

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED)	
ADJUSTMENT OF THE WHOLESALE)	CASE NO. 2017-00417
WATER SERVICE RATES OF)	
LEBANON WATER WORKS)	

RESPONSE OF
LEBANON WATER WORKS COMPANY
TO
MARION COUNTY WATER DISTRICT'S
REQUEST FOR INFORMATION
DATED APRIL 2, 2018

FILED: April 12, 2018

COMMONWEALTH OF KENTUCKY

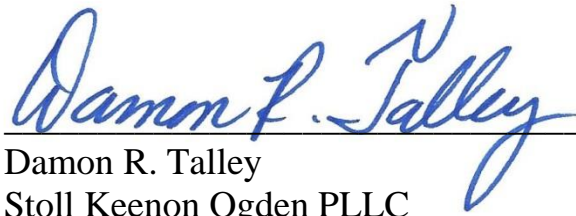
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC PROPOSED)
ADJUSTMENT OF THE WHOLESALE) CASE NO. 2017-00417
WATER SERVICE RATES OF)
LEBANON WATER WORKS)**

**RESPONSE OF LEBANON WATER WORKS COMPANY TO
MARION COUNTY WATER DISTRICT'S
REQUEST FOR INFORMATION**

Comes the Lebanon Water Works Company, for its Response to the Marion County Water District's Request for Information, and states as shown on the following pages.



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Company*

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

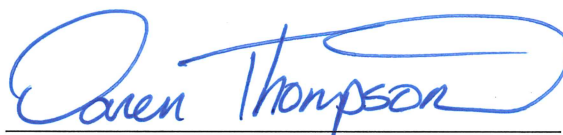
In the Matter of:

**ELECTRONIC PROPOSED)
ADJUSTMENT OF THE WHOLESALE) CASE NO. 2017-00417
WATER SERVICE RATES OF)
LEBANON WATER WORKS)**

**CERTIFICATION OF RESPONSE TO
MARION COUNTY WATER DISTRICT'S
REQUEST FOR INFORMATION**

This is to certify that I have supervised the preparation of Lebanon Water Works Company's Response to the Marion County Water District's Information Request. The response submitted on behalf of Lebanon Water Works Company is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: 4/12/2018



Daren Thompson, Operations &
Management Superintendent
Lebanon Water Works Company

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 1

Responding Witness: Daren Thompson

- Q-1. Please provide a copy of all documents that you intend to use at the hearing.
- A-1. The Company has not identified any documents that it plans to use at the hearing that are not already filed in the record of this case. If the Company discovers documents that it intends to use at the hearing, it will supplement this response.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 2

Responding Witness: Daren Thompson

Q-2. Please provide the name and business address of each individual who was involved in the preparation of responses to these Requests for Information.

A-2. The following individuals were involved in the preparation of responses to these Requests for Information:

Daren Thompson
Lebanon Water Works Co., Inc.
120 S. Proctor Knott Avenue
Lebanon, KY 40033

Holly Nicholas
Kentucky Engineering Group, PLLC
P. O. Box 1034
Versailles, KY 40383

Lisa Mattingly
Lebanon Water Works Co., Inc.
120 S. Proctor Knott Avenue
Lebanon, KY 40033

Tyler Fallin, CPA, CFE
RFH, PLLC
300 West Vine Street, Suite 800
Lexington, KY 40507

Legal counsel for the Company also provided assistance in preparing the responses to the Request for Information.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 3

Responding Witness: Daren Thompson

Q-3. Please provide the name and business address of each individual who was involved in the preparation and development of the rates set forth in the Company's proposed tariff.

A-3. The following individuals were involved in the preparation and development of the rates set forth in the Company's proposed tariff:

Daren Thompson
Lebanon Water Works Co., Inc.
120 S. Proctor Knott Avenue
Lebanon, KY 40033

Holly Nicholas
Kentucky Engineering Group, PLLC
P. O. Box 1034
Versailles, KY 40383

Lisa Mattingly
Lebanon Water Works Co., Inc.
120 S. Proctor Knott Avenue
Lebanon, KY 40033

Tyler Fallin, CPA, CFE
RFH, PLLC
300 West Vine Street, Suite 800
Lexington, KY 40507

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 4

Responding Witnesses: Daren Thompson & Lisa Mattingly

- Q-4. Please provide the total number of
- A. Retail customers of the Company residing within the City's limits;
 - B. Retail customers of the Company residing outside the City's limits;
 - C. Wholesale customers of the Company residing within the City's limits; and
 - D. Wholesale customers of the Company residing outside the City's limits (excluding Marion District).
- A-4. The Company's customer counts for subparts A, B, C, and D are shown in the following table as of June 30, 2016, June 30, 2017, and February 28, 2018:

	6/30/2016	6/30/2017	2/28/2018
A	2,313	2,333	2,345
B	270	281	273
C	0	0	0
D	0	0	0

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 5

Responding Witness: Daren Thompson

- Q-5. Please state the percentage of gross revenues received by the Company from:
- A. Retail customers residing within the City's limits;
 - B. Retail customers residing outside the City's limits;
 - C. Wholesale customers residing outside the City's limits;
 - D. Wholesale customers residing within the City's limits; and
 - E. Marion District.
- A-5. For the fiscal year ending June 30, 2016, the Company received \$2,625,707 in gross water revenue. For the fiscal year ending June 30, 2017, the Company received \$2,655,544 in gross water revenue. For the unaudited period of July 1, 2017 through February 28, 2018, the Company received \$1,970,084 in gross water revenue.

The Company calculated the following percentages for subparts A, B, C, D, and E as of the fiscal years ending June 30, 2016, June 30, 2017, and the period ending February 28, 2018:

	6/30/2016	6/30/2017	2/28/2018
A	39%	41%	44%
B	4%	4%	4%
C	N/A	N/A	N/A
D	N/A	N/A	N/A
E	57%	55%	52% ¹

¹ In the current fiscal year, Marion District's purchases represent a smaller portion of the Gross Water Revenue because the Company's retail customers have been paying increased rates as of September 15, 2017, while Marion District is still paying the old rate.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 6

Responding Witness: Daren Thompson

Q-6. Please provide a copy of the Company's most recent depreciation study.

A-6. The Company has not performed a depreciation study.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 7

Responding Witness: Daren Thompson

- Q-7. Please provide a copy of any and all documents used, reviewed or relied upon in developing and adopting the Company's recent depreciation study.
- A-7. Not applicable. The Company has not performed a depreciation study.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 8

Responding Witnesses: Daren Thompson & Tyler Fallin

Q-8. Please provide a copy of the Company's most recent depreciation schedules.

A-8. The depreciation schedule for the fiscal year ending June 30, 2017 is attached as **Exhibit 8-1**.

EXHIBIT 8-1

LEBANON WATER WORKS
Depreciation Schedule
June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
06/30/96	Transmission New Meters	33.0	595.30 (595.30)		
06/30/97	new meters	33.0	8,644.34 (8,644.34)	-	523.90 -
05/31/92	new mower	10.0	1,414.92	-	1,414.92
	Mower immediately above sold in FY 2006 for \$151		(1,414.92)	-	(1,414.92)
06/30/89	meters	33.5	7,855.84 (7,855.84)	-	234.50 -
06/30/90	meters	33.5	3,810.39 (3,810.39)	-	113.74 -
06/30/91	furnace	5.0	3,138.00 (3,138.00)	-	3,138.00 (3,138.00)
06/30/91	meters	33.5	6,345.53 (6,345.53)	-	189.42 -
06/30/92	meters	33.5	7,378.80 (7,378.80)	-	220.26 -
12/31/93	meters	33.5	6,089.12 (6,089.12)	-	363.53 -
06/30/94	meters	33.5	1,232.24 (1,232.24)	-	36.78 -
06/30/85	meters	33.5	2,326.55 (2,326.55)	-	- -
06/30/86	new meters	33.5	4,646.88 (4,646.88)	-	- -
06/30/87	new meters	33.5	5,418.26 (5,418.26)	-	- -
06/30/88	meters	33.5	8,395.44 (8,395.44)	-	250.61 -
11-94	1995 dodge dump truck Traded in during 2007	20.0	23,997.00 (23,997.00)	-	23,997.00 (23,997.00)
1998	Mower Traded during 2008	10.0	8,000.00 (8,000.00)	-	8,000.00 (8,000.00)
1998	New Meters net additions	33.5	11,854.34 (11,854.34)	-	353.86 -
1999	New Meters net addition	33.5	13,463.98 (13,463.98)	-	401.91 -
1999	1999 Dodge Pick-up (Purchased 6-4-99) Traded in truck	5.0	18,143.00 (18,143.00)	-	18,143.00 (18,143.00)
2000	New Meters net addition	33.50	13,326.35 (13,326.35)	-	- -
2001	New Meters net addition	33.50	8,538.00 (8,538.00)	-	254.87 -
2002	New Meter Additions	33.50	13,981.71 (13,981.71)	-	- -
2002	Office Equip. - Handheld	7.00	2,048.04	-	2,048.04
2003	Sold meter handheld units		(2,048.04)	-	(585.15)

LEBANON WATER WORKS
Depreciation Schedule
June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
2003	New Meter Additions	33.50	13,978.11	-	-
			(13,978.11)	-	-
2005	Office equipment	5.00	6,304.00	-	5,673.60
	2009 Disposal		(6,304.00)	-	(5,673.60)
				-	-
1935		33.5	135,929.22	-	135,929.22
1938	other	33.5	375,476.75	-	375,476.75
1963		33.5	6,098.25	-	6,098.25
1964		33.5	86,785.26	-	86,785.26
1965	hoist	10.0	312.69	-	312.69
1965		33.5	109,532.29	-	109,532.29
1965	contract III	33.5	52,701.67	-	52,701.67
1965	contract IV	33.5	726,917.73	-	726,917.73
1965	contract VII	33.5	158,300.43	-	158,300.43
1966	pipe cutter	10.0	616.53	-	616.53
1966		33.5	33,965.88	-	33,965.88
1967		33.5	24,066.86	-	24,066.86
1968	hydrants	33.5	1,730.16	-	1,730.16
	Hydrant (Disposed through accident during				
FY 2015	FY 2015)		(1,730.00)	-	(1,730.00)
1968	mains & accessories	33.5	18,853.00	-	18,853.00
1968	building	33.5	30,000.00	-	30,000.00
1969	mains & accessories	33.5	(124.75)	-	(124.75)
1969	hydrants	33.5	167.00	-	167.00
1970	hydrants	33.5	1,594.94	-	1,594.94
1970	mains & accessories	33.5	750.43	-	750.43
1970	building imp.	33.5	43,842.53	-	43,842.53
1971	mains & accessories	33.5	32,611.41	-	32,611.41
1971	hydrants	33.5	1,662.86	-	1,662.86
1972	hydrants	33.5	1,117.38	-	1,117.38
1972	mains & accessories	33.5	7,615.74	-	7,615.74
1972	bulldozing-sower supply	10.0	2,511.25	-	2,511.25
1973	mains & accessories	33.5	33,369.21	-	33,369.21
1973	hydrants	33.5	1,899.08	-	1,899.08
1994	radio system	7.0	4,113.50	-	4,113.50
02/28/69	Tapping Machine, generater, & valve oper.	10.0	1,561.40	-	1,561.40
FY 2015	Tapping machine disposal		(1,561.00)	-	(1,561.00)
09/30/69	blacktop-calvary	10.0	3,436.14	-	3,436.14
12/31/69	building imp.	33.5	2,484.93	-	2,484.93
06/30/71	desk chair and couch	7.0	1,162.72	-	1,162.72
09/30/71	desk difference	7.0	78.75	-	78.75
06/30/73	office & storage structure	33.5	4,700.00	-	4,700.00
06/30/73	filtration plant-structured equip.	33.5	9,048.00	-	9,048.00
06/30/74	mains & accessories	33.5	8,714.83	-	8,714.83
06/30/74	hydrants	33.5	1,191.19	-	1,191.19
06/30/74	pumps-buena vista	33.5	9,311.00	-	9,311.00
06/30/75	mains & accessories	33.5	8,134.53	-	8,134.53
06/30/75	hydrants	33.5	3,888.97	-	3,888.97
06/30/75	pallet trucks & hoist assembly	10.0	620.00	-	620.00
06/30/75	bal on pumps-buena vista	33.5	1,732.00	-	1,732.00

