

Rubin & Hays

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CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

March 25, 2010

Mr. Jeff Derouen, Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

RECEIVED

MAR 29 2010

PUBLIC SERVICE
COMMISSION

Re: Henry County Water District #2 PSC Application

Dear Mr. Derouen:

2010-00132

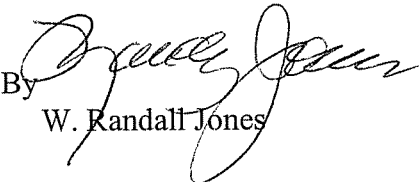
Enclosed please find the original and ten (10) copies of the Application of the Henry County Water District #2 for an Order authorizing the District to issue securities pursuant to KRS 278.300.

This Application requests approval of the issuance of securities for the purpose of refunding certain high interest Bonds of the Applicant. **Due to the extreme volatility of the financial markets and the fact that this refunding is interest rate sensitive, we request that the Commission process the Application in an expedited manner and issue an Order on or before May 13, 2010 (the closing date).**

Thank you for your assistance and if you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jl
Enclosures

cc: Mr. James Simpson, Henry County Water District #2
Ms. Kristen Millard, Morgan Keegan

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF HENRY)
COUNTY WATER DISTRICT #2 TO)
ISSUE SECURITIES IN THE APPROX-)
MATE PRINCIPAL AMOUNT OF \$5,700,000)
FOR THE PURPOSE OF REFUNDING CERTAIN)
OUTSTANDING REVENUE BONDS OF THE)
DISTRICT PURSUANT TO THE PROVISIONS)
OF KRS 278.300 AND 807 KAR 5:001)

RECEIVED

MAR 29 2010

PUBLIC SERVICE COMMISSION

Case No. 2010-132

** *** **** ***** **

APPLICATION

The Applicant, Henry County Water District #2 (the "District"), files this Application pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Kentucky Public Service Commission (the "Commission") enter an Order authorizing the District to issue certain securities in the approximate principal sum \$5,700,000 (subject to adjustment of up to 10%), for the purpose of refunding certain outstanding waterworks revenue bonds of the District. In support of this Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

- 1. The District was established in accordance with the provisions of Chapter 74 of the Kentucky Revised Statutes pursuant to an Order of the County Judge/Executive of Henry County, which Order is on file in the County Court Order Books in the office of the Clerk of Henry County, Kentucky. The District is now, and has been since its inception, regulated by the Commission, and

all records and proceedings of the Commission with reference to the District are incorporated in this Application by reference. The District does not have any Articles of Incorporation due to the fact that it is a statutory entity.

2. The governing body of the District is its Board of Commissioners which is a public body corporate, with power to make contracts in furtherance of its lawful and proper purpose as provided for in KRS 74.070 and all applicable law and regulations.

3. The mailing address of the District is as follows:

Henry County Water District #2
c/o Mr. James Simpson, ~~CHIEF~~ OPERATING OFFICER
P.O. Box 219
Campbellsburg, Kentucky 40011
Telephone: (502) 532-6280

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2008 which is on file with the Commission. The Annual Report is incorporated herein by reference.

5. The District proposes to borrow funds from the Kentucky Rural Water Finance Corporation ("KRWFC") pursuant to an Assistance Agreement (the "KRWFC Loan"), in the estimated principal amount of \$5,700,000 (subject to adjustment of up to 10%) for the purpose of refunding the outstanding revenue bonds designated as Henry County Water District No. 2 Waterworks Refunding Revenue Bonds, Series 1998, in the original principal amount of \$8,245,000 (the "Prior Bonds"). Said Prior Bonds are currently held in the open market.

6. The estimated debt service for the KRWFC Loan is shown in **Exhibit A**, which is attached hereto and incorporated herein by reference. The debt service schedule and estimated interest rates are subject to change because of market conditions. The final terms and details of the

KRWFC Loan may vary from the present assumptions based upon market conditions and other business judgment factors.

7. The KRWFC Loan will provide the District with the funds necessary to (i) refund the Prior Bonds; and (iii) pay the fees and expenses incident to the issuance of the KRWFC Loan.

8. The Sources and Uses of Funds to be obtained from the issuance of the KRWFC Loan are detailed as **Exhibit B**, which is attached hereto and incorporated herein by reference.

