction                                   | \$1,310,050        |
| Engineering:                                   |                    |
| Design & Bid                                   | \$88,856           |
| Construction                                   | \$22,214           |
| Observation                                    | \$56,200           |
| Planning (Preliminary and Additional Services) | \$35,000           |
| Legal & Administrative                         | \$5,000            |
| Land & Easements                               | \$5,000            |
| Interest                                       | \$32,751           |
| Contingencies                                  | \$128,675          |
| <b>TOTALS</b>                                  | <b>\$1,683,746</b> |

RECEIVED

JUL 07 2009

PUBLIC SERVICE  
COMMISSION

Report

**Final Engineering  
Report for  
Contract 13-2008  
Improvements**

**Lake Village Water  
Association, KY**

June 2009

# Report for Lake Village Water Association, Kentucky

---

Final Engineering Report for Contract 13-2008  
Improvements



Prepared by:

STRAND ASSOCIATES, INC.®  
1525 Bull Lea Road, Suite 100  
Lexington, KY 40511  
[www.strand.com](http://www.strand.com)

June 2009





**1.01 PURPOSE OF THE REPORT**

This report updates the Preliminary Engineering Report dated March 2008, of the proposed water main replacement project Contract 13 for Lake Village Water Association (LVWA).

**1.02 FINANCIAL**

A. Construction and Project Costs

Construction and project cost estimates based on the bids dated April 29, 2009, are presented in Table 1.02-1. The construction bid is \$863,000. The total project cost is approximately \$1,685,000.

|     | <b>Cost Classification</b>                     | <b>Budget Per Preliminary Engineering Report and Rural Development Letter of Conditions</b> | <b>June 2009 Budget Based on Actual Bids</b> |
|-----|--|---|--|
| 1.  | Legal and Administrative Expenses              | 5,000.00  | 5,000.00                                     |
| 2.  | Land, Appraisals, Easements, Right-of-Ways     | 5,000.00  | 5,000.00                                     |
| 3.  | Relocation Expense and Payments                | -   | -  |
| 4.  | Planning (Preliminary and Additional Services) | 35,000.00   | 35,000.00                                    |
| 5.  | Engineering Fees - Design and Bid              | 88,856.00   | 88,856.00                                    |
| 6.  | Engineering Fees - Construction                | 22,214.00   | 22,214.00                                    |
| 7.  | Engineering Fees - Observation                 | 56,200.00   | 56,200.00                                    |
| 8.  | Construction                                   | 1,310,050.00  | 863,000.00                                   |
| 9.  | Equipment                                      | -   | -  |
| 10. | Contingency                                    | 128,675.00  | 575,725.00                                   |
| 11. | Interest on Interim Financing                  | 32,751.00   | 32,751.00                                    |
|     | <b>Total</b>                                   | <b>\$1,683,746.00</b>   | <b>\$1,683,746.00</b>                        |

**Table 1.02-1 Budget Review**

B. Project Budget

A summary of the project funding is presented in Table 1.02-2. Funding is comprised of a loan (Rural Development \$1,000,000), a grant (Kentucky Tobacco \$500,000), and local contribution (\$185,000).

|    | Sources of Funds            | Amount          |
|----|-----------------------------|-----------------|
| 1. | RD Loan                     | \$ 1,000,000.00 |
| 2. | KY Coal/Tobacco Development | 500,000.00      |
| 3. | Local Contribution          | 185,000.00      |
|    | Total                       | \$1,685,000.00  |

**Table 1.02-2 Project Funding**

C. Rate Analysis

LVWA served 2,190 customers in February 2008 (see Table 1.02-3). The expected annual income, based on existing rates and recent billing data provided by LVWA, is presented in the Appendix of supporting documents. The average monthly bill for residential customers is \$34.69 based on usage of 3,500 gallons. With the projections of revenues, operation costs, and the debt retirement schedule, the operating budgets were computed for the years 2007 through 2008 and projected for 2009. See Appendix A.

| Year | Recorded New Taps  | Total Customers |
|------|--------------------|-----------------|
| 2003 | 72                 | 1,882           |
| 2004 | 157                | 2,041           |
| 2005 | 44                 | 2,085           |
| 2006 | 25                 | 2,110           |
| 2007 | 0                  | 2,110           |
| 2008 | 58                 | 2,168           |
| 2009 | 22                 | 2,190           |
| Year | Projected New Taps | Total Customers |
| 2009 | 0                  | 2,190           |
| 2010 | 0                  | 2,190           |
| 2011 | 0                  | 2,190           |
| 2012 | 0                  | 2,190           |

**Table 1.02-3 Service Tap History and Projections**

**1.03 SUMMARY AND CONCLUSIONS**

The Contract 13 East Zone Upgrade Project replaces over 50,000 LF of pipe in the existing LVWA public water supply system in the East Zone of Mercer County. This extension will improve service to customers in the East Zone of Mercer County by reducing water loss emergency repairs, loss of service, and boil water advisories.

The 2007 through 2008 and 2009 Proposed Operating Budgets for the Existing System and the Contract 13 replacement project are presented in the Summary Addendum and summarized in Table 1.03-1. The projected surplus for the entire system in 2009 is approximately \$223,689. LVWA had a rate increase in 2008.

|   | 2007      | 2008*       | 2009        | 2013        |
|---|-----------|-------------|-------------|-------------|
| Operating Income  | \$996,033 | \$1,169,173 | \$1,196,000 | \$1,196,000 |
| Operation and Maintenance Expense                                     | (740,530) | (793,039)   | (704,560)   | (830,144)   |
| Net Income  | 259,156   | 380,969     | 491,440     | 365,886     |
| Debt Repayment:   |           |             |             |             |
| Principle   | (49,837)  | (57,687)    | (61,545)    | 88,561      |
| Interest  | (137,361) | (163,349)   | (161,587)   | 187,218     |
| Balance for Coverage and Depreciation Prior to 20% Coverage Deduction | 71,958    | 159,933     | 268,314     | 90,107      |
| Surplus (Deficit)   | \$34,578  | \$115,726   | \$223,689   | 34,951      |

Note: Data for 2003 through 2008 based on audit reports.