LEBANON WATER WORKS

Depreciation Schedule

June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
06/30/75	new wiring	33.5	845.22	-	845.22
06/30/76	mains & accessories	33.5	33,604.38	-	33,604.38
06/30/76	hydrants	33.5	4,312.55	-	4,312.55
06/30/77	mians & accessories	33.5	8,436.92	-	8,436.92
06/30/77	hydrants	33.5	2,803.50	-	2,803.50
03/31/78	concrete drill	7.0	125.00	-	125.00
	<i>FY 2012 Junked</i>		(125.00)	-	(125.00)
04/30/78	standpipe transmitter	7.0	1,991.13	-	1,991.13
	<i>FY 2012 Junked</i>		(1,991.13)	-	(1,991.13)
04/30/78	pipe thawer	7.0	839.40	-	839.40
04/30/78	generator	7.0	1,125.00	-	1,125.00
	<i>FY 2015 Generator disposed</i>		(1,125.00)	-	(1,125.00)
04/30/78	water testing equip.	7.0	745.42	-	745.42
06/30/78	mains & accessories	33.5	46,507.07	-	46,507.07
06/30/78	hydrants	33.5	4,551.97	-	4,551.97
06/30/78	comp. care office addition	33.5	7,833.55	-	7,833.55
06/30/79	mains & accessories	33.5	3,571.07	-	3,571.07
06/30/79	hydrants	33.5	2,585.50	-	2,585.50
06/30/79	raw water storage studies	33.5	9,892.41	-	9,892.41
06/30/80	raw water storage studies	33.5	5,409.08	-	5,409.08
06/30/80	raw water pumps & engin fees	33.5	67,413.92	-	67,723.28
06/30/80	air conditioner system-pumpst	5.0	3,134.48	-	3,134.48
06/30/80	tv system pump stat.	10.0	589.90	-	589.90
	<i>FY 2015 TV disposal</i>		(590.00)	-	(590.00)
06/30/80	mains & accessories	33.5	3,279.21	-	3,294.30
06/30/80	hydrants	33.5	178.65	-	178.65
06/30/81	raw water storage studies	33.5	420.00	-	428.45
06/30/81	mains & accessories	33.5	3,137.31	-	3,200.47
06/30/82	bulldozing-sowrer & supply	10.0	9,736.49	-	9,736.49
06/30/82	calvary pump station imp.	33.5	188,170.39	-	190,971.93
06/30/82	mains	33.5	26,550.86	-	26,946.15
06/30/83	Bulldozing-sowrer & supply	10.0	2,298.20	-	2,298.20
06/30/83	balvary pump station imp	33.5	328,446.50	-	331,669.72
06/30/83	mains	33.5	(7,133.43)	-	(7,346.37)
06/30/83	hydrants	33.5	618.00	-	618.00
06/30/84	bulldozing-sowrer & supply	33.5	560.75	-	560.75
06/30/84	calvary pump staition imp	33.5	11,568.38	-	11,568.38
06/30/84	mains & accessories	33.5	22,935.88	-	22,935.88
06/30/84	new tank-old calvary rd.	33.5	209,345.04	-	209,345.04
06/30/84	hydrants	33.5	889.20	-	889.20
06/30/85	new mains & accessories	33.5	9,807.70	292.77	9,802.94
06/30/85	new tank-old calvary	33.5	12,907.88	385.31	12,901.67
06/30/85	hydrants	33.5	641.97	19.16	641.67
06/30/86	evgin study sportsman lake	33.5	2,378.35	71.00	2,293.93
06/30/86	new mains & accessories	33.5	40,740.76	1,216.14	39,295.10
06/30/86	hydrants	33.5	(137.50)	-	(137.50)
06/30/87	engin study caney creek	33.5	51,951.54	1,550.79	48,289.69
06/30/87	new mains & accessories	33.5	25,742.27	768.43	23,927.83
06/30/87	new hydrants	33.5	255.50	7.63	237.47
06/30/88	engin study fagan branch	33.5	40,980.27	1,223.29	36,657.47

LEBANON WATER WORKS

Depreciation Schedule

June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
06/30/88	new mains & accessories	33.5	35,192.62	1,050.53	31,480.28
06/30/88	hydrants	33.5	12,250.00	-	13,712.69
06/30/88	hydrants	33.5	(12,250.00)	-	(12,249.00)
06/30/88	hydrants	33.5	(1,686.50)	-	(1,837.53)
06/30/89	hydrants	33.5	4,090.78	122.11	3,516.11
06/30/89	barnes submersible pump	10.0	1,256.00	-	1,256.00
06/30/89	engin study fagan branch	33.5	117,256.16	3,500.18	100,783.46
06/30/89	new mains & accessories	33.5	11,503.35	343.38	9,887.32
07/31/89	storage cabinets	5.0	1,277.13	-	1,277.13
04/30/90	concreter saw	10.0	705.94	-	705.94
FY 2015	Concreter saw disposed		(706.00)	-	(706.00)
06/30/90	engin study-Fagan Branch	33.5	243,993.51	7,283.39	201,176.28
06/30/90	digital nephelometer	5.0	979.70	-	979.70
FY 2015	Digital nephelometer disposed		(980.00)	-	(980.00)
06/30/90	new mains & accessories	33.5	961.08	-	961.08
06/30/90	survey-old tank prop	33.5	453.00	-	453.00
06/30/90	hydrants-prior yr. ream	30.0	(888.29)	-	(917.90)
06/30/91	IBM typewriter	12.5	645.00	-	645.00
06/30/91	engin exp, lang, pump, const.	33.5	3,938,731.08	117,574.06	3,109,513.74
06/30/91	new main & accessories	33.5	5,107.73	152.47	4,032.63
06/30/91	survey week water tank	33.5	805.00	24.03	635.59
06/30/91	hydrants	33.5	3,789.48	113.12	2,991.85
12/31/91	office cabinets	5.0	1,009.76	-	1,009.76
06/30/92	construction cost-Fagan	33.5	645,138.87	19,257.88	486,766.90
06/30/92	new mains & accessories	33.5	17,514.14	522.81	13,214.66
06/30/92	hydrants	33.5	4,094.59	122.23	3,089.43
01/12/93	turbidimetes-Calvary	5.0	11,682.50	-	11,682.50
FY 2015	turbidimetes-Calvary disposed		(11,683.00)	-	(11,683.00)
01/31/93	trailblaze mower	10.0	1,324.60	-	1,324.60
FY 2015	trailblaze mower disposed		(1,325.00)	-	(1,325.00)
12/31/93	resorvior imp.	33.5	1,796.60	53.63	1,292.68
12/31/93	suspended solids faciltiy	33.5	476,228.10	14,215.76	342,653.21
06/30/94	suspended solids facility compl.	33.5	563.00	16.81	385.39
06/30/94	reservior	33.5	4,883.86	145.79	3,343.09
06/30/94	Calvery treatment plant study	33.5	29,316.00	875.10	20,067.24
06/30/94	new mains & accessories	33.5	61,545.05	1,837.17	42,128.51
06/30/94	hydrants	33.5	20,259.68	604.77	13,970.41
10-94	radio system	12.5	4,113.50	-	4,113.50
FY 2013	Junked		(4,113.50)	-	(4,113.50)
06/30/96	Transmission New Main	33.0	1,537.78	46.60	1,012.74
06/30/96	Gen. Prop. Shop Equip.	10.0	39,671.00	-	39,671.00
06/30/96	Filter Plant, pump, bldg, equip.	33.0	142,824.45	4,328.01	94,058.56
06/30/96	General Prop.	7.0	20,582.45	-	20,582.45
06/30/97	Collecting Impounders-blacktop	21.0	12,906.93	614.62	12,518.19
06/30/97	filter plant & pump stat.	33.0	31,329.90	949.39	19,261.96
06/30/97	Transmission new mains	33.0	27,789.28	842.10	16,841.99
06/30/97	new hydrants	33.0	1,893.98	57.39	1,147.87
06/30/97	office equip.	7.0	1,019.95	-	1,019.95
06/30/97	track	25.0	22,235.00	889.40	20,567.38
	fully depreciated	7.0	1,282.09	-	1,282.09

LEBANON WATER WORKS
Depreciation Schedule
June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
	2 water salesman reductions	10.0	1,081.92	-	1,081.92
	junked	10.0	(5,132.35)	-	(12,165.28)
	misc	10.0	(2,713.71)	-	(2,713.71)
			17,656.66	-	17,656.66
			9,072,748.12	-	-
	Construction in Progress		(200,174.00)	-	(6,201.95)
	Balance		8,872,574.12	-	-
				-	-
	1998 deletions	10.0	(3,251.50)	-	(3,576.65)
	1998 New Main net additions	33.5	24,978.71	745.63	14,912.66
	1998 New hydrants net additions	33.5	6,456.32	192.73	3,854.52
	1998 Office copier	8.0	3,839.00	-	3,839.00
	<i>FY 2012 Junked</i>		(3,839.00)	-	(3,839.00)
03/17/98	Calvary treatmentplant upgrade	30.0	3,358,770.25	111,959.01	2,127,221.16
FY 2011	Junked SCADA System		(73,000.00)	-	(29,200.00)
	1999 Pumpstation/TreatmentPlant improvements	30.0	27,917.41	930.58	17,681.03
	1999 New main net additons	33.5	14,042.75	419.19	7,964.54
	1999 Fence	7.0	4,642.97	-	4,642.97
	1999 Heating and Cooling Unit	10.0	2,867.00	-	2,867.00
	1999 New Hydrants net additions	33.5	88.85	2.65	50.39
	2000 sold 1990 Ford Truck		(9,228.50)	-	(9,228.50)
	2000 sold air compressor		(4,090.00)	-	(4,090.00)
	2000 heat unit @ WTP	10.00	810.57	-	810.57
	2000 New main net additons	33.50	6,549.92	195.52	3,448.38
	2000 New Hydrants net additions	33.50	3,291.80	98.26	1,768.73
	2000 Roof repair	20.00	9,700.00	485.00	8,730.00
	2000 Office chairs	7.00	475.00	-	475.00
	2000 Pump shop equipment	10.00	1,850.24	-	1,850.24
	2000 Air compressor	10.00	9,850.00	-	9,850.00
	2000 Fagan Branch Road	33.50	9,269.85	276.71	4,980.81
	2001 Software-turbidity/chlorine upgrades	7.00	17,000.00	-	17,000.00
	2001 New main net additons	33.50	20,915.30	624.34	10,613.73
	2001 3 computers/2 printers	7.00	9,659.00	-	9,659.00
	reductions (fire hydrants)		(2,166.00)	-	-
	2002 Land		10,000.00	-	-
	2002 Computer for WTP	7.00	1,483.00	-	1,483.00
	2002 Chemical pump	10.00	773.21	-	773.21
FY 2015	Chemical Pump Disposed		(773.00)	-	(773.00)
	2002 Jar Tester	7.00	2,600.00	-	2,600.00
	2002 Heater at WTP	10.00	789.94	-	789.94
	2002 Dixie Chopper riding lawn mower	10.00	9,539.00	-	9,539.00
	2002 Sale of Dixie Chopper Mower	10.00	(8,000.00)	-	(3,200.00)
	2002 Land (behind calvary store)	-	22,000.00	-	-
	2002 New main net additons	33.50	634.50	18.94	303.04
	2002 New Hydrant Additions	33.50	3,226.46	96.31	1,541.00
	2002 Office Renovation	20.00	60,528.74	3,026.44	48,422.99
	2002 Lab-turbidimeter	7.00	1,872.00	-	1,872.00
	2003 2 drives in motor control center	7.00	4,260.00	-	4,260.00
	2003 chemical pump used sickle bar mower	7.00	910.26	-	910.26

LEBANON WATER WORKS

Depreciation Schedule

June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
2003	used sickle bar mower	7.00	1,500.00	-	1,500.00
2003	phone lines meter circuits	5.00	1,710.28	-	1,710.28
2003	chlorine emergency kit at WTP	7.00	2,175.00	-	2,175.00
2003	water trmt plant drive	10.00	9,107.00	-	10,017.70
2003	equipment	7.00	959.00	-	959.00
2003	2 chemical pumps	7.00	1,447.00	-	1,447.00
FY 2015	Chemical Pump Disposed		(1,447.00)	-	(1,447.00)
2003	New main net additons	33.50	3,326.11	99.29	1,489.30
2003	New Hydrant Additions	33.50	1,490.50	44.49	667.39
2003	Office Renovation	20.00	10,067.23	503.36	7,550.42
2003	Printer	5.00	419.00	-	419.00
2003	Lexmark laser printer	5.00	2,360.00	-	2,360.00
FY 2012	Junked		(2,360.00)	-	(2,360.00)
2003	Billing software upgrade	5.00	2,775.00	-	2,775.00
2003	2003 Dodge Ram 1500 truck	5.00	17,250.00	-	17,250.00
2003	Clearwell/High Service Pump Bldg.	40.00	1,522,402.00	38,060.05	501,123.99
2003	Filters (4)	30.00	166,046.50	5,534.88	72,875.96
2003	WPT - Misc. Improvements	40.00	150,568.79	3,764.22	49,562.23
2003	Instrumentation panel	20.00	131,260.58	6,563.03	86,413.22
2003	Chlorine Bldg/Shop	40.00	402,860.99	10,071.52	132,608.41
2003	Booster Pump Station No. 1	30.00	253,123.82	8,437.46	111,093.23
2003	6";12" mains (HWY 208, Metts Dr.)	50.00	271,238.35	5,424.77	71,426.10
2003	Fire Hydrants	30.00	6,950.12	231.67	3,050.33
2003	Radio Meter Reading Upgrade	10.00	342,204.86	-	370,721.93
	Sold one handheld to Trailer Park in FY 2014		(1,885.00)	-	(1,885.00)
2003	Meter interface software	5.00	4,995.00	-	4,995.00
2004	Potable Pump	10.00	959.00	-	959.00
2004	Pupex Pump	20.00	14,339.00	716.95	10,037.30
2004	2 pumps	7.00	943.00	-	943.00
2004	Scales	10.00	899.00	-	899.00
2004	Drill	5.00	449.00	-	449.00
2004	New mains net additions	20.00	262,628.86	13,131.44	183,840.20
2004	New Meter Additions (coded to upgrade)	20.00	23,335.84	1,166.79	16,335.09
2004	Radio Meters net	20.00	44,381.80	2,219.09	31,067.26
2004	New fire hydrants net	20.00	11,360.25	568.01	7,952.18
2004	New software package	5.00	5,815.00	-	5,815.00
2004	Vulnerability Assessment	10.00	30,794.00	-	30,794.00
2004	Easements	LAND*	21,656.00	-	-
2004	sold asset		(1,500.00)	-	(300.00)
2005	Transmission & Distributions - right of way	LAND*	10,000.00	-	-
2005	Transmission & Distributions - new mains	20.00	8,274.83	413.74	5,171.77
2005	Radio Modem Telemetry - 04-05	20.00	19,350.00	967.50	12,093.75
2005	Transmission & Distributions - new meters	20.00	12,817.01	640.85	8,010.63
2005	Radio Meter Reading Upgrade	20.00	80,034.27	4,001.71	50,021.42
2005	Backhoe	10.00	31,500.00	-	31,500.00
2005	Gis mapping system	20.00	41,085.00	2,054.25	25,678.13
2005	reclass		(10,000.00)	-	-
2003	accum depr from deleted assets FY03			-	-
2006	New mains	20.00	5,151.77	257.59	3,091.06
2006	New meters - Customers	20.00	4,787.42	239.37	2,872.45