9. It is anticipated that the proposed refinancing will generate a net present value savings of approximately \$234,727.57. These savings are shown on the Debt Service Comparison, which is attached hereto and incorporated herein by reference as **Exhibit C**.

10. The final principal amount of the KRWFC Loan will be adjusted, based upon final interest rates which will be known on or about the date of sale of the proposed KRWFC Loan. Final financial figures will be submitted to the Commission in a timely manner. The Applicant will not issue the securities if interest rates in the bond market shift to a point where the Applicant will not achieve any savings.

11. The Debt Service Schedule of the outstanding Prior Bonds being refunded is set forth in **Exhibit D**.

12. The District represents that the KRWFC Loan is in the public interest and is intended to accomplish the purpose of strengthening the financial condition of the District by producing substantial debt service savings. This is a lawful object within the corporate purposes of the District's utility operations. The KRWFC Loan is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

13. The District represents that it will, as soon as reasonably possible after the closing of the KRWFC Loan, file with the Commission a statement setting forth the date of issuance of the KRWFC Loan, the price paid, the fees and expenses incurred in the issuance of the KRWFC Loan, and the terms and interest rates of the KRWFC Loan.

14. The detailed Statement of Revenue and Expenses, Balance Sheet and Statement of Cash Flows for the twelve month period ending on December 31, 2008 are attached hereto and incorporated herein by reference as **Exhibit E** respectively.

15. The remaining financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 6 and Section 11 (2) (a) are contained in the 2007 Annual Report which is on file with the Commission. The Annual Report is incorporated herein by reference.

16. Pursuant to 807 KAR 5:001, the District hereby responds as follows:

- (a) Section 6(4) Mortgages: The District does not have any mortgages in effect as of the date hereof.
- (b) Section 6(5) Bonds: The KRWFC Loan will be secured by a pledge of the revenues of the District's System.
- (c) Section 11(2)(b): The District does not have any trust deeds in effect as of the date hereof.
- (d) Section 11(2)(c): No property is being acquired as the proceeds of the securities are being used for the refunding of the Prior Bonds.

17. The District hereby requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within

ninety (90) days of the filing of the application. The District states that there has been no change that is material in nature in the financial condition or operation of the District since December 31, 2008. The financial data filed with this Application is for the twelve (12) month period ending December 31, 2008. This is the most recent published financial data available. Because of the volatility of the bond market, the District cannot run the risk of delaying the closing of the KRWFC Loan while more current financial data is compiled.

18. No rate adjustment will be necessary.

WHEREFORE, the District respectfully requests that the Commission take the following actions:

1. Authorize the issuance of the securities requested in the Application prior to the estimated closing date of ¹³May ~~8~~, 2010;
2. Grant the District a deviation, to the extent necessary, from 807 KAR 5:001, Section 6 to allow the submission of the District's 2008 Annual Report and 2008 audit in lieu of more recent financial data, there being no material change in the data in 2008 and due to the volatility of the present bond market; and
3. Process this Application without a formal hearing in order to save time and expense.

The District will promptly respond to any information requests by the Commission's staff.

Henry County Water District #2

By Merle Brewer
Chairman
P.O. Box 219
Campbellsburg, Kentucky 40011
Phone: (502) 532-6280

Rubin & Hays

By W. Randall Jones
W. Randall Jones
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
Phone: (502) 569-7525
Fax: (502) 569-7555
Counsel for Henry County Water
District #2

STATE OF KENTUCKY)
) SS
COUNTY OF HENRY)

The affiant, Merle Brewer, being first duly sworn, states: That he is the Chairman of the Henry County Water District #2, the Applicant in this case; that he has read the foregoing Application and has noted the contents thereof; that the same are true of his own knowledge and belief, except as to matters which are herein stated to be based on information or belief, and that these matters, he believes to be true and correct.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 23 day of March, 2010.



Merle Brewer, Chairman

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me by Merle Brewer, Chairman of the Henry County Water District #2, on this the 23rd day of March, 2010.

My Commission expires: 7-31-2013 .