\*New rates were applied in 2008.

**Table 1.03-1 Summary of Operating Budget Analysis per 2008 Rates**

**APPENDIX A**  
**SUPPORTING DOCUMENTS**

---

## Existing System 2007

PAST OPERATING BUDGET  
(As of 2007 full operating year)

01/01/07 through 12/31/07

A. Operating Income: **With 2007 Rates, Rate increase began 01/01/08**

|  |                  |
|--|------------------|
| Water Sales recorded <b>use at 2007 rates</b>  | \$967,319        |
| Surcharge Fee                                  | \$0              |
| Other (Lease Income and Miscellaneous Revenue) | \$28,714         |
| Less Allowances and Deductions                 | \$0              |
| <b>Total Operating Income</b>                  | <b>\$996,033</b> |

B. Operation and Maintenance Expenses:  
(Based on Uniform System of Accounts prescribed by  
National Association of Regulatory Utility Commissioners)

|  |                    |
|--|--------------------|
| Potable Water System Expenses, includes treatment & distribution | (\$336,638)        |
| Customer Accounts Expense  | (\$13,244)         |
| Administrative and General Expense - potable water system        | (\$390,648)        |
| <b>Total Operating Expenses</b>                                  | <b>(\$740,530)</b> |
| <b>Net Operating Income</b>                                      | <b>\$255,503</b>   |

C. Non-Operating Income:

|                                   |                |
|-----------------------------------|----------------|
| Sale of assets                    | \$1,600        |
| Interest on Deposits              | \$2,053        |
| Other (Nonutility Income)         | \$0            |
| <b>Total Non-Operating Income</b> | <b>\$3,653</b> |

D. Net Income **\$259,156**

E. Debt Repayment:

|                             |                    |
|-----------------------------|--------------------|
| Non-RD Interest             | (\$37,833)         |
| Non-RD Principal            | (\$9,236)          |
| RD Interest                 | (\$99,528)         |
| RD Principal                | (\$40,601)         |
| <b>Total Debt Repayment</b> | <b>(\$187,198)</b> |

F. Balance Available for Coverage  
and Depreciation **\$71,958**

G. Required Coverage @ 20% **(\$37,440)**

H. Surplus (Deficit) **\$34,518**

I. Conclusion: **Operation is negative and the 2008 rate increase was justified.**

\*\* Based upon Audit report By Craig A. Butler, CPA

## Existing System 2008

OPERATING BUDGET  
(Full Operating Year 2008)

A. Operating Income: **With 2008 Rates**

|   |                    |
|---|--------------------|
| Water Sales <b>projection for 2008</b>          | \$1,169,173        |
| Surcharge Fee                                   | \$0                |
| Other (Lease Income and Miscellaneous Revenue ) | \$0                |
| Less Allowances and Deductions                  | \$0                |
| Total Operating Income                          | <b>\$1,169,173</b> |

B. Operation and Maintenance Expenses:  
(Based on Uniform System of Accounts prescribed by  
National Association of Regulatory Utility Commissioners)

|  |                    |
|--|--------------------|
| Potable Water System Expenses, includes treatment & distribution | (\$379,497)        |
| Customer Accounts Expense  | (\$20,649)         |
| Administrative and General Expense - potable water system        | (\$392,893)        |
| Total Operating Expenses   | <b>(\$793,039)</b> |
| Net Operating Income   | <b>\$376,134</b>   |

C. Non-Operating Income:

|                            |                |
|----------------------------|----------------|
| Sale of assets             | \$0            |
| Interest on Deposits       | \$4,835        |
| Other (Nonutility Income)  | \$0            |
| Total Non-Operating Income | <b>\$4,835</b> |

D. Net Income **\$380,969**

E. Debt Repayment:

|                      |                    |
|----------------------|--------------------|
| Non-RD Interest      | (\$35,558)         |
| Non-RD Principal     | (\$11,512)         |
| RD Interest          | (\$127,791)        |
| RD Principal         | (\$46,175)         |
| Total Debt Repayment | <b>(\$221,036)</b> |

F. Balance Available for Coverage and Depreciation **\$159,933**

G. Required Coverage @ 20% **(\$44,207)**

H. Surplus (Deficit) **\$115,726**

I. Conclusion: **Operation is positive and no rate increase needed.**

## Contract 13 Improvement 2009 Projection

### PROPOSED OPERATING BUDGET

(Projected to 2009 with Contract 13)

A. Operating Income:

|   |                    |
|---|--------------------|
| Water Sales Projection for 2008                 | \$1,196,000        |
| Surcharge Fee                                   | \$0                |
| Other (Lease Income and Miscellaneous Revenue ) | \$0                |
| Less Allowances and Deductions                  | \$0                |
| <b>Total Operating Income</b>                   | <b>\$1,196,000</b> |

B. Operation and Maintenance Expenses:

(Based on Uniform System of Accounts prescribed by  
National Association of Regulatory Utility Commissioners)

|  |                    |
|--|--------------------|
| Potable Water System Expenses, includes treatment & distribution                     | (\$292,023)        |
| Customer Accounts Expense  | \$0                |
| Administrative and General Expense - potable water system<br>- 5% increase from 2008 | (\$412,538)        |
| <b>Total Operating Expenses</b>  | <b>(\$704,560)</b> |
| <b>Net Operating Income</b>  | <b>\$491,440</b>   |

C. Non-Operating Income:

|                                   |            |
|-----------------------------------|------------|
| Sale of assets                    | \$0        |
| Interest on Deposits              | \$0        |
| Other (Nonutility Income)         | \$0        |
| <b>Total Non-Operating Income</b> | <b>\$0</b> |