LEBANON WATER WORKS

Depreciation Schedule

June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
2006	Radio Read Meter Reading Upgrade	20.00	47,069.51	2,353.48	28,241.71
2006	Flosearch systems	10.00	7,929.05	-	7,929.05
2006	Boring machine	10.00	5,100.00	-	5,100.00
2006	Water System Hydrolic Study	10.00	18,500.00	-	18,500.00
2006	Field Calibration	10.00	15,840.00	-	15,840.00
2007	Water Pump Purchased	7.00	21,050.00	-	21,050.00
2007	C.I. Thornburg - new meters	15.00	9,389.00	625.93	6,885.27
2007	Water Line Relocation	40.00	241,908.00	6,047.70	60,477.00
2007	Truck Bed	5.00	10,554.00	-	10,554.00
2007	Dodge Ton Truck	5.00	16,350.00	-	16,350.00
2007	Lanham Refrigeration (new furnace)	5.00	4,150.00	-	4,150.00
2007	C.I. Thornburg - new mains	40.00	2,058.00	51.45	565.95
2007	New meters - Customers	15.00	9,189.00	612.60	6,738.60
2007	New radio read meters	15.00	42,595.00	2,839.67	31,236.33
2007	Engineering Fees Assessed	10.00	1,760.00	-	1,760.00
2007	LAND	--	30,000.00	-	-
2008	C.I. Thornburg - new mains	40.00	13,858.00	346.45	3,464.50
2008	Neptune Equipment	5.00	7,045.00	-	6,164.38
11/15/2011	<i>Traded laptop (Neptune Equipment)</i>		(7,045.00)	-	(6,164.38)
2008	New meters - Customers	15.00	7,044.00	469.60	4,696.00
2008	99 Dodge Ram 1500 Pickup	5.00	18,445.00	-	22,134.00
FY 2016	99 Dodge Ram 1500 Pickup - Traded in		(18,445.00)	-	(18,445.00)
2008	Elevated Tank	40.00	788,404.25	19,710.11	177,390.96
2008	Mower	7.00	7,999.00	-	-
			(7,999.00)	-	-
2008	Property entrance sign	20.00	10,580.00	529.00	5,290.00
2009	New Mains	40.00	51,128.74	1,278.22	11,503.97
2009	Pressure Regulating Valves 2008	40.00	37,056.25	926.41	8,337.66
2009	New motor B. Vista	20.00	4,724.61	236.23	2,126.07
2009	New Meters - Customers	15.00	3,546.24	236.42	2,127.74
2009	Office Equipment	5.00	5,905.00	-	7,086.00
2009	Elevated Tank Springfield Hwy 2006-08	40.00	71,125.00	1,778.13	16,003.13
2009	Industrial Dr Relocation/Extension-CIP	40.00	641,452.44	16,036.31	128,290.49
				-	2,577.98
				-	(1.00)
				-	-
7/1/2009	Industrial Dr Relocation/Extension-CIP	40.00	192,085.00	4,802.13	38,417.00
12/15/2009	Chlorinator	7.00	2,860.00	204.29	2,860.00
12/30/2009	New Meters	15.00	9,537.00	635.80	4,768.50
6/30/2010	New Mains	40.00	2,164.00	54.10	378.70
5/20/2010	Lawn Mower (old mower damaged in flood)	7.00	11,370.00	1,488.93	11,370.00
5/12/2010	Tractor (Kubota L3400 DT 4x4)	7.00	11,269.00	1,475.70	11,269.00
				-	-
8/17/2010	Calvary LAND		33,559.00	-	-
7/1/2010	Calvary Rd Tanks Mixing/Painting 09-10	40.00	315,185.00	7,879.63	55,157.38
10/8/2010	Copystar 220 Copier	10.00	3,598.00	359.80	2,518.60
FY 2017	Copystar 220 Copier		(3,598.00)		(2,518.60)
10/29/2010	Fence for Mattingly property at Calvary	20.00	10,555.00	527.75	3,694.25
12/17/2010	2011 Dodge Ram 1500	5.00	23,685.00	-	23,685.00
5/20/2011	2011 Dodge Ram 1500	5.00	19,999.00	-	19,999.00

LEBANON WATER WORKS
Depreciation Schedule
June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
8/1/2010	SCADA System	20.00	54,389.00	2,719.45	18,809.53
				-	-
7/12/2011	Clarithickener Improvements	20.00	46,280.75	2,314.04	13,884.23
1/17/2012	Chlorinator-treatment equipment	7.00	5,194.40	742.06	4,081.31
4/20/2012	New roof at Calvary pumping station	20.00	13,800.00	690.00	3,565.00
	Meter reading hardware & software (Neptune				
11/15/2011	Equipment)	5.00	9,275.00	695.63	9,275.01
12/30/2011	New Meters	15.00	2,373.30	158.22	870.21
12/30/2011	New Mains	40.00	11,308.38	282.71	1,554.90
	(Corporate Drive, North Spalding, Lake				
12/30/2011	Street & North Sreet)	40.00	592,213.00	14,805.33	81,429.29
	Line extension at Crossroad Industrial Park &				
11/30/2011	Hwy 208 Industrial Park	40.00	59,412.00	1,485.30	8,292.93
12/30/2011	Fire Hydrants	30.00	19,152.58	638.42	3,511.31
8/14/2012	New Meters	15.00	3,936.65	262.44	1,246.61
11/15/2012	New water pump	15.00	10,550.00	703.33	3,165.00
12/18/2012	New Meters	15.00	2,232.52	148.83	669.76
3/12/2013	New Computer Equipment	7.00	13,039.50	1,862.79	8,009.98
	Additional Screen Protection at Intake at				
3/12/2013	River	10.00	73,814.03	7,381.40	31,740.03
1/15/2013	Water Main Replacement - E Main St.	40.00	309,297.00	7,732.43	34,795.91
2/28/2013	WTP DBR Project	40.00	74,594.00	1,864.85	8,018.86
6/30/2013	Fire Hydrants	40.00	5,098.21	127.46	548.06
6/30/2013	New Meters	15.00	2,065.99	137.73	592.25
				-	-
	Land - Old Calvary Road Next to Water				
8/16/2013	Tanks	-	22,141.00	-	-
9/3/2013	Computer System	5.00	4,897.00	979.40	3,754.37
9/17/2013	WTP Emergency Power Generator	30.00	443,813.00	14,793.77	56,709.44
9/17/2013	WTP Chlorine System Modifications	10.00	20,467.00	2,046.70	7,845.68
11/12/2013	Gas Lines to Remote Buildings	30.00	5,396.00	179.87	659.51
11/12/2013	New Water Mains	40.00	3,717.00	92.93	332.98
12/31/2013	New Meters	12.00	15,115.00	1,259.58	4,408.54
3/7/2014	IH Sludge Truck	15.00	20,500.00	1,366.67	4,441.67
3/25/2014	Sludge Tank	20.00	2,450.00	122.50	398.13
6/30/2014	Intake Upgrades	20.00	8,237.00	411.85	1,269.87
6/30/2014	New Hydrants	40.00	5,804.00	145.10	447.39
6/30/2014	HWY 49 Relocation Project	40.00	157,342.00	3,933.55	12,128.45
8/1/2014	HWY 49 Relocation Project	40.00	1,037.00	25.93	75.61
8/19/2014	Pax Mixer for Calvary Rd Tank no. 2	7.00	2,947.00	421.00	1,227.92
9/16/2014	Marion County Water District Master Meter	15.00	12,635.00	842.33	2,386.61
11/18/2014	Hydra valve	15.00	4,570.00	304.67	812.44
11/18/2014	Hydra valve	15.00	4,570.00	304.67	812.44
11/18/2014	Heat pump	7.00	6,890.00	984.29	2,624.76
3/6/2015	Water line leak detector	7.00	3,064.00	437.71	1,386.10
4/14/2015	Hydra valve	15.00	4,882.00	325.47	732.30
5/12/2015	Hydra valve	15.00	5,382.00	358.80	777.40
6/30/2015	Air Conditioner - WTP	7.00	6,800.00	971.43	2,023.81

LEBANON WATER WORKS
Depreciation Schedule
June 30, 2017

Date	Description	Life	Cost/Price	2017 Depreciation	2017 Accum Dep.
9/29/2015	Sludge Dump Truck	5	7,283.00	1,456.60	2,670.43
11/17/2015	Fire Hydrants	40	20,855	521.38	868.96
11/17/2015	Water Reading Handheld	5	4,929	985.80	1,643.00
11/17/2015	2016 Dodge Ram	5	27,010	5,402.00	9,003.33
1/12/2016	Water Mains	40	4,014.00	100.35	150.53
4/12/2016	Chemtrac Chlorine Reading Unit	7	3,753.00	536.14	670.18
6/30/2016	Water Mains	40	10,864	271.60	294.23
6/30/2016	Water Meters	15	1,197	79.80	86.45
6/30/2016	Fire Hydrants	40	1,800	45.00	48.75
9/13/2016	SL 1000	5	3,173	529	529
10/18/2016	HVAC Unit	10	4,725	354	354
10/18/2016	GPS System	5	12,274	1,841	1,841
11/15/2016	Used Savin Multi-purpose copier	10	15,900	1,060	1,060
11/15/2016	Chemical Sales - WTP	7	18,410	1,753	1,753
11/30/2016	Variable Frequency Drive Pump	20	98,020	3,267	3,267
3/14/2017	Panasonic Toughbook 14'	5	2,200	147	147
3/23/2017	1/2 acre of land beside reservoir	N/A	5,026	-	-
4/18/2017	KYCOERA M6530 Copier/printer/fax	10	2,095	52	52
4/18/2017	Lab Corrosion Monitor	5	2,995	150	150
5/9/2017	Computers, monitors and software	5	6,082	203	203
5/9/2017	Alarm security system - office	10	4,030	67	67
5/9/2017	Server	5	14,442	481	481
	Main for SNS Rentals - Simon Loop & Copper Street				
5/16/2017		40	7,098	30	30
6/15/2017	2017 Ford F-150 4wd Crew	5	40,991	683	683
6/15/2017	2017 Ford F-150 4wd Supercab	5	32,999	550	550
6/30/2017	WTP Raw Water Pump Renovation	40	641,423	1,336	1,336
6/30/2017	Woodlawn Loretto Road Watermain	40	710,265	1,480	1,480

KEY: **FY 17 Disposals (3,598.00)**

Balance	22,864,494	575,210	13,063,007
Land not recorded on schedule above	<u>77,024</u>		
	22,941,518		

LAND* - Item not actually land, but not depreciated

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 9

Responding Witnesses: Daren Thompson & Tyler Fallin

- Q-9. Please provide a copy of any and all documents used, reviewed or relied upon in developing and adopting the Company's recent depreciation schedules.
- A-9. The requested documents are too voluminous to provide. To prepare the Company's depreciation schedule, the Company's management reviewed the Company's financial records, including invoices and check copies, as well as other information. In addition, Company management reviewed the Company's capitalization policy, which was adopted in 2007, to determine useful lives. Finally, it reviewed the depreciation schedules to determine the reasonableness of useful lives for particular assets and to identify assets that had been disposed.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 10

Responding Witnesses: Daren Thompson & Tyler Fallin

Q-10. Please provide a copy of any and all documents used, reviewed or relied upon in developing and adopting the Company's current Capitalization Policy.

A-10. The Capitalization Policy was adopted in 2007 and was based on management's estimate of the useful lives of the capital assets being purchased. The Company's auditors reviewed the reasonableness of the Capitalization Policy by comparing it to policies of similar entities and estimated useful lives used in Public Service Commission ("Commission") proceedings. An excerpt of the National Association of Regulatory Utility Commissioners ("NARUC") survey used by the Commission was reviewed in developing the Company's Capitalization Policy and is attached as **Exhibit 10-1**. The Company's auditors and Board of Directors have determined the Capitalization Policy to be a reasonable estimate.

EXHIBIT 10-1

FIGURE 1
Typical Average Service Lives,
Salvage Rates, and Depreciation Rates
Small Water Utilities

NARUC Account Number	Class of Plant	Average Service Life ^{a/} Years	Net Salvage Percent	Depreciation Rate Percent
<u>Source of Supply Plant</u>				
311	Structures and Improvements	35-40		2.9-2.5
312	Collecting & Impounding Reservoirs	50-75		2.0-1.3
313	Lake, River and Other Intakes	35-45		2.9-2.2
314	Wells and Springs	25-35		4.0-2.9
315	Galleries and Tunnels	25-50		4.0-2.0
316	Supply Mains	50-75		2.0-1.3
317	Other Source of Water Supply Plant	30-40		3.3-2.5
<u>Pumping Plant</u>				
321	Structures and Improvements	35-40		2.9-2.5
324-7	Pumping Equipment	20		5.0
328	Other Pumping Plant	25		4.0
<u>Water Treatment Plant</u>				
331	Structures and Improvements	35-40		2.9-2.5
332	Water Treatment Equipment	20-35		5.0-2.9
<u>Transmission and Distribution Plant</u>				
341	Structures and Improvements	35-40		2.9-2.5
342	Reservoirs and Tanks	30-60		3.3-1.7
343	Transmission and Distribution Mains	50-75		2.0-1.3
344	Fire Mains	50-75		2.0-1.3
345	Services	30-50		3.3-2.0
346	Meters	35-45	10	2.6-2.0
347	Meter Installations	40-50		2.5-2.0
348	Hydrants	40-60	5	2.4-1.6
<u>General Plant</u>				
390	Structures & Improvements	35-40		2.9-2.5
391	Office Furniture and Equipment	20-25	5	4.8-3.8
392	Transportation Equipment	7	10	12.9
393	Stores Equipment	20		5.0
394	Tools, Shop & Garage Equipment	15-20	5	6.3-4
395	Laboratory Equipment	15-20		6.7-5.5
396	Power Operated Equipment	10-15	10	9.0-6.0
397	Communication Equipment	10	10	9.0

^{a/} These lives are intended as a guide; longer or shorter lives should be used where conditions warrant.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 11

Responding Witness: Daren Thompson

Q-11. Please provide a copy of the Company's audited Financial Statements for the fiscal year ending:

- A. June 30, 2017;
- B. June 30, 2016;
- C. June 30, 2015;
- D. June 30, 2014; and
- E. June 30, 2013.

A-11.

- A. Attached as **Exhibit 11-1.**
- B. Attached as **Exhibit 11-2.**
- C. Attached as **Exhibit 11-3.**
- D. Attached as **Exhibit 11-4.**
- E. Attached as **Exhibit 11-5.**

EXHIBIT 11-1

LEBANON WATER WORKS CO., INC.
Lebanon, Kentucky

FINANCIAL STATEMENTS
June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lebanon Water Works, Co., Inc.
Lebanon, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Lebanon Water Works Co., Inc. as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lebanon Water Works Co., Inc., as of June 30, 2017 and 2016, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions on pages 3–6, 22 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
August 31, 2017

Lebanon Water Works Co., Inc.