NOTARY PUBLIC

\$5,700,000

*Henry County Water District #2
 Refunding of the Waterworks Refunding Revenue Bonds, Series 1998
 through the Kentucky Rural Water Finance Corporation*

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
04/15/2010	-	-	-	-	-
08/01/2010	-	-	60,602.19	60,602.19	-
12/30/2010	-	-	-	-	60,602.19
02/01/2011	195,000.00	2.250%	102,909.38	297,909.38	-
08/01/2011	-	-	100,715.63	100,715.63	-
12/30/2011	-	-	-	-	398,625.01
02/01/2012	260,000.00	2.250%	100,715.63	360,715.63	-
08/01/2012	-	-	97,790.63	97,790.63	-
12/30/2012	-	-	-	-	458,506.26
02/01/2013	260,000.00	2.250%	97,790.63	357,790.63	-
08/01/2013	-	-	94,865.63	94,865.63	-
12/30/2013	-	-	-	-	452,656.26
02/01/2014	270,000.00	2.250%	94,865.63	364,865.63	-
08/01/2014	-	-	91,828.13	91,828.13	-
12/30/2014	-	-	-	-	456,693.76
02/01/2015	275,000.00	2.250%	91,828.13	366,828.13	-
08/01/2015	-	-	88,734.38	88,734.38	-
12/30/2015	-	-	-	-	455,562.51
02/01/2016	285,000.00	3.250%	88,734.38	373,734.38	-
08/01/2016	-	-	84,103.13	84,103.13	-
12/30/2016	-	-	-	-	457,837.51
02/01/2017	295,000.00	3.250%	84,103.13	379,103.13	-
08/01/2017	-	-	79,309.38	79,309.38	-
12/30/2017	-	-	-	-	458,412.51
02/01/2018	305,000.00	3.250%	79,309.38	384,309.38	-
08/01/2018	-	-	74,353.13	74,353.13	-
12/30/2018	-	-	-	-	458,662.51
02/01/2019	315,000.00	3.750%	74,353.13	389,353.13	-
08/01/2019	-	-	68,446.88	68,446.88	-
12/30/2019	-	-	-	-	457,800.01
02/01/2020	325,000.00	3.750%	68,446.88	393,446.88	-
08/01/2020	-	-	62,353.13	62,353.13	-
12/30/2020	-	-	-	-	455,800.01
02/01/2021	340,000.00	4.250%	62,353.13	402,353.13	-
08/01/2021	-	-	55,128.13	55,128.13	-
12/30/2021	-	-	-	-	457,481.26
02/01/2022	360,000.00	4.250%	55,128.13	415,128.13	-
08/01/2022	-	-	47,478.13	47,478.13	-
12/30/2022	-	-	-	-	462,606.26
02/01/2023	375,000.00	4.250%	47,478.13	422,478.13	-
08/01/2023	-	-	39,509.38	39,509.38	-
12/30/2023	-	-	-	-	461,987.51
02/01/2024	390,000.00	4.250%	39,509.38	429,509.38	-
08/01/2024	-	-	31,221.88	31,221.88	-
12/30/2024	-	-	-	-	460,731.26
02/01/2025	415,000.00	4.250%	31,221.88	446,221.88	-
08/01/2025	-	-	22,403.13	22,403.13	-
12/30/2025	-	-	-	-	468,625.01
02/01/2026	380,000.00	4.250%	22,403.13	402,403.13	-
08/01/2026	-	-	14,328.13	14,328.13	-
12/30/2026	-	-	-	-	416,731.26
02/01/2027	395,000.00	4.375%	14,328.13	409,328.13	-
08/01/2027	-	-	5,687.50	5,687.50	-
12/30/2027	-	-	-	-	415,015.63
02/01/2028	260,000.00	4.375%	5,687.50	265,687.50	-
12/30/2028	-	-	-	-	265,687.50
Total	\$5,700,000.00	-	\$2,280,024.23	\$7,980,024.23	-

Yield Statistics

Bond Year Dollars.....	\$57,173.33
Average Life.....	10.030 Years
Average Coupon.....	3.9879155%
Net Interest Cost (NIC).....	4.0771994%
True Interest Cost (TIC).....	4.0630879%
Bond Yield for Arbitrage Purposes.....	3.6931483%
All Inclusive Cost (AIC).....	4.1911828%