D. Net Income **\$491,440**

E. Debt Repayment:

|                             |                    |
|-----------------------------|--------------------|
| Non-RD Interest             | (\$34,821)         |
| Non-RD Principal            | (\$12,249)         |
| RD Interest                 | (\$126,760)        |
| RD Principal                | (\$49,296)         |
| <b>Total Debt Repayment</b> | <b>(\$223,126)</b> |

F. Balance Available for Coverage  
and Depreciation **\$268,314**

G. Required Coverage @ 20% **(\$44,625)**

H. Surplus (Deficit) **\$223,689**

I. Conclusion: **Operation is positive and no rate increase needed.**

## Contract 13 Improvement 2013 Projection

### PROPOSED OPERATING BUDGET

(Projected to 2013 with Contract 13)

A. Operating Income: **With 2008 Rates**

|  |                    |
|--|--------------------|
| Water Sales at 2008 projection                 | \$1,196,000        |
| Surcharge Fee                                  | \$0                |
| Other (Lease Income and Miscellaneous Revenue) | \$0                |
| Less Allowances and Deductions                 | \$0                |
| Total Operating Income                         | <b>\$1,196,000</b> |

B. Operation and Maintenance Expenses:  
(Based on Uniform System of Accounts prescribed by  
National Association of Regulatory Utility Commissioners)

|   |                    |
|---|--------------------|
| Potable Water System Expenses, includes treatment & distribution                  | (\$328,672)        |
| Customer Accounts Expense   | \$0                |
| Administrative and General Expense - potable water system<br>- 5% annual increase | (\$501,442)        |
| Total Operating Expenses  | <b>(\$830,114)</b> |
| Net Operating Income  | <b>\$365,886</b>   |

C. Non-Operating Income:

|                            |            |
|----------------------------|------------|
| Sale of assets             | \$0        |
| Interest on Deposits       | \$0        |
| Other (Nonutility Income)  | \$0        |
| Total Non-Operating Income | <b>\$0</b> |

D. Net Income **\$365,886**

E. Debt Repayment:

|                      |                    |
|----------------------|--------------------|
| Non-RD Interest      |                    |
| Non-RD Principal     |                    |
| RD Interest          | (\$187,218)        |
| RD Principal         | (\$88,561)         |
| Total Debt Repayment | <b>(\$275,779)</b> |

F. Balance Available for Coverage and Depreciation **\$90,107**

G. Required Coverage @ 20% **(\$55,156)**

H. Surplus (Deficit) **\$34,951**

I. Conclusion: **Operation is positive and no rate increase needed.**



LAKE VILLAGE WATER ASSOCIATION, INC.

AUDIT OF FINANCIAL STATEMENTS

---

DECEMBER 31, 2008

CRAIG A. BUTLER

CERTIFIED PUBLIC ACCOUNTANT

DANVILLE, KENTUCKY

CONTENTS

|  | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT   | 1           |
| FINANCIAL STATEMENTS:  |             |
| STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY  | 3           |
| STATEMENT OF OPERATIONS  | 5           |
| STATEMENT OF MEMBERS' EQUITY   | 6           |
| STATEMENT OF OPERATING EXPENSES  | 7           |
| STATEMENT OF CASH FLOWS  | 8           |
| NOTES TO FINANCIAL STATEMENTS  | 9           |
| COMPLIANCE SECTION:  |             |
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON<br>INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN<br>AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE<br>WITH <u>GOVERNMENT AUDITING STANDARDS</u> | 14          |

CRAIG A. BUTLER, CPA

131 N 4<sup>TH</sup> STREET

DANVILLE, KY 40422

Phone: (859) 936-0201

Fax: (859) 936-0203

Mobile: (859) 583-7941

**INDEPENDENT AUDITOR'S REPORT**

CHAIRMAN AND COMMISSIONERS  
LAKE VILLAGE WATER ASSOCIATION, INC.  
BURGIN, KENTUCKY 40310

I HAVE AUDITED THE ACCOMPANYING STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY OF LAKE VILLAGE WATER ASSOCIATION, INC. AS OF DECEMBER 31, 2008, AND THE RELATED STATEMENTS OF OPERATIONS, EQUITY, OPERATING EXPENSES, AND CASH FLOWS FOR THE YEAR THEN ENDED. THESE FINANCIAL STATEMENTS ARE THE RESPONSIBILITY OF THE ASSOCIATION'S MANAGEMENT. MY RESPONSIBILITY IS TO EXPRESS AN OPINION ON THESE FINANCIAL STATEMENTS BASED ON MY AUDIT.

I HAVE CONDUCTED MY AUDIT IN ACCORDANCE WITH AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, AND THE STANDARDS APPLICABLE TO FINANCIAL AUDITS CONTAINED IN *GOVERNMENT AUDITING STANDARDS*, ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES. THOSE STANDARDS REQUIRE THAT I PLAN AND PERFORM THE AUDIT TO OBTAIN REASONABLE ASSURANCE ABOUT WHETHER THE 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. I BELIEVE THAT MY AUDIT PROVIDES A REASONABLE BASIS FOR MY OPINION.

IN MY OPINION, THE FINANCIAL STATEMENTS REFERRED TO ABOVE PRESENT FAIRLY, IN ALL MATERIAL RESPECTS, THE ASSETS, LIABILITIES, AND MEMBERS' EQUITY OF LAKE VILLAGE WATER ASSOCIATION, INC. AS OF DECEMBER 31, 2008, AND THE RESULTS OF ITS OPERATIONS, CASH FLOWS, AND OPERATING EXPENSES FOR THE YEAR THEN ENDED IN CONFORMITY WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA.