Management's Discussion and Analysis

Our discussion and analysis of the Lebanon Water Works Co. Inc.'s (the Company) financial performance provides an overview of the Company's financial activities for the fiscal years ended June 30, 2017 and 2016. Please read in conjunction with the Company's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- The Company's net position increased \$901,891.
- Operating revenues increased \$33,519.
- Operating expenses increased \$146,973.
- The Company continues to focus on improving equipment and services and review plans for future development.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of this management's discussion and analysis report, the independent auditors' report, the basic financial statements of the Company and the independent auditors' report on compliance. The financial statements also include notes that explain, in more detail, some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Company report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States of America. The statement of net position includes information on the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). The statement of revenues, expenses and changes in net position identify the Company's revenues and expenses for the fiscal years ended June 30, 2017 and 2016. This statement provides information on the Company's operations and can be used to determine whether the Company has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the statement of cash flows. This statement provides information on the Company's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the statement of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance.

FINANCIAL ANALYSIS OF THE COMPANY

The statement of net position and the statement of revenues, expenses and changes in net position provide an indication of the Company's financial condition and also indicate that the financial condition of the company improved during the last fiscal year. The Company's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

NET POSITION

Our analysis begins with a summary of the Company's balance sheet, which is presented on Table A-1 followed by an explanation of the results.

Table A-1

Condensed Statement of Net Position

	<u>FY 2017</u>	<u>FY 2016</u>
Current and other assets	\$ 2,795,238	\$ 2,516,164
Capital assets	12,377,441	10,115,466
Deferred outflows of resources	<u>276,493</u>	<u>212,139</u>
Total assets and deferred outflows of resources	<u>\$ 15,449,172</u>	<u>\$ 12,843,769</u>
Current liabilities	\$ 701,110	\$ 631,379
Noncurrent liabilities	<u>6,842,127</u>	<u>5,209,568</u>
Total liabilities	7,543,237	5,840,947
Deferred inflows of resources	1,222	-
Net invested in capital assets	6,296,467	5,578,830
Restricted	985,926	869,520
Unrestricted	<u>622,320</u>	<u>554,472</u>
Total net position	<u>7,904,713</u>	<u>7,002,822</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,449,172</u>	<u>\$ 12,843,769</u>

The Company's increase in current and other assets was due mainly to increased restricted cash, cash and cash equivalents and inventory. The reason for the increase in capital assets is due to construction in progress, completed projects placed in service and two new service vehicles. The Company's increase in current liabilities was due primarily to an increase in the current portion of bonds, notes, and loans payable. The Company's increase in non-current liabilities was due to advances on a KIA loan for the Marion/Taylor Interconnect Project and an increase in the proportionate share of the net pension liability.

While the balance sheet shows the change in financial position, the statement of revenues, expenses and changes in net position provides answers as to the nature and source of these changes. The Company's source of revenue increased by about 1%. Overall operating expenses increased 6%, including chemical expenses and maintenance and repairs expenses increasing 10% and 13%, respectively. Salaries increased 21.6% due to a management position replacement which included a six month training period, and initial accruing of compensated absences; two additional employees were also added. Fringe benefits decreased 13%. Office supplies/expense and outside services show a combined increase of 57% due to additional lab fees and professional services, including a City/County merger study and technology monitoring. Non-operating revenues (expenses) consist mainly of interest income on investments, water tap fees, interest expense on related debt, disposal of certain capital assets and developer contributions. The largest increase of approximately \$715,000 was principal forgiveness on a new KIA Loan.

Table A-2

**Condensed Statement of Revenues,
Expenses and Changes in Net Position**

	<u>FY 2017</u>	<u>FY 2016</u>
Charges for services	\$ 2,708,423	\$ 2,672,904
Rental income	<u>-</u>	<u>2,000</u>
	2,708,423	2,674,904
Operating expenses		
Power	225,559	221,646
Pump station & filter plant	61,871	68,029
Chemicals	185,077	167,709
Maintenance & repairs	136,318	120,903
Salaries	643,122	528,862
Fringe benefits- employees	356,421	411,140
Payroll taxes	46,549	38,371
Directors' fees	12,600	12,600
Insurance	49,265	49,117
Office supplies & expense	59,709	31,416
Outside services	59,927	44,702
Bad debt	1,410	5,300
Miscellaneous	25,434	16,384
Depreciation	<u>575,210</u>	<u>575,320</u>
Total operating expenses	<u>2,438,472</u>	<u>2,291,499</u>
Operating income	269,951	383,405
Non operating revenues (expenses)	<u>631,940</u>	<u>(119,732)</u>
Change in net position	901,891	263,673
Beginning net position	7,002,822	6,739,149
Ending net position	<u>\$ 7,904,713</u>	<u>\$ 7,002,822</u>

CAPITAL ASSETS

The Company invested in capital assets during the past fiscal year. Some major items were professional fees and contractor fees paid for the Marion/Taylor Interconnection Project, installation of a variable frequency drive (VFD) at the treatment plant and installation of a dedicated server and a security system. The Company will continue to invest in new technology and replace capital assets and review plans for future customer growth.

LONG-TERM DEBT

The Company's prior year total of \$4,559,580 increased to \$6,100,962 due to \$2,544,582 in principal additions through Kentucky Infrastructure Authority Loans and \$1,003,200 in retirements on the Citizens National Bank loans and existing Kentucky Infrastructure Authority loans.

Table A-3

Debt Outstanding at Year End

	<u>FY 2017</u>	<u>FY 2016</u>
Revenue Bonds & Notes Payable	<u>\$ 6,100,962</u>	<u>\$ 4,559,580</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors approved the Company's budget for fiscal year 2018 on June 12, 2017. The budget is generally based on current year income and expenses, and any known capital expenditures. The most recent water rate increase went into effect September 17, 2013. The Company has performed a water rate study requiring an increase, which is currently on the City Council agenda.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Company's customers, investors, creditors and other interested parties with a general overview of the Company's finances and to demonstrate the Company's accountability of the money it receives. If you have questions about this report or need additional financial information, please contact Daren S. Thompson, Operations & Management Superintendent at 120 S. Proctor Knott Avenue, Lebanon, KY. 40033.

LEBANON WATER WORKS CO., INC.
STATEMENTS OF NET POSITION
June 30,

ASSETS	2017	2016
Current assets		
Cash and cash equivalents	\$ 724,564	\$ 627,895
Short-term investments - certificate of deposit	100,000	100,000
Receivables (net)	356,611	365,467
Accrued interest receivable	2,273	2,324
Inventory	<u>131,564</u>	<u>94,606</u>
Total current assets	1,315,012	1,190,292
Noncurrent assets		
Unrestricted investments - certificate of deposit	300,000	300,000
Restricted cash and cash equivalents	880,226	725,872
Restricted investments - certificate of deposit	300,000	300,000
Capital assets		
Construction in progress	2,498,930	1,282,815
Land	187,486	182,461
Buildings	219,117	219,117
Plant and system	21,976,001	20,508,387
Furniture and equipment	313,432	241,511
Vehicles	245,483	171,492
Less: accumulated depreciation	<u>(13,063,008)</u>	<u>(12,490,317)</u>
Total noncurrent assets	<u>13,857,667</u>	<u>11,441,338</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	256,505	189,195
Deferred amount on refunding of debt	<u>19,988</u>	<u>22,944</u>
Total assets and deferred outflows of resources	<u>\$ 15,449,172</u>	<u>\$ 12,843,769</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 243,027	\$ 249,359
Customer deposits	73,871	68,231
Customer overpayments	4,154	3,232
Payroll taxes payable	18,307	11,554
Accrued interest payable	1,587	1,280
Compensated absences, current portion	7,308	-
Bonds, notes, and loans payable, current portion	<u>352,856</u>	<u>297,723</u>
Total current liabilities	<u>701,110</u>	<u>631,379</u>
Long-term liabilities		
Compensated absences, net of current portion	10,992	-
Bonds, notes, and loans payable, net of current portion	5,748,106	4,261,857
Net pension liability	<u>1,083,029</u>	<u>947,711</u>
Total liabilities	<u>7,543,237</u>	<u>5,840,947</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	<u>1,222</u>	<u>-</u>
NET POSITION		
Net invested in capital assets	6,296,467	5,578,830
Restricted for debt service	422,995	434,137
Restricted for depreciation reserve	562,931	435,383
Unrestricted - emergency sinking fund	144,100	120,067
Unrestricted - construction	50,200	36,285
Unrestricted	<u>428,020</u>	<u>398,120</u>
Total net position	<u>7,904,713</u>	<u>7,002,822</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,449,172</u>	<u>\$ 12,843,769</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the years ended June 30,

	2017	2016
Operating revenue		
Charges for services	\$ 2,672,537	\$ 2,638,560
Penalties	35,886	34,344
Rental income	<u>-</u>	<u>2,000</u>
 Total operating revenue	 <u>2,708,423</u>	 <u>2,674,904</u>
 Operating expenses		
Power	225,559	221,646
Pump station and filter plant	61,871	68,029
Chemicals	185,077	167,709
Maintenance and repairs	136,318	120,903
Salaries	643,122	528,862
Fringe benefits - employees	356,421	411,140
Payroll taxes	46,549	38,371
Directors' fees	12,600	12,600
Insurance	49,265	49,117
Office supplies and expense	59,709	31,416
Outside services	59,927	44,702
Bad debt expense	1,410	5,300
Miscellaneous	25,434	16,384
Depreciation	<u>575,210</u>	<u>575,320</u>
 Total operating expenses	 <u>2,438,472</u>	 <u>2,291,499</u>
 Operating income	 <u>269,951</u>	 <u>383,405</u>
 Nonoperating revenue (expenses)		
Interest revenue	9,802	9,777
Interest expense	(137,860)	(140,746)
Gain (loss) on disposal of capital assets	<u>(1,079)</u>	<u>2,000</u>
 Total nonoperating (expenses)	 <u>(129,137)</u>	 <u>(128,969)</u>
 Income before capital contributions	 <u>140,814</u>	 <u>254,436</u>
 Water tap fees	26,100	2,700
Principal forgiveness	714,697	-
Other capital contributions	-	2,000
Developer contributions	<u>20,280</u>	<u>4,537</u>
 Change in net position	 901,891	 263,673
 Net position at beginning of year	 <u>7,002,822</u>	 <u>6,739,149</u>
 NET POSITION AT END OF YEAR	 <u>\$ 7,904,713</u>	 <u>\$ 7,002,822</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENTS OF CASH FLOWS
for the years ended June 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,715,869	\$ 2,661,807
Payments to suppliers	(846,450)	(726,216)
Payments for employee services and benefits	(964,411)	(930,927)
Customer deposits received	25,817	24,262
Customer deposits returned	(20,177)	(20,312)
Other payments	922	38
	<u>911,570</u>	<u>1,008,652</u>
Net cash provided by operating activities		
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	26,100	2,700
Developer contributions	20,280	8,812
Purchases of capital assets	(2,838,262)	(1,211,084)
Proceeds from issuance of capital debt	2,544,582	557,744
Principal paid on capital debt	(288,503)	(263,331)
Interest paid on capital debt	(134,597)	(138,395)
	<u>(670,400)</u>	<u>(1,043,554)</u>
Net cash (used in) capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	300,000	100,000
Purchase of investment securities	(300,000)	(100,000)
Interest and dividends	9,853	9,766
	<u>9,853</u>	<u>9,766</u>
Net cash provided by investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	251,023	(25,136)
Cash and cash equivalents at beginning of year	<u>1,353,767</u>	<u>1,378,903</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,604,790</u>	<u>\$ 1,353,767</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Operating income	\$ 269,951	\$ 383,405
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	575,210	575,320
Bad debt expense	1,410	5,300
Change in assets and liabilities:		
Receivables	7,446	(13,097)
Customer deposits	5,640	3,950
Compensated absences	18,300	-
Customer overpayments	922	38
Accounts and other payables	421	(13,947)
Inventory	(36,958)	6,293
Net pension obligation	69,228	61,390
	<u>911,570</u>	<u>1,008,652</u>
Net cash provided by operating activities		
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Principal forgiveness of capital debt	\$ 714,697	\$ -
Amortization of discount and deferred loss on debt refundings	\$ 2,956	\$ 2,956
Trade-in allowance on disposal of capital assets	\$ -	\$ 2,000
Fair value of donated capital assets	\$ -	\$ 2,000

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

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. ORGANIZATION AND ACCOUNTING POLICIES

The Lebanon Water Works Co., Inc. (the Company) is an incorporated utility under the oversight of the City of Lebanon, Kentucky, which operates water services for the residents of Lebanon. Treated water is also distributed to the Marion County Water District that serves other Marion County residents.

Basis of Presentation

The Company's financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board (GASB) which establishes financial reporting requirements for all state and local governments including management's discussion and analysis (required supplementary information).

Basis of Accounting

The Company reports on the accrual basis of accounting. Under this method, the effects of transactions and other events on the assets and liabilities of the Company are recognized and reported when billed to customers or when expenses are incurred. All customers are on the same billing cycle.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Company. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes which there are both restricted and unrestricted net position available, it is the Company's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses and capital contributions. Net position is classified in the following three components:

Net invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent, related, debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets. Rather, that portion of the debt is included in the same net position component as unspent proceeds.

Restricted net position is restricted as to use by ordinance or by external parties.

The unrestricted component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets."

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company defines cash and cash equivalents to include cash on hand, cash in bank, certificates of deposit and investments maturing in 90 days or less when purchased. All cash, unrestricted and restricted, are considered cash for the purposes of the statements of cash flows.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Short-term Investments

Short-term investments are certificates of deposit that mature or are available for withdrawal in one year or less.

Accounts Receivable

The Company provides for bad debts on the reserve method based on historical experience and an evaluation of outstanding accounts receivable at year end. The reserve for uncollectible accounts at June 30, 2017 and 2016 totaled \$1,500.

Inventory

Inventory is maintained at lower of cost or market.