IRS Form 8038

Net Interest Cost.....	3.8763383%
Weighted Average Maturity.....	10.013 Years

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\$5,700,000

*Henry County Water District #2
Refunding of the Waterworks Refunding Revenue Bonds, Series 1998
through the Kentucky Rural Water Finance Corporation*

Sources & Uses

Dated 04/15/2010 | Delivered 04/15/2010

Sources Of Funds

Par Amount of Bonds.....	\$5,700,000.00
Reoffering Premium.....	48,703.45
Transfers from Prior Issue Debt Service Funds.....	130,701.88
Transfers from Prior Issue DSR Funds.....	525,288.75
Total Sources.....	\$6,404,694.08

Uses Of Funds

Total Underwriter's Discount (1.750%).....	99,750.00
Costs of Issuance.....	51,300.00
Deposit to Current Refunding Fund.....	6,249,194.39
Rounding Amount.....	4,449.69
Total Uses.....	\$6,404,694.08

\$5,700,000

*Henry County Water District #2
Refunding of the Waterworks Refunding Revenue Bonds, Series 1998
through the Kentucky Rural Water Finance Corporation*

Debt Service Comparison

Date	Total P+I	Expenses	Net New D/S	Old Net D/S	Savings
12/30/2010	60,602.19	-	60,602.19	134,579.87	73,977.68
12/30/2011	398,625.01	450.00	399,075.01	498,695.99	99,620.98
12/30/2012	458,506.26	450.00	458,956.26	492,652.24	33,695.98
12/30/2013	452,656.26	450.00	453,106.26	491,259.74	38,153.48
12/30/2014	456,693.76	450.00	457,143.76	494,285.99	37,142.23
12/30/2015	455,562.51	450.00	456,012.51	491,730.99	35,718.48
12/30/2016	457,837.51	450.00	458,287.51	493,594.74	35,307.23
12/30/2017	458,412.51	450.00	458,862.51	494,760.99	35,898.48
12/30/2018	458,662.51	450.00	459,112.51	495,229.74	36,117.23
12/30/2019	457,800.01	450.00	458,250.01	494,833.49	36,583.48
12/30/2020	455,800.01	450.00	456,250.01	493,564.74	37,314.73
12/30/2021	457,481.26	450.00	457,931.26	496,464.74	38,533.48
12/30/2022	462,606.26	450.00	463,056.26	498,414.74	35,358.48
12/30/2023	461,987.51	450.00	462,437.51	499,414.74	36,977.23
12/30/2024	460,731.26	450.00	461,181.26	499,464.74	38,283.48
12/30/2025	468,625.01	450.00	469,075.01	503,445.99	34,370.98
12/30/2026	416,731.26	450.00	417,181.26	452,545.99	35,364.73
12/30/2027	415,015.63	450.00	415,465.63	451,883.49	36,417.86
12/30/2028	265,687.50	450.00	266,137.50	303,833.50	37,696.00
TOTAL	\$7,980,024.23	\$8,100.00	\$7,988,124.23	\$8,780,656.45	\$792,532.22

Gross FV Debt Service Savings.....	792,532.22
Transfers from Prior Issue Debt Service Fund.....	(130,701.88)
Transfers from Prior Issue DSR Fund.....	(525,288.75)
Contingency or Rounding Amount.....	4,449.69
Net Benefit.....	\$140,991.28

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings.....	855,456.20
Effects of changes in DSR Investments.....	(488,839.22)
Effects of changes in Expenses.....	(5,637.22)
Net PV Cashflow Savings @ 4.191%(AIC).....	360,979.76
Transfers from Prior Issue Debt Service Fund.....	(130,701.88)
Contingency or Rounding Amount.....	4,449.69
Net Present Value Benefit.....	\$234,727.57

Net PV Benefit / \$6,105,000 Refunded Principal.....	3.845%
Net PV Benefit / \$5,700,000 Refunding Principal.....	4.118%

Refunding Bond Information

Refunding Dated Date.....	4/15/2010
Refunding Delivery Date.....	4/15/2010

\$8,245,000

*Henry County Water District No. 2
Waterworks Refundign Revenue Bonds, Series 1998*