**INDEPENDENT AUDITOR'S REPORT CONTINUED**

IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, I HAVE ALSO ISSUED MY REPORT DATED MARCH 23, 2009, ON MY CONSIDERATION OF THE ASSOCIATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING AND MY TESTS OF COMPLIANCE WITH CERTAIN PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, GRANT AGREEMENTS, AND OTHER MATTERS. THE PURPOSE OF THAT REPORT IS TO DESCRIBE THE SCOPE OF MY 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 MY AUDIT.

*Craig A. Butler, CPA*

CRAIG A. BUTLER  
CERTIFIED PUBLIC ACCOUNTANT

DANVILLE, KENTUCKY  
MARCH 23, 2009

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY  
DECEMBER 31, 2008  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2007)

|  | <u>2008</u>             | <u>2007</u>             |
|--|-------------------------|-------------------------|
| <u>ASSETS</u>                            |                         |                         |
| CURRENT ASSETS:                          |                         |                         |
| CASH (NOTE 3)                            | \$ 152,369              | \$ 148,857              |
| ACCOUNTS RECEIVABLE (NET OF ALLOWANCE)   | 97,980                  | 82,285                  |
| INVENTORY (NOTE 2)                       | 15,403                  | 20,286                  |
| PREPAID EXPENSES (NOTE 2)                | <u>24,692</u>           | <u>21,934</u>           |
| <br>TOTAL CURRENT ASSETS                 | <br>290,444             | <br>273,362             |
| RESTRICTED ASSETS:                       |                         |                         |
| CASH (NOTE 3)                            | 371,904                 | 333,404                 |
| PROPERTY & EQUIPMENT, NET (NOTE 2 AND 4) | <u>4,302,582</u>        | <u>4,398,565</u>        |
| <br>TOTAL ASSETS                         | <br><u>\$ 4,964,930</u> | <br><u>\$ 5,005,331</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
 STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY  
 DECEMBER 31, 2008  
 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2007)

|   | <u>2008</u>             | <u>2007</u>             |
|---|-------------------------|-------------------------|
| <u>LIABILITIES &amp; EQUITY</u>         |                         |                         |
| CURRENT LIABILITIES:                    |                         |                         |
| CURRENT PORTION - DEBT (NOTE 5)         | \$ 59,252               | \$ 60,621               |
| CASH OVERDRAFT (NOTE 3)                 | 38,896                  | 40,043                  |
| ACCOUNTS PAYABLE                        | 19,727                  | 12,580                  |
| CONTRACTORS PAYABLE                     | 30,482                  | 32,383                  |
| ACCRUED INTEREST                        | 71,412                  | 70,301                  |
| OTHER CURRENT LIABILITIES               | <u>29,769</u>           | <u>49,038</u>           |
| <br>TOTAL CURRENT LIABILITIES           | <br>249,538             | <br>264,966             |
| <br>LONG-TERM DEBT (NOTE 5)             | <br><u>2,836,454</u>    | <br><u>2,896,529</u>    |
| <br>TOTAL LIABILITIES                   | <br>3,085,992           | <br>3,161,495           |
| <br>MEMBERS' EQUITY:                    |                         |                         |
| MEMBERSHIPS                             | 644,528                 | 626,595                 |
| CONTRIBUTIONS IN AID OF CONSTRUCTION    | 2,065,469               | 2,065,469               |
| RETAINED DEFICIT                        | <u>(831,059)</u>        | <u>(848,228)</u>        |
| <br>TOTAL EQUITY                        | <br><u>1,878,938</u>    | <br><u>1,843,836</u>    |
| <br>TOTAL LIABILITIES & MEMBERS' EQUITY | <br><u>\$ 4,964,930</u> | <br><u>\$ 5,005,331</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2007)

|  | <u>2008</u>      | <u>2007</u>        |
|--|------------------|--------------------|
| OPERATING REVENUE:                       |                  |                    |
| WATER SALES                              | \$ 1,136,601     | \$ 967,319         |
| OTHER OPERATING REVENUE                  | <u>32,572</u>    | <u>28,714</u>      |
| TOTAL OPERATING REVENUE                  | 1,169,173        | 996,033            |
| OPERATING EXPENSES                       | <u>793,039</u>   | <u>740,530</u>     |
| NET OPERATING INCOME BEFORE DEPRECIATION | 376,134          | 255,503            |
| DEPRECIATION (NOTE 2)                    | <u>200,451</u>   | <u>172,778</u>     |
| NET OPERATING INCOME                     | 175,683          | 82,725             |
| NON-OPERATING INCOME (EXPENSES):         |                  |                    |
| GAIN(LOSS) ON SALE OF ASSETS             | -                | 1,600              |
| INTEREST INCOME                          | 4,835            | 2,053              |
| INTEREST EXPENSE                         | <u>(163,349)</u> | <u>(137,361)</u>   |
| TOTAL NON-OPERATING INCOME (EXPENSES)    | <u>(158,514)</u> | <u>(133,708)</u>   |
| NET INCOME (LOSS)                        | <u>\$ 17,169</u> | <u>\$ (50,983)</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

|                                     | <u>MEMBERSHIPS</u> | <u>CONTRIBUTIONS<br/>IN AID OF<br/>CONSTRUCTION</u> | <u>RETAINED<br/>DEFICIT</u> | <u>TOTAL</u>        |
|-------------------------------------|--------------------|---|-----------------------------|---------------------|
| BALANCE AT JANUARY 1, 2007          | \$ 588,978         | \$ 1,658,767  | \$ (797,245)                | \$ 1,450,500        |
| 2007 NET LOSS                       | -                  | -   | (50,983)                    | (50,983)            |
| CAPITAL CONTRIBUTION-<br>GOVERNMENT | -                  | 406,702   | -                           | 406,702             |
| MEMBERSHIPS                         | <u>37,617</u>      | <u>-</u>  | <u>-</u>                    | <u>37,617</u>       |
| BALANCE AT DECEMBER 31, 2007        | 626,595            | 2,065,469   | (848,228)                   | 1,843,836           |
| 2008 NET INCOME                     | -                  | -   | 17,169                      | 17,169              |
| CAPITAL CONTRIBUTION-<br>GOVERNMENT | -                  | -   | -                           | -                   |
| MEMBERSHIPS                         | <u>17,933</u>      | <u>-</u>  | <u>-</u>                    | <u>17,933</u>       |
| BALANCE AT DECEMBER 31, 2008        | <u>\$ 644,528</u>  | <u>\$ 2,065,469</u>                                 | <u>\$ (831,059)</u>         | <u>\$ 1,878,938</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.



LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2007)

|                                      | <u>2008</u>       | <u>2007</u>       |
|--------------------------------------|-------------------|-------------------|
| SOURCE OF SUPPLY EXPENSE:            |                   |                   |
| WATER PURCHASES                      | \$ 353,980        | \$ 305,348        |
| TOTAL                                | 353,980           | 305,348           |
| TRANSMISSION & DISTRIBUTION EXPENSE: |                   |                   |
| MAINTENANCE & REPAIRS                | <u>25,517</u>     | <u>31,290</u>     |
| TOTAL                                | 25,517            | 31,290            |
| CUSTOMER ACCOUNTS EXPENSE:           |                   |                   |
| UNCOLLECTIBLE ACCOUNTS               | 5,091             | 2,477             |
| SUPPLIES & POSTAGE                   | <u>15,558</u>     | <u>10,767</u>     |
| TOTAL                                | 20,649            | 13,244            |
| ADMINISTRATIVE & GENERAL:            |                   |                   |
| SALARIES                             | 201,595           | 194,737           |
| INSURANCE                            | 29,827            | 31,128            |
| MISCELLANEOUS GENERAL EXPENSE        | 56,028            | 54,816            |
| TRANSPORTATION EXPENSE               | 15,477            | 13,232            |
| PAYROLL TAXES                        | 16,480            | 15,874            |
| STAFF BENEFITS                       | 43,746            | 50,321            |
| LEGAL                                | 2,946             | 3,474             |
| AUDIT AND ACCOUNTING                 | 4,785             | 5,030             |
| COMMISSIONERS' FEES                  | 18,000            | 16,300            |
| ENGINEERING FEES                     | 2,412             | 4,169             |
| OTHER LICENSES AND TAXES             | <u>1,597</u>      | <u>1,567</u>      |
| TOTAL ADMINISTRATIVE & GENERAL       | <u>392,893</u>    | <u>390,648</u>    |
| TOTAL OPERATING EXPENSES             | <u>\$ 793,039</u> | <u>\$ 740,530</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2007)

|  | <u>2008</u>       | <u>2007</u>        |
|--|-------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |                   |                    |
| NET LOSS   | \$ 17,169         | \$ (50,983)        |
| ADJUSTMENTS TO RECONCILE NET LOSS TO<br>NET CASH PROVIDED BY OPERATING ACTIVITIES: |                   |                    |
| DEPRECIATION   | 200,451           | 172,778            |
| DECREASE (INCREASE) IN ACCOUNTS RECEIVABLE   | (15,695)          | (16,983)           |
| DECREASE (INCREASE) IN INVENTORY   | 4,883             | (6,869)            |
| DECREASE (INCREASE) IN PREPAID EXPENSES  | (2,758)           | (1,249)            |
| INCREASE (DECREASE) IN ACCOUNTS PAYABLE  | 7,147             | (20,724)           |
| INCREASE (DECREASE) IN CONTRACTORS PAYABLE   | (1,901)           | 32,383             |
| INCREASE (DECREASE) IN OTHER CURRENT LIABILITIES                                   | (19,269)          | 19,379             |
| INCREASE (DECREASE) IN ACCRUED INTEREST  | 1,111             | 3,983              |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES                                | <u>191,138</u>    | <u>131,715</u>     |
| CASH FLOWS FROM INVESTING ACTIVITIES   |                   |                    |
| ACQUISITION OF PROPERTY AND EQUIPMENT  | <u>(104,468)</u>  | <u>(1,076,212)</u> |
| NET CASH USED IN INVESTING ACTIVITIES  | <u>(104,468)</u>  | <u>(1,076,212)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES   |                   |                    |
| MEMBERSHIPS (TAP FEES)   | 17,933            | 37,617             |
| CAPITAL CONTRIBUTIONS-GOVERNMENT   | -                 | 406,702            |
| BORROWINGS OF INTERIM LOANS  | -                 | 702,375            |
| REPAYMENTS OF INTERIM LOANS  | -                 | (702,375)          |
| BORROWINGS OF RD LOANS   | -                 | 885,000            |
| REPAYMENTS OF NOTE PAYABLE   | (9,083)           | (7,925)            |
| REPAYMENTS OF RD LOANS   | <u>(52,361)</u>   | <u>(78,382)</u>    |
| NET CASH PROVIDED BY FINANCING ACTIVITIES  | <u>(43,511)</u>   | <u>1,243,012</u>   |
| NET INCREASE (DECREASE) IN CASH  | 43,159            | 298,515            |
| CASH AT BEGINNING OF YEAR  | <u>442,218</u>    | <u>143,703</u>     |
| CASH AT END OF YEAR  | <u>\$ 485,377</u> | <u>\$ 442,218</u>  |

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS:  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2008 AND 2007, THE ASSOCIATION PAID \$162,238 AND \$133,378 RESPECTIVELY, IN INTEREST COSTS. IN 2007, THE ASSOCIATION ALSO PAID \$12,559 IN INTEREST (NET OF INTEREST EARNED ON THE BORROWED FUNDS) RELATED TO INTERIM FINANCING. THIS INTEREST WAS CAPITALIZED IN THE FINANCIAL STATEMENTS.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