Capital Assets

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method. Interest costs during construction are capitalized net of interest earned on construction investments. During the year ended June 30, 2017, \$5,191 of interest cost related to the construction of capital assets was capitalized. Total interest cost incurred for the years ended June 30, 2017 and 2016 was \$143,051 and \$140,746, respectively.

<u>CLASSIFICATION</u>	<u>RANGE OF LIVES</u>
Buildings	20 – 40
Plant and system	15 – 40
Furniture and equipment	5 – 10
Auto and trucks	5 – 7

Debt

Long-term debt is reported at face value. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter, and recorded as deferred outflows of resources.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employers' Retirement System Plan (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Compensated Absences

Accrued compensated absences reflect the extent that future benefits have been earned as it relates to rights attributable to employee services already rendered, and are probable of being paid out. Management has estimated a portion of the compensated absences to be a current liability.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Management's Review of Subsequent Events

The Company has evaluated and considered the need to recognize or disclose subsequent events through August 31, 2017, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2017, have not been evaluated by the Company.

2. CASH AND INVESTMENTS

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

At June 30, 2017, the Company's cash deposits were entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held by custodial banks. At June 30, 2017, the carrying amount of the Company's deposits was \$2,988,355 of which \$750,000 was covered by FDIC depository insurance and \$2,238,355 was collateralized by securities held by the pledging financial institution.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Company does not have a policy related to interest rate risk.

Statement of Cash Flows

The statement of cash flows includes as cash and cash equivalents the following at June 30,

	2017	2016
Cash and cash equivalents	\$ 724,564	\$ 627,895
Restricted cash and cash equivalents	<u>880,226</u>	<u>725,872</u>
Total cash and cash equivalents	<u>\$ 1,604,790</u>	<u>\$ 1,353,767</u>

The carrying value of the Company's investments at June 30, 2017 and 2016 are as follows:

<u>Type of Investments</u>	<u>Carrying Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Unrestricted investments				
Farmers National Bank:				
Certificate of deposit	\$ 200,000	\$ 200,000	1.70%	8/5/2019
Certificate of deposit	100,000	100,000	0.70%	9/25/2017
Certificate of deposit	<u>100,000</u>	<u>100,000</u>	1.80%	11/20/2018
Total unrestricted investments	<u>\$ 400,000</u>	<u>\$ 400,000</u>		
Restricted investments				
Farmers National Bank:				
Certificate of deposit	\$ 200,000	\$ 200,000	0.70%	9/25/2017
Certificate of deposit	<u>100,000</u>	<u>100,000</u>	1.80%	11/20/2018
Total restricted investments	<u>\$ 300,000</u>	<u>\$ 300,000</u>		

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

3. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment is stated at cost and consists of the following at June 30,

	2016	Additions	Deletions	2017
Construction in progress	\$ 1,282,815	\$ 2,567,803	\$ (1,351,688)	\$ 2,498,930
Land	182,461	5,025	-	187,486
Buildings	219,117	-	-	219,117
Plant and system	20,508,387	1,467,614	-	21,976,001
Furniture and equipment	241,511	75,519	(3,598)	313,432
Vehicles	<u>171,492</u>	<u>73,991</u>	<u>-</u>	<u>245,483</u>
	22,605,783	4,189,952	(1,355,286)	25,440,449
Less: Accumulated depreciation	<u>(12,490,317)</u>	<u>(575,210)</u>	<u>2,519</u>	<u>(13,063,008)</u>
Property and equipment, net	<u>\$ 10,115,466</u>	<u>\$ 3,614,742</u>	<u>\$ (1,352,767)</u>	<u>\$ 12,377,441</u>
	2015	Additions	Deletions	2016
Construction in progress	\$ 149,436	\$ 1,133,379	\$ -	\$ 1,282,815
Land	182,461	-	-	182,461
Buildings	219,117	-	-	219,117
Plant and system	20,460,975	47,412	-	20,508,387
Furniture and equipment	241,511	-	-	241,511
Vehicles	<u>155,644</u>	<u>34,293</u>	<u>(18,445)</u>	<u>171,492</u>
	21,409,144	1,215,084	(18,445)	22,605,783
Less: Accumulated depreciation	<u>(11,933,442)</u>	<u>(575,320)</u>	<u>18,445</u>	<u>(12,490,317)</u>
Property and equipment, net	<u>\$ 9,475,702</u>	<u>\$ 639,764</u>	<u>\$ -</u>	<u>\$ 10,115,466</u>

4. CONSTRUCTION IN PROGRESS

The Company began studying an alternative water supply in fiscal year 2012. The study concluded that the best way to obtain an alternative water supply would be to build a water line connection with a neighboring county. The Company began work on the water line connection during fiscal year 2014. Total cost associated with this project at June 30, 2017 and 2016 was \$2,498,930 and \$111,413, respectively.

The Company initiated a project to renovate a raw water pump during fiscal year 2015. Total cost associated with this project at June 30, 2016 was \$613,657. The project was completed during fiscal year 2017 with a total cost of \$641,423.

During fiscal year 2016, the Company started a project to replace the water line along Woodlawn Avenue and Loretto Road. Total cost associated with the project at June 30, 2016 was \$557,745. The project was completed during fiscal year 2017 with a total cost of \$710,265.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

5. NOTES PAYABLE

Lebanon Water Work's long-term notes at June 30, 2017 and 2016, are as follows:

	Amount Issued	Interest Rate	Balance Outstanding 6/30/16	Issued (Retired) During Year	Balance Outstanding 6/30/17
KIA note	\$ 800,000	1.07%	\$ 434,784	\$ (27,873)	\$ 406,911
KIA note, 2016	\$ 720,000	.75%	557,744	145,539	703,283
KIA note, 2017	\$ 2,382,325	.75%	-	1,667,628	1,667,628
CNB note, 2012	\$ 4,022,993	3.50%	3,347,338	(189,491)	3,157,847
CNB note, 2013	\$ 394,503	2.90%	<u>219,714</u>	<u>(54,421)</u>	<u>165,293</u>
Total outstanding debt			<u>\$ 4,559,580</u>	<u>\$ 1,541,382</u>	<u>\$ 6,100,962</u>

	Amount Issued	Interest Rate	Balance Outstanding 6/30/15	Issued (Retired) During Year	Balance Outstanding 6/30/16
KIA note	\$ 800,000	1.07%	\$ 462,362	\$ (27,578)	\$ 434,784
KIA note, 2016	\$ 720,000	.75%	-	557,744	557,744
CNB note, 2012	\$ 4,022,993	3.50%	3,530,242	(182,904)	3,347,338
CNB note, 2013	\$ 394,503	2.90%	<u>272,563</u>	<u>(52,849)</u>	<u>219,714</u>
Total outstanding debt			<u>\$ 4,265,167</u>	<u>\$ 294,413</u>	<u>\$ 4,559,580</u>

In December 2008, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$800,000. The proceeds from the loan were used to finance capital projects including the Industrial Drive Extension project and the Calvary Road Tank Painting and Mixing project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest is charged at an annual rate of 1.07%, and the outstanding loan balance is subject to a 0.20% service fee at each interest payment date.

In August 2012, the Company refinanced the Series 1997B and 2002 bonds into one note with Citizens National Bank. The note was for \$4,022,993, bears interest at a rate of 3.5%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seventeen years. The 1997B Series was originally issued for the expansion of the treatment plant, and the 2002 Series was used to bring the water treatment plant to its rated capacity, construct water mains and a booster pump station. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$22,012.

Another loan agreement was entered into with Citizens National Bank in January 2013 to pay off the outstanding balance of the City of Lebanon, KY Waterworks Revenue Bonds, Series 2004. The Series 2004 issue was used for the purpose of refunding the remaining balance of the Company's outstanding \$1,400,000 Waterworks Revenue Bonds, Series 1992. The new agreement with Citizens National Bank was issued for \$394,503, bears interest at a rate of 2.9%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seven years. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$11,625.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

5. NOTES PAYABLE (CONTINUED)

In May 2015, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$720,000. Draws from this loan were not made until fiscal year 2016, at which time \$557,744 was received. Additional draws of \$162,256 were made during the year ended June 30, 2017. The proceeds from the loan are being used to finance capital projects including the Woodlawn Avenue and Loretto Road Water Line Replacement project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest is charged at an annual rate of .75%, and the outstanding loan balance is subject to a 0.25% service fee at each interest payment date.

In July 2016, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$3,230,000. The proceeds from the loan will be used to finance capital projects including the Marion County/Taylor County Interconnect Project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest will be charged at an annual rate of .75%, and the outstanding loan balance will be subject to a 0.25% service fee at each interest payment date. The Company is taking draws on the loan as the projects progress. During the year ended June 30, 2017, the Company made draws totaling \$2,382,325. As part of the loan agreement, the Company is entitled to principal forgiveness in the amount of 30%. Due to this provision, the Company has recognized \$714,697 of principal forgiveness in current year operations; this amount represents 30% of the draws made during fiscal year 2017.

The deferred amounts on refunding created by the activities described in the preceding paragraphs, are reported in the accompanying financial statement as deferred outflows of resources, and are deferred and amortized as a component of interest expense on the straight-line basis over the life of the loans with Citizens National Bank in accordance with GASB.

The following is a summary of the long-term debt outstanding for the years ended June 30,

Year Ending	Principal	Interest	Fees	Total
2018	\$ 352,856	\$ 128,239	\$ 4,622	\$ 485,717
2019	401,298	124,768	6,469	532,535
2020	403,610	114,597	6,132	524,339
2021	360,800	105,169	5,792	471,761
2022	369,821	96,146	5,450	471,417
2023-2027	2,005,613	335,952	22,023	2,363,588
2028-2032	1,551,682	83,322	13,095	1,648,099
2033-2033	610,477	14,016	4,945	629,438
2034	<u>44,805</u>	<u>167</u>	<u>112</u>	<u>45,084</u>
Total	<u>\$ 6,100,962</u>	<u>\$ 1,002,376</u>	<u>\$ 68,640</u>	<u>\$ 7,171,978</u>

The Company is required to maintain a debt service reserve and depreciation reserve in accordance with the original bond issues, as required by the Citizens National Bank note agreements, and the KIA agreements. The Company has fully funded its depreciation and debt service reserve at June 30, 2016 and the depreciation reserve at June 30, 2017; however, the debt service reserve was underfunded at June 30, 2017 by \$109,540. On August 14, 2017 the Company approved to reallocate \$200,000 from unrestricted investments to the debt service reserve to correct the underfunding. The balances of the reserves were at June 30,:

	2017	2016
Depreciation reserve	\$ 562,931	\$ 435,383
Debt service reserve	<u>422,995</u>	<u>434,137</u>
Total reserves	<u>\$ 985,926</u>	<u>\$ 869,520</u>

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

6. LONG-TERM LIABILITIES

Changes in long-term liabilities are as follows:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due within one year
Long-term debt	\$ 4,559,580	\$ 2,544,582	\$ (1,003,200)	\$ 6,100,962	\$ 352,856
Net pension liability	947,711	135,318	-	1,083,029	-
Compensated absences	-	18,300	-	18,300	7,308
Net long-term liabilities	<u>\$ 5,507,291</u>	<u>\$ 4,559,580</u>	<u>\$ 1,003,200</u>	<u>\$ 7,202,291</u>	<u>\$ 360,164</u>
	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due within one year
Long-term debt	\$ 4,265,167	\$ 557,744	\$ (263,331)	\$ 4,559,580	\$ 297,723
Net pension liability	700,108	247,603	-	947,711	-
Net long-term liabilities	<u>\$ 4,965,275</u>	<u>\$ 805,347</u>	<u>\$ (263,331)</u>	<u>\$ 5,507,291</u>	<u>\$ 297,723</u>

7. RETIREMENT PLAN

Lebanon Water Works is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions – For the years ended June 30, 2017 and 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the years ended June 30, 2017 and 2016, participating employers contributed 18.68% and 17.06% of each employee's wages, respectively, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

7. RETIREMENT PLAN (CONTINUED)

The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The Company contributed \$114,245 for the year ended June 30, 2017, or 100% of the required contribution. The contribution was allocated \$85,317 to the CERS pension fund and \$28,928 to the CERS insurance fund. The Company contributed \$89,519 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$65,172 to the CERS pension fund and \$24,347 to the CERS insurance fund.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old or at least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources –

At June 30, 2017, the Company reported a liability (its proportionate share of the net pension liability) of \$1,083,029. The net pension liability was measured as of June 30, 2016, the Company's proportion was .021997 percent, which was an increase of .000045% from its proportion measured as of June 30, 2015. At June 30, 2016, the Company reported a liability (its proportionate share of the net pension liability) of \$947,711. The net pension liability was measured as of June 30, 2015, the Company's proportion was .021547 percent, which was an increase of .0004% from its proportion measured as of June 30, 2014.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

7. RETIREMENT PLAN (CONTINUED)

For the years ended June 30, 2017 and 2016, the Company recognized pension expense of \$151,870 and \$111,440, respectively. At June 30, 2017, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 4,728	\$ -
Changes of assumptions	57,373	-
Net difference between projected and actual earnings on Plan investments	101,816	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	7,271	1,222
Company contributions subsequent to the measurement date	<u>85,317</u>	<u>-</u>
Total	<u>\$ 256,505</u>	<u>\$ 1,222</u>

At June 30, 2016, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 7,876	\$ -
Changes of assumptions	95,566	-
Net difference between projected and actual earnings on Plan investments	8,495	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	12,086	-
Company contributions subsequent to the measurement date	<u>65,172</u>	<u>-</u>
Total	<u>\$ 189,195</u>	<u>\$ -</u>

The \$85,317 of deferred outflows of resources resulting from the Company's contributions subsequent to the measurement date as of June 30, 2017, will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2017 will be recognized in pension expense as follows:

Year ending June 30,	
2018	\$ (65,358)
2019	(42,805)
2020	(39,161)
2021	(22,642)

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

7. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class used in the June 30, 2016 and 2015 valuations are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-.25%
Total	100%	

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

7. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent for the June 30, 2016 and 2015 valuations. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the Company's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate at June 30, 2017:

	<u>Discount rate</u>		Company's proportionate share of net pension liability
1% decrease	6.50%	\$	854,505
Current discount rate	7.50%	\$	1,083,029
1% increase	8.50%	\$	1,349,638

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate at June 30, 2016:

	<u>Discount rate</u>		Company's proportionate share of net pension liability
1% decrease	6.50%	\$	723,189
Current discount rate	7.50%	\$	947,711
1% increase	8.50%	\$	1,209,862

Payable to the Pension Plan – At June 30, 2017 and 2016, the Company reported a payable of \$13,465 and \$8,037, respectively, for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. The payable includes both the pension and insurance contribution allocation.