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
07/01/2010	-	-	143,903.75	143,903.75
01/01/2011	235,000.00	4.650%	143,903.75	378,903.75
07/01/2011	-	-	138,440.00	138,440.00
01/01/2012	240,000.00	4.650%	138,440.00	378,440.00
07/01/2012	-	-	132,860.00	132,860.00
01/01/2013	250,000.00	4.650%	132,860.00	382,860.00
07/01/2013	-	-	127,047.50	127,047.50
01/01/2014	265,000.00	4.650%	127,047.50	392,047.50
07/01/2014	-	-	120,886.25	120,886.25
01/01/2015	275,000.00	4.650%	120,886.25	395,886.25
07/01/2015	-	-	114,492.50	114,492.50
01/01/2016	290,000.00	4.650%	114,492.50	404,492.50
07/01/2016	-	-	107,750.00	107,750.00
01/01/2017	305,000.00	4.650%	107,750.00	412,750.00
07/01/2017	-	-	100,658.75	100,658.75
01/01/2018	320,000.00	4.650%	100,658.75	420,658.75
07/01/2018	-	-	93,218.75	93,218.75
01/01/2019	335,000.00	4.750%	93,218.75	428,218.75
07/01/2019	-	-	85,262.50	85,262.50
01/01/2020	350,000.00	4.750%	85,262.50	435,262.50
07/01/2020	-	-	76,950.00	76,950.00
01/01/2021	370,000.00	4.750%	76,950.00	446,950.00
07/01/2021	-	-	68,162.50	68,162.50
01/01/2022	390,000.00	4.750%	68,162.50	458,162.50
07/01/2022	-	-	58,900.00	58,900.00
01/01/2023	410,000.00	4.750%	58,900.00	468,900.00
07/01/2023	-	-	49,162.50	49,162.50
01/01/2024	430,000.00	4.750%	49,162.50	479,162.50
07/01/2024	-	-	38,950.00	38,950.00
01/01/2025	455,000.00	4.750%	38,950.00	493,950.00
07/01/2025	-	-	28,143.75	28,143.75
01/01/2026	425,000.00	4.750%	28,143.75	453,143.75
07/01/2026	-	-	18,050.00	18,050.00
01/01/2027	445,000.00	4.750%	18,050.00	463,050.00
07/01/2027	-	-	7,481.25	7,481.25
01/01/2028	315,000.00	4.750%	7,481.25	322,481.25
Total	\$6,105,000.00	-	\$3,020,640.00	\$9,125,640.00

Yield Statistics

Average Life.....	10.163 Years
Weighted Average Maturity (Par Basis).....	10.163 Years
Average Coupon.....	4.7343581%

Refunding Bond Information

Refunding Dated Date.....	4/15/2010
Refunding Delivery Date.....	4/15/2010

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\$8,245,000

*Henry County Water District No. 2
Waterworks Refundign Revenue Bonds, Series 1998*

Debt Service To Maturity And To Call

Date	Refunded Bonds	Premium	Interest to Call	D/S To Call	Principal	Coupon	Interest	Refunded D/S
12/30/2010	6,105,000.00	61,050.00	83,144.39	6,249,194.39	-	-	143,903.75	143,903.75
12/30/2011	-	-	-	-	235,000.00	-	282,343.75	517,343.75
12/30/2012	-	-	-	-	240,000.00	-	271,300.00	511,300.00
12/30/2013	-	-	-	-	250,000.00	-	259,907.50	509,907.50
12/30/2014	-	-	-	-	265,000.00	-	247,933.75	512,933.75
12/30/2015	-	-	-	-	275,000.00	-	235,378.75	510,378.75
12/30/2016	-	-	-	-	290,000.00	-	222,242.50	512,242.50
12/30/2017	-	-	-	-	305,000.00	-	208,408.75	513,408.75
12/30/2018	-	-	-	-	320,000.00	-	193,877.50	513,877.50
12/30/2019	-	-	-	-	335,000.00	-	178,481.25	513,481.25
12/30/2020	-	-	-	-	350,000.00	-	162,212.50	512,212.50
12/30/2021	-	-	-	-	370,000.00	-	145,112.50	515,112.50
12/30/2022	-	-	-	-	390,000.00	-	127,062.50	517,062.50
12/30/2023	-	-	-	-	410,000.00	-	108,062.50	518,062.50
12/30/2024	-	-	-	-	430,000.00	-	88,112.50	518,112.50
12/30/2025	-	-	-	-	455,000.00	-	67,093.75	522,093.75
12/30/2026	-	-	-	-	425,000.00	-	46,193.75	471,193.75
12/30/2027	-	-	-	-	445,000.00	-	25,531.25	470,531.25
12/30/2028	-	-	-	-	315,000.00	-	7,481.25	322,481.25
Total	\$6,105,000.00	\$61,050.00	\$83,144.39	\$6,249,194.39	\$6,105,000.00	-	\$3,020,640.00	\$9,125,640.00