1. GENERAL

LAKE VILLAGE WATER ASSOCIATION, INC., (THE "ASSOCIATION") IS A NOT-FOR-PROFIT CORPORATION. THE ASSOCIATION PROVIDES WATER SERVICES TO THE RURAL SECTIONS OF BOYLE AND MERCER COUNTIES.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. THE ASSOCIATION USES THE ACCRUAL METHOD OF ACCOUNTING, AND ACCORDINGLY REFLECTS ALL SIGNIFICANT RECEIVABLES, PAYABLES, AND OTHER LIABILITIES. CERTAIN DISCLOSURES HAVE BEEN INCLUDED IN THIS REPORT TO CONFORM WITH RURAL DEVELOPMENT AGENCY (RD) REQUIREMENTS.
- B. FOR PURPOSES OF THE STATEMENT OF CASH FLOWS, THE ASSOCIATION CONSIDERS ALL HIGHLY LIQUID INVESTMENTS WITH AN INITIAL MATURITY OF THREE MONTHS OR LESS TO BE CASH EQUIVALENTS.
- C. MANAGEMENT USES ESTIMATES AND ASSUMPTIONS IN PREPARING FINANCIAL STATEMENTS. THOSE ESTIMATES AND ASSUMPTIONS AFFECT THE REPORTED AMOUNTS OF ASSETS AND LIABILITIES, THE DISCLOSURE OF CONTINGENT ASSETS AND LIABILITIES, AND THE REPORTED REVENUES AND EXPENSES. ACTUAL RESULTS COULD DIFFER FROM THOSE ESTIMATES.
- D. PROPERTY AND EQUIPMENT ARE STATED AT COST, AND ARE DEPRECIATED OVER THE ESTIMATED USEFUL LIFE OF THE ASSET USING THE STRAIGHT-LINE METHOD OF DEPRECIATION. TRANSMISSION LINES AND STANDPIPES ARE BEING DEPRECIATED OVER A 33 YEAR LIFE; OFFICE FURNITURE AND EQUIPMENT OVER A 5 TO 10 YEAR LIFE; BUILDINGS AND IMPROVEMENTS OVER A 20 YEAR LIFE.
- E. A STATUTORY MORTGAGE LIEN EXISTS ON THE UTILITY PLANT IN FAVOR OF THE RURAL DEVELOPMENT AGENCY (RD), WITH LOANS BEING COLLATERALIZED BY AND PAYABLE FROM GROSS REVENUES OF THE ASSOCIATION INCLUDING ALL ASSETS OF THE ASSOCIATION.
- F. MATERIAL INVENTORY IS STATED AT COST USING THE FIRST-IN, FIRST-OUT (FIFO) METHOD.
- G. PREPAID ITEMS INCLUDE PAYMENTS MADE TO VENDORS THAT WILL BENEFIT FUTURE PERIODS.
- H. RESTRICTED ASSETS REPRESENT CASH FOR WHICH USE IS LIMITED BY APPLICABLE LOAN COVENANTS.
- G. CERTAIN ACCOUNTS IN THE PRIOR-YEAR FINANCIAL STATEMENTS HAVE BEEN RECLASSIFIED FOR COMPARATIVE PURPOSES TO CONFORM TO THE PRESENTATION IN THE CURRENT-YEAR FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

3. CASH

CASH IS COMPOSED OF THE FOLLOWING WITH RESTRICTION FOR USE NOTED:

|                                   |   | <u>2008</u>       | <u>2007</u>       |
|-----------------------------------|---|-------------------|-------------------|
| CASH ON HAND                      |   | \$ 50             | \$ 50             |
| CASH ON DEPOSIT-OPERATING ACCOUNT | A | (38,896)          | (40,043)          |
| CASH ON DEPOSIT-REVENUE ACCOUNT   | B | 152,319           | 148,807           |
| CASH ON DEPOSIT-CUSTOMER DEPOSITS | C | 9,265             | 10,295            |
| SAVINGS ACCOUNTS:                 |   |                   |                   |
| DEBT SERVICE ACCOUNT              | D | 144,685           | 97,953            |
| RESERVE ACCOUNT                   | E | 98,685            | 12,624            |
| LAKE VILLAGE CONSTRUCTION ACCOUNT | F | 119,269           | 212,532           |
| TOTAL                             |   | <u>\$ 485,377</u> | <u>\$ 442,218</u> |

THE ASSOCIATION MAINTAINS CASH IN ONE LOCAL BANK AND IS REQUIRED BY THE RURAL DEVELOPMENT LOAN AGREEMENT TO HAVE THE FINANCIAL INSTITUTIONS PLEDGE SECURITIES HAVING A CURRENT QUOTED MARKET VALUE AT LEAST EQUAL TO THE UNINSURED DEPOSITS. AT YEAR END, THE CARRYING AMOUNT OF THE ASSOCIATION'S CASH WAS \$485,327 AND THE BANK BALANCE WAS \$546,246. AT DECEMBER 31, 2008, ALL BANK BALANCES WERE COVERED BY FEDERAL DEPOSITORY INSURANCE, OR BY COLLATERAL HELD BY THE PLEDGING BANK'S TRUST DEPARTMENT ON BEHALF OF THE ASSOCIATION.