8. COMMITMENTS

In December 2015, the Company entered into an agreement with the City of Campbellsville to purchase potable treated water at a quantity between 300,000 and 1,000,000 gallons per day at agreed upon rates. The agreement has a term of twenty years from the date of the initial delivery of water, which will occur following the completion of the Marion County/Taylor County Interconnect Project.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

9. RISK MANAGEMENT

Lebanon Water Works, Co., Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. In addition to its general liability insurance, the Company also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

In July 2011, the Company approved funding an Emergency Sinking Fund with \$2,000 monthly from the operations and maintenance account to be used for emergencies or disaster expenses. The balance of the Emergency Sinking Fund was \$144,100 and \$120,067 as of June 30, 2017 and 2016, respectively.

10. NONEXCHANGE TRANSACTIONS

During the years ended June 30, 2017 and 2016, the Company received \$20,280 and \$4,537, respectively, in contributions from developers and customers for line extensions that remain the property of the Company. Developers and customers reimburse the Company, from time to time, for the construction cost of extending lines. The costs of construction are added to the Company's capital assets and reimbursements are recorded as nonoperating revenue in the statement of revenues, expenses and changes in net position. Also, during the years ended June 30, 2017 and 2016, the Company received water tap fees totaling \$26,100 and \$2,700, respectively, from customers tapping onto the system. These fees are also recorded as nonoperating revenue. During the year ended June 30, 2016, the Company received a contributed capital asset, a surplus truck from the City of Lebanon, valued at \$2,000.

REQUIRED SUPPLEMENTARY INFORMATION

LEBANON WATER WORKS COMPANY, INC.
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Four Fiscal Years

	2017	2016	2015	2014
Company's proportion of the net pension liability	0.021997%	0.022042%	0.0216%	0.0215%
Company's proportionate share of the net pension liability (asset)	\$ 1,083,029	\$ 947,711	\$ 700,108	\$ 790,111
Company's covered employee payroll	\$ 611,592	\$ 524,732	\$ 512,797	\$ 494,932
Company's share of the net pension liability (asset) as a percentage of its covered employee payroll	177.08%	180.61%	136.53%	159.64%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

LEBANON WATER WORKS COMPANY, INC.
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS
Last Five Fiscal Years

	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 85,317	\$ 65,172	\$ 65,382	\$ 68,004	\$ 59,027
Contributions relative to contractually required employer contribution	<u>\$ 85,317</u>	<u>\$ 65,172</u>	<u>\$ 65,382</u>	<u>\$ 68,004</u>	<u>\$ 59,027</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 611,592	\$ 524,732	\$ 512,797	\$ 494,932	\$ 467,725
Employer contributions as a percentage of covered-employee payroll	13.95%	12.42%	12.75%	13.74%	12.62%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.



**LEBANON WATER WORKS CO., INC.
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lebanon Water Works Co., Inc.
Lebanon, Kentucky

We have audited, in accordance with the 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, the financial statements of the Lebanon Water Works Co., Inc. (the Company), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and have issued our report thereon dated August 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Compliance and Other Matters

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

Lebanon Water Works Co., Inc.'s Response to Findings

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
August 31, 2017

LEBANON WATER WORKS CO., INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

FINDING:

2017-1

Criteria:

The Company is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

The Company does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

Cause:

The Company lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures.

Effect:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation:

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

Response:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

EXHIBIT 11-2

LEBANON WATER WORKS CO., INC.
Lebanon, Kentucky

FINANCIAL STATEMENTS
June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lebanon Water Works Co., Inc.
Lebanon, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Lebanon Water Works Co., Inc. as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lebanon Water Works Co., Inc., as of June 30, 2016 and 2015, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions on pages 3–6, 20 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2016, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
August 10, 2016

Lebanon Water Works Co., Inc.

Management's Discussion and Analysis

Our discussion and analysis of the Lebanon Water Works Co. Inc.'s (the Company) financial performance provides an overview of the Company's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read in conjunction with the Company's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The Company's net position increased \$263,673.
- Operating revenues increased \$30,190.
- Operating expenses increased \$145,203.
- The Company continues to focus on improving equipment and services and review plans for future development.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of this management's discussion and analysis report, the independent auditors' report, the basic financial statements of the Company and the independent auditors' report on compliance. The financial statements also include notes that explain, in more detail, some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Company report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States of America. The statement of net position includes information on the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). The statement of revenues, expenses and changes in net position identify the Company's revenues and expenses for the fiscal years ended June 30, 2016 and 2015. This statement provides information on the Company's operations and can be used to determine whether the Company has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the statement of cash flows. This statement provides information on the Company's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the statement of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance.

FINANCIAL ANALYSIS OF THE COMPANY

The statement of net position and the statement of revenues, expenses and changes in net position provide an indication of the Company's financial condition and also indicate that the financial condition of the company improved during the last fiscal year. The Company's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

NET POSITION

Our analysis begins with a summary of the Company's balance sheet, which is presented on Table A-1 followed by an explanation of the results.

Table A-1

Condensed Statement of Net Position

	FY 2016	FY 2015
Current and other assets	\$ 2,516,164	\$ 2,544,060
Capital assets	10,115,466	9,475,702
Deferred outflows of resources	<u>212,139</u>	<u>91,282</u>
Total assets and deferred outflows of resources	<u>\$ 12,843,769</u>	<u>\$ 12,111,044</u>
Current liabilities	\$ 631,379	\$ 607,543
Noncurrent liabilities	<u>5,209,568</u>	<u>4,701,952</u>
Total liabilities	5,840,947	5,309,495
Deferred inflows of resources	-	62,400
Net invested in capital assets	5,578,830	5,236,435
Restricted	869,520	1,025,116
Unrestricted	<u>554,472</u>	<u>477,598</u>
Total net position	<u>7,002,822</u>	<u>6,739,149</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,843,769</u>	<u>\$ 12,111,044</u>

The Company's decrease in current and other assets was due mainly to fewer unrestricted and restricted cash and cash equivalents and short-term investments being used to fund the various projects the Company has ongoing at June 30, 2016, which is also the reason for the increase in capital assets. The Company's increase in current liabilities was due to a decrease in accounts payable for these construction projects and an increase in the current portion of bonds, notes, and loans payable. The Company's increase in non-current liabilities was due to advances on a new KIA loan and an increase in the proportionate share of the net pension liability.

While the balance sheet shows the change in financial position, the statement of revenues, expenses and changes in net position provides answers as to the nature and source of these changes. The Company's source of revenue increased by approximately 1%. Overall operating expenses increased by 7% with pump station expenses increasing 40%, chemical expenses increasing by 12%, maintenance and repairs expenses decreasing 7%, and salaries increasing 2%. Fringe benefits increased 43% due to an increase in the share of the KRS net pension liability expense and an increase in health insurance premiums. Outside services increased 82% due to additional laboratory fees and additional professional services. Non-operating revenues (expenses) consist mainly of interest income on investments, water tap fees, interest expense on related debt, disposal of certain capital assets and developer contributions.

Table A-2

**Condensed Statement of Revenues,
Expenses and Changes in Net Position**

	<u>FY 2016</u>	<u>FY 2015</u>
Charges for services	\$ 2,672,904	\$ 2,642,714
Rental income	<u>2,000</u>	<u>2,000</u>
	2,674,904	2,644,714
Operating expenses		
Power	221,646	220,278
Pump station & filter plant	68,029	48,581
Chemicals	167,709	149,286
Maintenance & repairs	120,903	129,577
Salaries	528,862	516,376
Fringe benefits- employees	411,140	286,620
Payroll taxes	38,371	37,477
Directors' fees	12,600	12,600
Insurance	49,117	48,380
Office supplies & expense	31,416	28,310
Outside services	44,702	24,532
Bad debt	5,300	7,846
Miscellaneous	16,384	15,987
Depreciation	<u>575,320</u>	<u>620,446</u>
Total operating expenses	<u>2,291,499</u>	<u>2,146,296</u>
Operating income	383,405	498,418
Non operating revenues (expenses)	<u>(119,732)</u>	<u>(126,119)</u>
Change in net position	263,673	372,299
Beginning net position, as restated	<u>6,739,149</u>	<u>6,366,850</u>
Ending net position	<u>\$ 7,002,822</u>	<u>\$ 6,739,149</u>

CAPITAL ASSETS

The Company invested in capital assets during the past fiscal year. Some major items were professional fees and contractor fees paid for both Raw Water Pump Renovation and Woodlawn Avenue/Loretto Road Waterline Replacement. The Company will continue to invest in new technology and replace capital assets and review plans for future customer growth.

LONG-TERM DEBT

The Company's prior year total of \$4,265,167 increased to \$4,559,580 due to \$557,744 in principal additions through a Kentucky Infrastructure Authority Loan and \$263,331 in retirements on the Citizens National Bank loans and the existing Kentucky Infrastructure Authority loan.

Table A-3

Debt Outstanding at Year End

	<u>FY 2016</u>	<u>FY 2015</u>
Revenue Bonds & Notes Payable	\$ <u>4,559,580</u>	\$ <u>4,265,167</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors approved the Company's budget for fiscal year 2017 on June 9, 2016. The budget is generally based on current year income and expenses, and any known capital expenditures. The most recent water rate increase went into effect September 17, 2013. The Company will continue to review the water rate structure periodically.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Company's customers, investors, creditors and other interested parties with a general overview of the Company's finances and to demonstrate the Company's accountability of the money it receives. If you have questions about this report or need additional financial information, please contact John L. Thomas, Superintendent at 120 S. Proctor Knott Avenue, Lebanon, KY. 40033.

LEBANON WATER WORKS CO., INC.
STATEMENTS OF NET POSITION
June 30,

ASSETS	2016	2015
Current assets		
Cash and cash equivalents	\$ 627,895	\$ 490,791
Short-term investments	100,000	100,000
Receivables (net)	365,467	357,670
Developer contribution receivable	-	4,275
Accrued interest receivable	2,324	2,313
Inventory	<u>94,606</u>	<u>100,899</u>
Total current assets	1,190,292	1,055,948
Noncurrent assets		
Unrestricted investments	300,000	300,000
Restricted cash	725,872	888,112
Restricted investments	300,000	300,000
Capital assets		
Construction in progress	1,282,815	149,436
Land	182,461	182,461
Buildings	219,117	219,117
Plant and system	20,508,387	20,460,975
Furniture and equipment	241,511	241,511
Vehicles	171,492	155,644
Less: accumulated depreciation	<u>(12,490,317)</u>	<u>(11,933,442)</u>
Total noncurrent assets	<u>11,441,338</u>	<u>10,963,814</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	189,195	65,382
Deferred amount on refunding of debt	<u>22,944</u>	<u>25,900</u>
Total assets and deferred outflows of resources	<u>\$ 12,843,769</u>	<u>\$ 12,111,044</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 249,359	\$ 261,962
Customer deposits	68,231	64,281
Customer overpayments	3,232	3,194
Payroll taxes payable	11,554	12,898
Accrued interest payable	1,280	1,885
Bonds, notes, and loans payable, current portion	<u>297,723</u>	<u>263,323</u>
Total current liabilities	<u>631,379</u>	<u>607,543</u>
Long-term liabilities		
Bonds, notes, and loans payable, net of current portion	4,261,857	4,001,844
Net pension liability	<u>947,711</u>	<u>700,108</u>
Total liabilities	<u>5,840,947</u>	<u>5,309,495</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	<u>-</u>	<u>62,400</u>
NET POSITION		
Net invested in capital assets	5,578,830	5,236,435
Restricted for debt service	434,137	136,269
Restricted for depreciation reserve	435,383	888,847
Unrestricted - emergency sinking fund	120,067	96,040
Unrestricted - construction	36,285	66,859
Unrestricted	<u>398,120</u>	<u>314,699</u>
Total net position	<u>7,002,822</u>	<u>6,739,149</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,843,769</u>	<u>\$ 12,111,044</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the years ended June 30,