Yield Statistics

Average Life.....	10.163 Years
Weighted Average Maturity (Par Basis).....	10.163 Years
Average Coupon.....	4.7343581%

Refunding Bond Information

Refunding Dated Date.....	4/15/2010
Refunding Delivery Date.....	4/15/2010

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF NET ASSETS
December 31, 2008 and 2007

	2008	2007
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 469,323	\$ 1,023,884
Accrued Interest Receivable	402	1,527
Accounts Receivable (Net)	421,983	427,489
Other Receivables	822	2,295
Inventory	74,868	72,798
Prepaid Expense	20,525	14,212
Total Current Assets	\$ 987,923	\$ 1,542,205
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 2,414,211	\$ 2,694,801
Accrued Interest Receivable	10,519	25,742
Construction Grants Receivable	348,250	-
Capital Assets (Net)	14,951,591	14,749,563
Total Noncurrent Assets	\$ 17,724,571	\$ 17,470,106
Total Assets	\$ 18,712,494	\$ 19,012,311
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 85,070	\$ 61,845
Accrued Compensated Absences	20,471	19,978
Accrued Salaries, Wages & Benefits	36,818	27,806
Accrued Payroll Taxes/Employee Withholding	11,690	7,535
Utility Tax Payable	6,792	12,375
Sales Tax Payable	465	349
Accrued Interest Payable - KY Rural Water Finance Corp. Bonds	-	19,695
Capital Lease Obligation	33,869	-
Current Liabilities Payable from Restricted Assets:		
Construction Accounts Payable	58,401	-
Construction Retainage Payable	70,227	-
Accrued Interest Payable - Customer Deposits	1,091	1,206
Revenue Bonds Payable	346,000	332,000
Note Payable	32,620	-
Total Current Liabilities	\$ 703,514	\$ 482,789
Noncurrent Liabilities:		
Revenue Bonds Payable (Net of Unamortized Bond Discount of \$242,255 and \$249,708)	\$ 8,967,745	\$ 9,306,292
Note Payable	151,319	-
KY Rural Water Finance Corp. Bonds	-	526,000
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	77,500	102,945
Funds Held for Future Lines	1,200	9,090
Total Noncurrent Liabilities	\$ 9,197,764	\$ 9,944,327
Total Liabilities	\$ 9,901,278	\$ 10,427,116
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 5,049,155	\$ 4,411,563
Restricted for Capital Projects	583,825	293,401
Restricted for Debt Service	1,980,547	2,254,422
Unrestricted	1,197,689	1,625,809
Total Net Assets	\$ 8,811,216	\$ 8,585,195

See accompanying notes to the basic financial statements.

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Years Ended December 31, 2008 and 2007