- (A) THE OPERATING AND MAINTENANCE ACCOUNT IS THE PRIMARY OPERATING ACCOUNT OF THE ASSOCIATION. IT IS FUNDED BY TRANSFERS FROM THE REVENUE ACCOUNT AND IS USED TO PAY ALL OPERATING EXPENSES OF THE ASSOCIATION. THE OPERATING ACCOUNT OPERATES ON AN IMPREST BASIS; THUS, THE OVERDRAFT IN THIS ACCOUNT REPRESENTS OUTSTANDING CHECKS AT YEAR-END.
- (B) THE REVENUE ACCOUNT, REQUIRED BY THE RD LOAN AGREEMENT, IS USED FOR THE DEPOSIT OF ALL FUNDS COLLECTED AND FOR THE DISBURSEMENT OF FUNDS TO THE PROPER BANK ACCOUNTS.
- (C) THE CUSTOMER DEPOSIT ACCOUNT IS USED TO HANDLE REQUIRED DEPOSITS BY NEW CUSTOMERS.
- (D) THE ASSOCIATION IS REQUIRED TO TRANSFER FUNDS MONTHLY TO THE DEBT SERVICE ACCOUNT TO MEET THE MONTHLY INSTALLMENTS FOR PRINCIPAL AND INTEREST ON THE RD LOANS OUTSTANDING.
- (E) THE ASSOCIATION IS REQUIRED TO TRANSFER FUNDS MONTHLY TO THE RESERVE ACCOUNT IN AMOUNTS SPECIFIED BY RURAL DEVELOPMENT. THE USE OF SUCH FUND IS RESTRICTED TO PAYING THE COST OF REPAIRING OR REPLACING, MAKING EXTENSIONS OR IMPROVEMENTS, OR WHEN NECESSARY FOR PAYMENT OF PRINCIPAL AND INTEREST.
- (F) THIS ACCOUNT IS MAINTAINED BY THE ASSOCIATION TO ACCOUNT FOR THE CASH RECEIPTS AND DISBURSEMENTS RELATED TO CERTAIN WATER SYSTEM IMPROVEMENT PROJECTS UNDERTAKEN DURING THE YEAR.

LAKE VILLAGE WATER ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

4. PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT CONSISTS OF THE FOLLOWING AS OF DECEMBER 31:

|                                | <u>2008</u>         | <u>2007</u>         |
|--------------------------------|---------------------|---------------------|
| LAND                           | \$ 62,409           | \$ 62,409           |
| BUILDINGS & IMPROVEMENTS       | 42,324              | 42,324              |
| SUPPLY MAINS                   | 15,500              | 15,500              |
| PUMP STATION                   | 50,800              | 50,800              |
| STANDPIPES & STORAGE TANKS     | 560,946             | 560,946             |
| WATER LINES                    | 5,429,725           | 5,429,725           |
| CUSTOMER SERVICES              | 189,926             | 189,926             |
| METERS                         | 364,677             | 364,677             |
| HYDRANTS                       | 1,960               | 1,960               |
| OFFICE FURNITURE               | 58,251              | 54,130              |
| TRANSPORTATION EQUIPMENT       | 131,090             | 131,090             |
| OTHER EQUIPMENT                | 58,219              | 58,219              |
| OTHER TANGIBLE PLANT           | 131,934             | 131,934             |
| CONSTRUCTION IN PROCESS        | <u>102,445</u>      | <u>2,098</u>        |
| TOTAL                          | 7,200,206           | 7,095,738           |
| LESS: ACCUMULATED DEPRECIATION | <u>2,897,624</u>    | <u>2,697,173</u>    |
| PROPERTY AND EQUIPMENT, NET    | <u>\$ 4,302,582</u> | <u>\$ 4,398,565</u> |

5. LONG-TERM DEBT

A. LOAN 91-05

8.375% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENTS OF \$45,703, INCLUDING PRINCIPAL AND INTEREST. \$ 270,885

B. LOAN 91-06

5.50% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENTS OF \$52,206, INCLUDING PRINCIPAL AND INTEREST. 711,559

C. LOAN 91-07

5.375% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENTS OF \$21,484, INCLUDING PRINCIPAL AND INTEREST. 226,394

D. LOAN 91-08

5% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENTS OF \$16,839, INCLUDING PRINCIPAL AND INTEREST. 257,000

E. LOAN 91-09

4.5% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENT OF \$48,038, INCLUDING PRINCIPAL AND INTEREST BEGINNING IN 2010. THE ASSOCIATION IS ONLY REQUIRED TO PAY INTEREST IN 2008 AND 2009. 883,363

LAKE VILLAGE WATER ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

5. LONG-TERM DEBT (CONTINUED)

|  |                           |
|--|---------------------------|
| F. NOTE PAYABLE – FARMERS NATIONAL BANK<br>6.4% VARIABLE RATE NOTE PAYABLE DUE IN MONTHLY INSTALLMENTS<br>OF \$3,712.58, INCLUDING PRINCIPAL AND INTEREST. | <u>546,505</u>            |
| TOTAL OUTSTANDING DEBT   | <u><u>\$2,895,706</u></u> |

THE ABOVE NOTES ARE SECURED BY ALL PROPERTY AND EQUIPMENT OF THE ASSOCIATION.

A SCHEDULE OF MATURITIES ON THE ABOVE DEBT IS AS FOLLOWS:

| <u>YEAR ENDING DECEMBER 31</u> | <u>AMOUNT</u> |
|--------------------------------|---------------|
| 2009                           | \$ 59,252     |
| 2010                           | 72,535        |
| 2011                           | 77,231        |
| 2012                           | 82,246        |
| 2013                           | 87,603        |
| THEREAFTER                     | 2,516,839     |
| TOTAL                          | \$ 2,895,706  |

6. INCOME TAXES

DURING 1973, THE ASSOCIATION APPLIED FOR AND OBTAINED TAX EXEMPT STATUS FROM THE INTERNAL REVENUE SERVICE UNDER SECTION 501(C) (12) OF THE INTERNAL REVENUE CODE.