	2016	2015
Operating revenue		
Charges for services	\$ 2,638,560	\$ 2,606,610
Penalties	34,344	36,104
Rental income	<u>2,000</u>	<u>2,000</u>
Total operating revenue	<u>2,674,904</u>	<u>2,644,714</u>
Operating expenses		
Power	221,646	220,278
Pump station and filter plant	68,029	48,581
Chemicals	167,709	149,286
Maintenance and repairs	120,903	129,577
Salaries	528,862	516,376
Fringe benefits - employees	411,140	286,620
Payroll taxes	38,371	37,477
Directors' fees	12,600	12,600
Insurance	49,117	48,380
Office supplies and expense	31,416	28,310
Outside services	44,702	24,532
Bad debt expense	5,300	7,846
Miscellaneous	16,384	15,987
Depreciation	<u>575,320</u>	<u>620,446</u>
Total operating expenses	<u>2,291,499</u>	<u>2,146,296</u>
Operating income	<u>383,405</u>	<u>498,418</u>
Nonoperating revenue (expenses)		
Interest revenue	9,777	9,788
Grant revenue	-	2,517
Interest expense	(140,746)	(172,923)
Gain on disposal of capital assets	<u>2,000</u>	<u>3,418</u>
Total nonoperating (expenses)	<u>(128,969)</u>	<u>(157,200)</u>
Income before capital contributions	<u>254,436</u>	<u>341,218</u>
Water tap fees	2,700	3,600
Other capital contributions	2,000	-
Developer contributions	<u>4,537</u>	<u>27,481</u>
Change in net position	263,673	372,299
Net position at beginning of year, as restated	<u>6,739,149</u>	<u>6,366,850</u>
NET POSITION AT END OF YEAR	<u>\$ 7,002,822</u>	<u>\$ 6,739,149</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENTS OF CASH FLOWS
for the years ended June 30,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,661,807	\$ 2,519,762
Payments to suppliers	(726,216)	(698,285)
Payments for employee services and benefits	(930,927)	(877,647)
Customer deposits received	24,262	26,643
Customer deposits returned	(20,312)	(19,420)
Other payments	<u>38</u>	<u>300</u>
Net cash provided by operating activities	<u>1,008,652</u>	<u>951,353</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	2,700	3,600
Developer contributions	8,812	23,206
Grant revenue received	-	159,859
Proceeds from sale of capital assets	-	3,418
Purchases of capital assets	(1,211,084)	(114,900)
Proceeds from issuance of capital debt	557,744	-
Principal paid on capital debt	(263,331)	(473,762)
Interest paid on capital debt	<u>(138,395)</u>	<u>(150,276)</u>
Net cash (used in) capital and related financing activities	<u>(1,043,554)</u>	<u>(548,855)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	100,000	500,000
Purchase of investment securities	(100,000)	(500,000)
Interest and dividends	<u>9,766</u>	<u>9,829</u>
Net cash provided by investing activities	<u>9,766</u>	<u>9,829</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,136)	412,327
Cash and cash equivalents at beginning of year	<u>1,378,903</u>	<u>966,576</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,353,767</u>	<u>\$ 1,378,903</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Operating income	\$ 383,405	\$ 498,418
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	575,320	620,446
Bad debt expense	5,300	7,846
Change in assets and liabilities:		
Receivables	(13,097)	(124,952)
Customer deposits	3,950	7,223
Customer overpayments	38	300
Accounts and other payables	(13,947)	(9,254)
Inventory	6,293	(23,692)
Net pension obligation	<u>61,390</u>	<u>(24,982)</u>
Net cash provided by operating activities	<u>\$ 1,008,652</u>	<u>\$ 951,353</u>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Amortization of discount and deferred loss on debt refundings	<u>\$ 2,956</u>	<u>\$ 30,474</u>
Trade-in allowance on disposal of capital assets	<u>\$ 2,000</u>	<u>\$ -</u>
Fair value of donated capital assets	<u>\$ 2,000</u>	<u>\$ -</u>

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

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. ORGANIZATION AND ACCOUNTING POLICIES

The Lebanon Water Works Co., Inc. (the Company) is an incorporated utility under the oversight of the City of Lebanon, Kentucky, which operates water services for the residents of Lebanon. Treated water is also distributed to the Marion County Water District that serves other Marion County residents.

Basis of Presentation

The Company's financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board (GASB) which establishes financial reporting requirements for all state and local governments including management's discussion and analysis (required supplementary information).

Basis of Accounting

The Company reports on the accrual basis of accounting. Under this method, the effects of transactions and other events on the assets and liabilities of the Company are recognized and reported when billed to customers. All customers are on the same billing cycle.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Company. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes which there are both restricted and unrestricted net position available, it is the Company's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses and capital contributions. Net position is classified in the following three components:

Net invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent, related, debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets. Rather, that portion of the debt is included in the same net position component as unspent proceeds.

Restricted net position is restricted as to use by ordinance or by external parties.

The unrestricted component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets."

The Company applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company defines cash and cash equivalents to include cash on hand, cash in bank, certificates of deposit and investments maturing in 90 days or less when purchased. All cash, unrestricted and restricted, are considered cash for the purposes of the statements of cash flows.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Short-term Investments

Short-term investments are certificates of deposit that mature or are available for withdrawal in one year or less.

Accounts Receivable

The Company provides for bad debts on the reserve method based on historical experience and an evaluation of outstanding accounts receivable at year end. The reserve for uncollectible accounts at June 30, 2016 and 2015 totaled \$1,500.

Inventory

Inventory is maintained at lower of cost or market.

Capital Assets

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method. Interest costs during construction are capitalized net of interest earned on construction investments.

<u>CLASSIFICATION</u>	<u>RANGE OF LIVES</u>
Buildings	20 – 40
Plant and system	15 – 40
Furniture and equipment	5 – 10
Auto and trucks	5 – 7

Debt

Long-term debt is reported at face value. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter, and recorded as deferred outflows of resources.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employers' Retirement System Plan (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Management's Review of Subsequent Events

The Company has evaluated and considered the need to recognize or disclose subsequent events through August 10, 2016, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2016, have not been evaluated by the Company.

2. CASH AND INVESTMENTS

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

At June 30, 2016, The Lebanon Water Works Co., Inc. cash deposits were entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held by custodial banks. At June 30, 2016, the carrying amount of the Company's deposits was \$2,081,473 of which \$750,000 was covered by FDIC depository insurance and \$1,331,473 was collateralized by securities held by the pledging financial institution.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Company does not have a policy related to interest rate risk.

Statement of Cash Flows

The statement of cash flows includes as cash and cash equivalents the following at June 30,:

	2016	2015
Cash and cash equivalents	\$ 627,895	\$ 490,791
Restricted cash and cash equivalents	<u>725,872</u>	<u>888,112</u>
Total cash and cash equivalents	<u>\$ 1,353,767</u>	<u>\$ 1,378,903</u>

The carrying value of the Company's investments at June 30, 2016 and 2015 are as follows:

<u>Type of Investments</u>	<u>Carrying Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Unrestricted investments				
Farmers National Bank:				
Certificate of deposit	\$ 200,000	\$ 200,000	1.70%	8/5/2019
Certificate of deposit	100,000	100,000	0.70%	9/25/2016
Certificate of deposit	<u>100,000</u>	<u>100,000</u>	1.80%	11/20/2018
Total unrestricted investments	<u>\$ 400,000</u>	<u>\$ 400,000</u>		
Restricted investments				
Farmers National Bank:				
Certificate of deposit	\$ 200,000	\$ 200,000	0.70%	9/25/2016
Certificate of deposit	<u>100,000</u>	<u>100,000</u>	1.80%	11/20/2018
Total restricted investments	<u>\$ 300,000</u>	<u>\$ 300,000</u>		

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

3. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment is stated at cost and consists of the following:

	2015	Additions	Deletions	2016
Construction in progress	\$ 149,436	\$ 1,133,379	\$ -	\$ 1,282,815
Land	182,461	-	-	182,461
Buildings	219,117	-	-	219,117
Plant and system	20,460,975	47,412	-	20,508,387
Furniture and equipment	241,511	-	-	241,511
Vehicles	<u>155,644</u>	<u>34,293</u>	<u>(18,445)</u>	<u>171,492</u>
	21,409,144	1,215,084	(18,445)	22,605,783
Less: Accumulated depreciation	<u>(11,933,442)</u>	<u>(575,320)</u>	<u>18,445</u>	<u>(12,490,317)</u>
Property and equipment, net	<u>\$ 9,475,702</u>	<u>\$ 639,764</u>	<u>\$ -</u>	<u>\$ 10,115,466</u>

4. CONSTRUCTION IN PROGRESS

The Company began studying an alternative water supply in fiscal year 2012. The study concluded that the best way to obtain an alternative water supply would be to build a water line connection with a neighboring county. The Company began work on the water line connection during fiscal year 2014. Total cost associated with this project at June 30, 2016 and 2015 was \$111,413.

The Company initiated a project to renovate a raw water pump during fiscal year 2015. Total cost associated with this project at June 30, 2016 and 2015 was \$613,657 and \$38,023, respectively.

During fiscal year 2016, the Company started a project to replace the water line along Woodlawn Avenue and Loretto Road. Total cost associated with the project at June 30, 2016 was \$557,745.

5. NOTES PAYABLE

Lebanon Water Work's long-term notes at June 30, 2016 and 2015, are as follows:

	Amount Issued	Interest Rate	Balance Outstanding 6/30/15	Issued (Retired) During Year	Balance Outstanding 6/30/16
KIA note	\$ 800,000	1.07%	\$ 462,362	\$ (27,578)	\$ 434,784
KIA note, 2016	\$ 557,744	.75%	-	557,744	557,744
CNB note, 2012	\$ 4,022,993	3.50%	3,530,242	(182,904)	3,347,338
CNB note, 2013	\$ 394,503	2.90%	<u>272,563</u>	<u>(52,849)</u>	<u>219,714</u>
Total outstanding debt			<u>\$ 4,265,167</u>	<u>\$ 294,413</u>	<u>\$ 4,559,580</u>

In December 2008, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$800,000. Draws from this loan were not made until fiscal year 2011, at which time \$582,883 was received. The proceeds from the loan are being used to finance capital projects including the Industrial Drive Extension project and the Calvary Road Tank Painting and Mixing project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest is charged at an annual rate of 1.07%, and the outstanding loan balance is subject to a 0.20% service fee at each interest payment date.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

5. NOTES PAYABLE (CONTINUED)

In August 2012, the Company refinanced the Series 1997B and 2002 bonds into one note with Citizens National Bank. The note was for \$4,022,993, bears interest at a rate of 3.5%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seventeen years. The 1997B Series was originally issued for the expansion of the treatment plant, and the 2002 Series was used to bring the water treatment plant to its rated capacity, construct water mains and a booster pump station. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$22,012.

Another loan agreement was entered into with Citizens National Bank in January 2013 to pay off the outstanding balance of the City of Lebanon, KY Waterworks Revenue Bonds, Series 2004. The Series 2004 issue was used for the purpose of refunding the remaining balance of the Company's outstanding \$1,400,000 Waterworks Revenue Bonds, Series 1992. The new agreement with Citizens National Bank was issued for \$394,503, bears interest at a rate of 2.9%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seven years. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$11,625.

In May 2015, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$720,000. Draws from this loan were not made until fiscal year 2016, at which time \$557,744 was received. The proceeds from the loan are being used to finance capital projects including the Woodlawn Avenue and Loretto Road Water Line Replacement project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest is charged at an annual rate of .75%, and the outstanding loan balance is subject to a 0.25% service fee at each interest payment date.

The deferred amounts on refunding created by the activities described in the preceding paragraphs, are reported in the accompanying financial statement as deferred outflows of resources, and are deferred and amortized as a component of interest expense on the straight-line basis over the life of the loans with Citizens National Bank in accordance with GASB.

The following is a summary of the long-term debt outstanding for the years ended June 30,

Year Ending	Principal	Interest	Fees	Total
2017	\$ 297,723	\$ 129,647	\$ 2,250	\$ 429,620
2018	306,657	120,714	2,129	429,500
2019	315,886	111,481	2,008	429,375
2020	317,557	101,952	1,884	421,393
2021	274,099	93,171	1,760	369,030
2022-2026	1,512,164	335,904	6,901	1,854,969
2027-2031	1,388,135	90,574	3,628	1,482,337
2032-2033	<u>147,359</u>	<u>3,055</u>	<u>1,111</u>	<u>151,525</u>
Total	<u>\$ 4,559,580</u>	<u>\$ 986,498</u>	<u>\$ 21,671</u>	<u>\$ 5,567,749</u>

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

5. NOTES PAYABLE (CONTINUED)

The Company is required to maintain a debt service reserve and depreciation reserve in accordance with the original bond issues, as required by the Citizens National Bank note agreements, and the KIA agreements. The Company has fully funded its depreciation and debt service reserve at June 30, 2016 and the depreciation reserve at June 30, 2015; however, the debt service reserve was underfunded at June 30, 2015 by \$261,832. On August 17, 2015 the Company approved to reallocate \$300,000 from the depreciation reserve to the debt service reserve to correct the underfunding. The balances of the reserves were at June 30,:

	2016	2015
Depreciation reserve	\$ 435,383	\$ 888,847
Debt service reserve	<u>434,137</u>	<u>136,366</u>
Total reserves	<u>\$ 869,520</u>	<u>\$ 1,025,213</u>

6. RETIREMENT PLAN

Lebanon Water Works is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions – For the year ended June 30, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.06% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

6. RETIREMENT PLAN (CONTINUED)

The Company contributed \$89,519 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$65,172 to the CERS pension fund and \$24,347 to the CERS insurance fund.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
	At least	25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the Company reported a liability of \$947,711 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Company's proportion of the net pension liability was based on a projection of the Company's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the Company's proportion was .0220 percent, which was an increase of .0004% from its proportion measured as of June 30, 2014.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

6. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2016, the Company recognized pension expense of \$111,440. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 7,876	\$ -
Changes of assumptions	95,566	-
Net difference between projected and actual earnings on Plan investments	8,495	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	12,086	-
Company contributions subsequent to the measurement date	65,172	-
Total	\$ 189,195	\$ -

The \$65,172 of deferred outflows of resources resulting from the Company's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ (43,276)
2018	(43,276)
2019	(20,723)
2020	(16,748)

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

6. RETIREMENT PLAN (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the Company's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Discount rate	Company's proportionate share of net pension liability
1% decrease	6.50%	\$ 1,209,862
Current discount rate	7.50%	\$ 947,711
1% increase	8.50%	\$ 723,189

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

6. RETIREMENT PLAN (CONTINUED)

Payable to the Pension Plan – At June 30, 2016, the Company reported a payable of \$8,037 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

7. COMMITMENTS

The following commitment to construct a project has been made by the Company as of June 30, 2016:

Marion County/Taylor County Interconnect Project	\$2,055,561
--	-------------

In December 2015, the Company entered into an agreement with the City of Campbellsville to purchase potable treated water at a quantity between 300,000 and 1,000,000 gallons per day at agreed upon rates. The agreement has a term of twenty years from the date of the initial delivery of water, which will occur following the completion of the Marion County/Taylor County Interconnect Project.

8. RISK MANAGEMENT

Lebanon Water Works, Co., Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. In addition to its general liability insurance, the company also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

In July 2011, the Company approved funding an Emergency Sinking Fund with \$2,000 monthly from the operations and maintenance account to be used for emergencies or disaster expenses. The balance of the Emergency Sinking Fund was \$120,067 and \$96,040 as of June 30, 2016 and 2015, respectively.