	2008	2007
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 2,651,619	\$ 2,833,151
Bulk Water Charges	216,995	219,327
Total Charges for Services	\$ 2,868,614	\$ 3,052,478
Other Charges and Miscellaneous:		
Reconnect and Disconnect Charges	\$ 20,530	\$ 17,246
Forfeited Discounts	75,026	72,173
Miscellaneous	25,984	33,302
Total Other Charges and Miscellaneous	\$ 121,540	\$ 122,721
Total Operating Revenues	\$ 2,990,154	\$ 3,175,199
Operating Expenses:		
Accounting and Collecting Labor	\$ 109,294	\$ 112,857
Chemicals	61,718	31,528
Commissioner Salaries	26,100	28,350
Continuing Education	1,968	1,826
Contractual Services-Maintenance of Mains/Distribution System	143,730	132,227
Dues	3,432	1,782
Insurance	43,192	72,954
Maintenance of Mains/Distribution System Expenses	275,524	214,124
Miscellaneous	4,385	1,295
Office Supplies and Expense	69,441	63,653
Operating Labor	546,460	497,443
Other Interest Expense	555	567
Payroll Taxes	51,229	48,107
Professional Services	64,432	170,359
Purchased Power	385,234	362,718
Purchased Water	-	699
Regulatory Fees	5,116	4,878
Retirement Expense & Employee Benefits	205,664	213,354
Transportation Expense	27,628	30,277
Utilities	26,271	21,279
Depreciation Expense	807,322	812,907
Total Operating Expenses	\$ 2,858,695	\$ 2,823,184
Net Operating Income	\$ 131,459	\$ 352,015
Nonoperating Revenue (Expense):		
Investment Income	\$ 111,787	\$ 117,432
Interest Expense	(490,482)	(523,341)
Amortization Expense	(7,453)	(7,453)
Gain on Equipment Insurance Recovery	-	3,746
Total Nonoperating Revenues (Expense)	\$ (386,148)	\$ (409,616)
Net Income (Loss) Before Contributions	\$ (254,689)	\$ (57,601)
Capital Contributions	480,710	510,025
Net Income	\$ 226,021	\$ 452,424
Net Assets--Beginning of Year	8,585,195	8,132,771
Net Assets--End of Year	\$ 8,811,216	\$ 8,585,195

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 2,997,133	\$ 3,149,662
Payments to Suppliers	(1,367,323)	(1,358,153)
Payments to Employees	(672,349)	(636,982)
Other Receipts (Payments)	(34,762)	9,146
Net Cash Provided (Used) by Operating Activities	\$ 922,699	\$ 1,163,673
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	\$ (832,876)	\$ (435,763)
Principal Proceeds from Capital Debt	242,107	326,000
Principal Paid on Capital Debt	(882,299)	(334,590)
Interest Paid on Capital Debt	(510,177)	(503,646)
Capital Contributions	97,260	510,025
Gain on Equipment Insurance Recovery	-	3,746
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (1,885,985)	\$ (434,228)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds (Purchase) of Investments (Net)	\$ 672,475	\$ (491,433)
Interest Received	128,135	105,074
Net Cash Provided (Used) by Investing Activities	\$ 800,610	\$ (386,359)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (162,676)	\$ 343,086
Balances-Beginning of the Year	1,337,023	993,937
Balances-End of the Year	\$ 1,174,347	\$ 1,337,023

	Balances Per December 31, 2008 Statement of Net Assets	Balances Per December 31, 2008 Statement of Cash Flows
Cash	\$ 285,365	\$ 285,365
Certificates of Deposit	183,958	-
Restricted Cash	888,982	888,982
Restricted Certificates of Deposit	1,525,229	-
Total Cash and Cash Equivalents, End of Year	\$ 2,883,534	\$ 1,174,347

	Balances Per December 31, 2007 Statement of Net Assets	Balances Per December 31, 2007 Statement of Cash Flows
Cash	\$ 538,884	\$ 538,884
Certificates of Deposit	485,000	-
Restricted Cash	798,139	798,139
Restricted Certificates of Deposits	1,896,662	-
Total Cash and Cash Equivalents, End of Year	\$ 3,718,685	\$ 1,337,023

(Continued)

HENRY COUNTY WATER DISTRICT ..
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007

	2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 131,459	\$ 352,015
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	807,322	812,907
Change in Assets and Liabilities:		
Receivables, Net	5,506	(24,815)
Other Receivables	1,473	(722)
Inventories	(2,070)	2,323
Prepaid Expenses	(6,313)	(2,869)
Accounts and Other Payables	10,579	14,020
Accrued Expenses	8,078	894
Customer Meter Deposits Payable	(25,445)	830
Funds Held for Future Lines	(7,890)	9,090
	\$ 922,699	\$ 1,163,673
Net Cash Provided by Operating Activities	\$ 922,699	\$ 1,163,673

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2008, Henry County Water District #2 had \$12,646, \$58,401, and \$70,227 of capitalized expenditures for the acquisition/construction of plant assets in accounts payable, construction accounts payable and construction retainage payable on the Statement of Net Assets, respectively. Also at December 31, 2008, Henry County Water District #2 had \$35,200 of noncash contributed capital. This was 4,400 feet of three inch water line.

At December 31, 2007, Henry County Water District #2 had no noncash investing, capital, or financing activities to report.