7. OTHER MATTERS

(A) THE ASSOCIATION HAS NOT BEEN ASSESSED OR PAID ANY PROPERTY, INTANGIBLE OR FRANCHISE TAX IN PRIOR YEARS. SINCE THERE IS SOME UNCERTAINTY ABOUT THE TAXABILITY OF A "WATER ASSOCIATION", THE FINANCIAL STATEMENTS DO NOT REFLECT ANY LIABILITY FOR UNPAID TAXES, IF ANY.

|   |             |             |
|---|-------------|-------------|
|   | 2008        | 2007        |
| (B) ACTIVE METER CUSTOMERS - DECEMBER 31, | 2040        | 2013        |
| (C) WATER LOSS:                           |             |             |
| WATER PURCHASES - GALLONS                 | 186,386,683 | 180,969,301 |
| WATER SOLD AND USED IN OPERATIONS         | 175,544,419 | 174,131,874 |
| LINE LOSS                                 | 10,842,264  | 6,837,427   |
| PERCENTAGE OF LINE LOSS                   | 5.82%       | 3.70%       |

LAKE VILLAGE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

(D) ACCOUNTS RECEIVABLE AGING AT DECEMBER 31, 2008:

|                         |    |                 |
|-------------------------|----|-----------------|
| CURRENT                 | \$ | 84,155          |
| 30-59 DAYS              |    | 9,155           |
| 60-89 DAYS              |    | 4,670           |
| OVER 90 DAYS            |    | 11,403          |
| LESS: ALLOWANCE         |    | <u>(11,403)</u> |
| NET ACCOUNTS RECEIVABLE | \$ | <u>97,980</u>   |

ALL ACCOUNTS RECEIVABLE 90 DAYS AND OLDER HAVE BEEN INCLUDED IN THE ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS.

8. RISK MANAGEMENT

THE ASSOCIATION IS EXPOSED TO A VARIETY OF ACCIDENTAL LOSSES, AND HAS ATTEMPTED TO MINIMIZE ITS RISK BY CARRYING COMMERCIAL INSURANCE. THERE HAVE BEEN NO SIGNIFICANT REDUCTIONS IN COVERAGE FROM COVERAGE IN THE PRIOR YEAR

9. CAPITAL PROJECTS PLANNED AND IN PROCESS

DURING THE PRIOR FISCAL YEAR, THE ASSOCIATION WAS AWARDED A GRANT OF \$500,000 FROM THE KENTUCKY INFRASTRUCTURE AUTHORITY, AND HAS SINCE BEEN APPROVED FOR A LOAN OF \$1.544 MILLION FROM RURAL DEVELOPMENT FOR THE PURPOSE OF REPLACING WATERLINES ON PARADISE CAMP ROAD, HUGHLEY LANE, KENNEDY BRIDGE ROAD, AND CURDSVILLE ROAD. THIS PROJECT IS IN PROCESS AS OF THE END OF THE YEAR. THIS PROJECT IS EXPECTED TO BE COMPLETED IN THE FALL OF 2009.

COMPLIANCE SECTION



**CRAIG A. BUTLER, CPA**

131 N 4<sup>TH</sup> STREET  
DANVILLE, KY 40422  
Phone: (859) 936-0201  
Fax: (859) 936-0203  
Mobile: (859) 583-7941

**INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

CHAIRMAN AND COMMISSIONERS  
LAKE VILLAGE WATER ASSOCIATION, INC.  
BURGIN, KENTUCKY 40310

I HAVE AUDITED THE FINANCIAL STATEMENTS OF THE LAKE VILLAGE WATER ASSOCIATION, INC. AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008, AND HAVE ISSUED MY REPORT THEREON DATED MARCH 23, 2009. I CONDUCTED MY AUDIT IN ACCORDANCE WITH AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, AND THE STANDARDS APPLICABLE TO FINANCIAL AUDITS CONTAINED IN *GOVERNMENT AUDITING STANDARDS*, ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES.

INTERNAL CONTROL OVER FINANCIAL REPORTING

IN PLANNING AND PERFORMING MY AUDIT, I CONSIDERED THE ASSOCIATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING AS A BASIS FOR DESIGNING MY AUDITING PROCEDURES FOR THE PURPOSE OF EXPRESSING MY OPINION ON THE FINANCIAL STATEMENTS, BUT NOT FOR THE PURPOSE OF EXPRESSING AN OPINION ON THE EFFECTIVENESS OF THE ASSOCIATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING. ACCORDINGLY, I DO NOT EXPRESS AN OPINION ON THE EFFECTIVENESS OF THE ASSOCIATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING.

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 ASSOCIATION'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 ASSOCIATION'S FINANCIAL STATEMENTS THAT IS MORE THAN INCONSEQUENTIAL WILL NOT BE PREVENTED OR DETECTED BY THE ASSOCIATION'S INTERNAL CONTROL.

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 ASSOCIATION'S INTERNAL CONTROL.

MY CONSIDERATION OF 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 INTERNAL CONTROL THAT MIGHT BE SIGNIFICANT DEFICIENCIES OR MATERIAL WEAKNESSES. I DID NOT IDENTIFY ANY DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING THAT I CONSIDER TO BE MATERIAL WEAKNESSES, AS DEFINED ABOVE.

COMPLIANCE AND OTHER MATTERS

AS PART OF OBTAINING REASONABLE ASSURANCE ABOUT WHETHER THE ASSOCIATION'S FINANCIAL STATEMENTS ARE FREE OF MATERIAL MISSTATEMENT, I 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 MY AUDIT, AND ACCORDINGLY, I DO NOT EXPRESS SUCH AN OPINION. THE RESULTS OF MY TESTS DISCLOSED NO INSTANCES OF NONCOMPLIANCE THAT ARE REQUIRED TO BE REPORTED UNDER *GOVERNMENT AUDITING STANDARDS*.

THIS REPORT IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THE CHAIRMAN, COMMISSIONERS, AND APPLICABLE REGULATORY AGENCIES, AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

*Craig A. Butler, CPA*

CRAIG A. BUTLER  
CERTIFIED PUBLIC ACCOUNTANT

DANVILLE, KENTUCKY  
MARCH 23, 2009