9. NON EXCHANGE TRANSACTIONS

During the years ended June 30, 2016 and 2015, the Company received \$4,537 and \$27,481, respectively, in contributions from developers and customers for line extensions that remain the property of the Company. Developers and customers reimburse the Company, from time to time, for the construction cost of extending lines. The costs of construction are added to the Company's capital assets and reimbursements are recorded as nonoperating revenue in the statement of revenues, expenses and changes in net position. Also, during the years ended June 30, 2016 and 2015, the Company received water tap fees totaling \$2,700 and \$3,600, respectively, from customers tapping onto the system. These fees are also recorded as nonoperating revenue. During the year ended June 30, 2016, the Company received a contributed capital asset, a surplus truck from the City of Lebanon, valued at \$2,000.

10. SUBSEQUENT EVENT

In July 2016, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$3,230,000. The proceeds from the loan will be used to finance capital projects including the Marion County/Taylor County Interconnect Project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest will be charged at an annual rate of .75%, and the outstanding loan balance will be subject to a 0.25% service fee at each interest payment date.

LEBANON WATER WORKS COMPANY, INC.
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Three Fiscal Years*

	2016	2015	2014
Company's proportion of the net pension liability	0.0220%	0.0216%	0.0215%
Company's proportionate share of the net pension liability (asset)	\$ 947,711	\$ 700,108	\$ 790,111
Company's covered employee payroll	\$ 524,732	\$ 512,797	\$ 494,932
Company's share of the net pension liability (asset) as a percentage of its covered employee payroll	180.61%	136.53%	159.64%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

LEBANON WATER WORKS COMPANY, INC.
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS
Last Four Fiscal Years

	2016	2015	2014	2013
Contractually required employer contribution	\$ 65,172	\$ 65,382	\$ 68,004	\$ 59,027
Contributions relative to contractually required employer contribution	<u>\$ 65,172</u>	<u>\$ 65,382</u>	<u>\$ 68,004</u>	<u>\$ 59,027</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 524,732	\$ 512,797	\$ 494,932	\$ 467,725
Employer contributions as a percentage of covered-employee payroll	12.42%	12.75%	13.74%	12.62%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.



**LEBANON WATER WORKS CO., INC.
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lebanon Water Works Co., Inc.
Lebanon, Kentucky

We have audited, in accordance with the 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, the financial statements of the Lebanon Water Works Co., Inc. (the Company), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and have issued our report thereon dated August 10, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Compliance and Other Matters

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

Lebanon Water Works Co., Inc.'s Response to Findings

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
August 10, 2016

LEBANON WATER WORKS CO., INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

FINDING:
2016-1

Criteria:

The Company is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

The Company does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

Cause:

The Company lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures.

Effect:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation:

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

Response:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

EXHIBIT 11-3

LEBANON WATER WORKS CO., INC.
Lebanon, Kentucky

FINANCIAL STATEMENTS
June 30, 2015

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Lebanon Water Works Co., Inc.

Management's Discussion and Analysis

Our discussion and analysis of the Lebanon Water Works Co. Inc.'s (the Company) financial performance provides an overview of the Company's financial activities for the fiscal year ended June 30, 2015. Please read in conjunction with the Company's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The Company's net position increased \$372,299.
- Operating revenues increased \$165,335.
- Operating expenses increased \$21,541.
- The Company continues to focus on improving equipment and services and review plans for future development.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of this management's discussion and analysis report, the independent auditors' report, the basic financial statements of the Company and the independent auditors' report on compliance. The financial statements also include notes that explain, in more detail, some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Company report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States of America. The statement of net position includes information on the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). The statement of revenues, expenses and changes in net position identify the Company's revenues and expenses for the fiscal years ended June 30, 2015. This statement provides information on the Company's operations and can be used to determine whether the Company has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the statement of cash flows. This statement provides information on the Company's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the statement of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance.

FINANCIAL ANALYSIS OF THE COMPANY

The statement of net position and the statement of revenues, expenses and changes in net position provide an indication of the Company's financial condition and also indicate that the financial condition of the company improved during the last fiscal year. The Company's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

NET POSITION

Our analysis begins with a summary of the Company's balance sheet, which is presented on Table A-1 followed by an explanation of the results.

Table A-1

Condensed Statement of Net Position

	<u>FY 2015</u>	<u>FY 2014</u>
Current and other assets	\$ 1,055,948	\$ 1,166,720
Capital assets	10,963,814	9,981,248
Deferred outflows of resources	<u>91,282</u>	<u>117,499</u>
Total assets and deferred outflows of resources	<u>\$ 12,111,044</u>	<u>\$ 12,242,790</u>
Current liabilities	\$ 607,543	\$ 820,661
Noncurrent liabilities	<u>4,701,952</u>	<u>5,055,279</u>
Total liabilities	5,309,495	5,875,940
Deferred inflows of resources	62,400	-
Net invested in capital assets	5,236,435	5,291,815
Restricted	1,025,116	871,373
Unrestricted	<u>477,598</u>	<u>203,662</u>
Total net position	<u>6,739,149</u>	<u>7,088,958</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,111,044</u>	<u>\$ 12,242,790</u>

The Company's fiscal year 2014 figures have been restated for the effects of GASB Statement No. 68.

Company's decrease in current and other assets was due mainly to fewer unrestricted and restricted cash and cash equivalents and short-term investments being used to fund the various projects the Company has ongoing at June 30, 2015, which is also the reason for the increase in capital assets. The Company's decrease in current liabilities was due to a decrease in accounts payable for these construction projects and a decrease in the current portion of bonds, notes, and loans payable. The Company's decrease in non-current liabilities was due to retirement obligations of bonds, notes, and loans payable.

While the balance sheet shows the change in financial position, the statement of revenues, expenses and changes in net position provides answers as to the nature and source of these changes. The Company's source of revenue increased by approximately 7%. Overall operating expenses increased by 1% with chemical expenses decreasing over 5%, maintenance and repairs expenses increasing 44%, power increasing 3%, and salaries increasing 4%. Fringe benefits decreased 3% due mainly to a slight decrease to the Kentucky Retirement System employer contribution rate and an increase in health insurance premiums. Non-operating revenues (expenses) consist mainly of interest income on investments, water tap fees, interest expense on related debt, and disposal of certain capital assets.

Table A-2

**Condensed Statement of Revenues,
Expenses and Changes in Net Position**

	<u>FY 2015</u>	<u>FY 2014</u>
Charges for services	\$ 2,642,714	\$ 2,476,979
Rental income	<u>2,000</u>	<u>2,400</u>
	2,644,714	2,479,379
Operating expenses		
Power	220,278	214,718
Pump station & filter plant	48,581	76,915
Chemicals	149,286	157,315
Maintenance & repairs	129,577	90,129
Salaries	516,376	494,932
Fringe benefits- employees	286,620	295,012
Payroll taxes	37,477	35,913
Directors' fees	12,600	12,600
Insurance	48,380	55,717
Office supplies & expense	28,310	26,715
Outside services	24,532	27,736
Bad debt	7,846	8,102
Miscellaneous	15,987	17,904
Depreciation	<u>620,446</u>	<u>611,047</u>
Total operating expenses	<u>2,146,296</u>	<u>2,124,755</u>
Operating income	498,418	354,624
Non operating revenues (expenses)	<u>(126,119)</u>	<u>(24,217)</u>
Change in net position	372,299	330,407
Beginning net position, as restated	<u>6,366,850</u>	<u>6,036,443</u>
Ending net position	<u>\$ 6,739,149</u>	<u>\$ 6,366,850</u>

The Company's fiscal year 2014 figures have been restated for the effects of GASB Statement No. 68. The entire effect is reflected in fiscal year 2014 beginning net position, as restated.

CAPITAL ASSETS

The Company invested in capital assets during the past fiscal year. Some major items were professional fees paid for both Raw Water Pump Renovation and Taylor/Marion County Water Line Connection. The Company will continue to invest in new technology and replace capital assets and review plans for future customer growth.

LONG-TERM DEBT

The Company's prior year total of \$4,738,929 decreased to \$4,265,167 due to \$473,762 retirements on the Citizens National Bank loans and Kentucky Infrastructure Authority loan.

Table A-3

Debt Outstanding at Year End

	<u>FY 2015</u>	<u>FY 2014</u>
Revenue Bonds & Notes Payable	<u>\$ 4,265,167</u>	<u>\$ 4,738,929</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors approved the Company's budget for fiscal year 2016 on May 11, 2015. The budget is generally based on current year income and expenses, and any known capital expenditures. The most recent water rate increase went into effect September 17, 2013. The Company will continue to review the water rate structure periodically.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Company's customers, investors, creditors and other interested parties with a general overview of the Company's finances and to demonstrate the Company's accountability of the money it receives. If you have questions about this report or need additional financial information, please contact John L. Thomas, Superintendent at 120 S. Proctor Knott Avenue, Lebanon, KY. 40033.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lebanon Water Works, Co., Inc.
Lebanon, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Lebanon Water Works Co., Inc. as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lebanon Water Works Co., Inc., as of June 30, 2015, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions on pages 1-4, 20 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with ***Government Auditing Standards***, we have also issued our report dated August 19, 2015, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Company's internal control over financial reporting and compliance.

RFH

RFH, PLLC
August 19, 2015

LEBANON WATER WORKS CO., INC.
STATEMENT OF NET POSITION
June 30, 2015

ASSETS

Current assets	
Cash and cash equivalents	\$ 490,791
Short-term investments	100,000
Receivables (net)	357,670
Grant receivable	-
Developer contribution receivable	4,275
Accrued interest receivable	2,313
Inventory	<u>100,899</u>
Total current assets	1,055,948
Noncurrent assets	
Unrestricted investments	300,000
Restricted cash	888,112
Restricted investments	300,000
Capital assets	
Construction in progress	149,436
Land	182,461
Buildings	219,117
Plant and system	20,460,975
Furniture and equipment	241,511
Vehicles	155,644
Less: accumulated depreciation	<u>(11,933,442)</u>
Total noncurrent assets	<u>10,963,814</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pension	65,382
Deferred amount on refunding of debt	<u>25,900</u>
Total assets and deferred outflows of resources	<u>\$ 12,111,044</u>

LIABILITIES

Current liabilities	
Accounts payable	\$ 261,962
Customer deposits	64,281
Customer overpayments	3,194
Payroll taxes payable	12,898
Accrued interest payable	1,885
Bonds, notes, and loans payable, current portion	<u>263,323</u>
Total current liabilities	<u>607,543</u>
Long-term liabilities	
Bonds, notes, and loans payable, net of current portion	4,001,844
Net pension liability	<u>700,108</u>
Total liabilities	<u>5,309,495</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pension	<u>62,400</u>
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NET POSITION

Net invested in capital assets	5,236,435
Restricted for debt service	136,269
Restricted for depreciation reserve	888,847
Unrestricted - emergency sinking fund	96,040
Unrestricted - construction	66,859
Unrestricted	<u>314,699</u>
Total net position	<u>6,739,149</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,111,044</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the year ended June 30, 2015

Operating revenue	
Charges for services	\$ 2,606,610
Penalties	36,104
Rental income	<u>2,000</u>
Total operating revenue	<u>2,644,714</u>
Operating expenses	
Power	220,278
Pump station and filter plant	48,581
Chemicals	149,286
Maintenance and repairs	129,577
Salaries	516,376
Fringe benefits - employees	286,620
Payroll taxes	37,477
Directors' fees	12,600
Insurance	48,380
Office supplies and expense	28,310
Outside services	24,532
Bad debt expense	7,846
Miscellaneous	15,987
Depreciation	<u>620,446</u>
Total operating expenses	<u>2,146,296</u>
Operating income	<u>498,418</u>
Nonoperating revenue (expenses)	
Interest revenue	9,788
Grant revenue	2,517
Interest expense	(172,923)
Gain on disposal of capital assets	<u>3,418</u>
Total nonoperating (expenses)	<u>(157,200)</u>
Income before capital contributions	<u>341,218</u>
Water tap fees	3,600
Developer contributions	<u>27,481</u>
Change in net position	372,299
Net position at beginning of year, as restated	<u>6,366,850</u>
NET POSITION AT END OF YEAR	<u>\$ 6,739,149</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENT OF CASH FLOWS
for the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,519,762
Payments to suppliers	(698,285)
Payments for employee services and benefits	(877,647)
Customer deposits received	26,643
Customer deposits returned	(19,420)
Other payments	<u>300</u>
Net cash provided by operating activities	<u>951,353</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Tap fees	3,600
Developer contributions	23,206
Grant revenue received	159,859
Proceeds from sale of capital assets	3,418
Purchases of capital assets	(114,900)
Principal paid on capital debt	(473,762)
Interest paid on capital debt	<u>(150,276)</u>
Net cash (used in) capital and related financing activities	<u>(548,855)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	500,000
Purchase of investment securities	(500,000)
Interest and dividends	<u>9,829</u>
Net cash provided by investing activities	<u>9,829</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	412,327
Cash and cash equivalents at beginning of year	<u>966,576</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,378,903</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Operating income	\$ 498,418
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	620,446
Bad debt expense	7,846
Change in assets and liabilities:	
Receivables	(124,952)
Customer deposits	7,223
Customer overpayments	300
Accounts and other payables	(9,254)
Inventory	(23,692)
Net pension obligation	<u>(24,982)</u>
Net cash provided by operating activities	<u>\$ 951,353</u>
Supplemental disclosures of cash flow information:	
Noncash capital and related financing activities:	
Amortization of discount and deferred loss on debt refundings	<u>\$ 30,474</u>

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

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. ORGANIZATION AND ACCOUNTING POLICIES

The Lebanon Water Works Co., Inc. (the Company) is an incorporated utility under the oversight of the City of Lebanon, Kentucky, which operates water services for the residents of Lebanon. Treated water is also distributed to the Marion County Water District that serves other Marion County residents.

Basis of Presentation

The Company's financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board (GASB) which establishes financial reporting requirements for all state and local governments including management's discussion and analysis (required supplementary information).

Basis of Accounting

The Company reports on the accrual basis of accounting. Under this method, the effects of transactions and other events on the assets and liabilities of the Company are recognized and reported when billed to customers. All customers are on the same billing cycle.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Company. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes which there are both restricted and unrestricted net position available, it is the Company's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses and capital contributions. Net position is classified in the following three components:

Net invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent, related, debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets. Rather, that portion of the debt is included in the same net position component as unspent proceeds.

Restricted net position is restricted as to use by ordinance or by external parties.

The unrestricted component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets."

The Company applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company defines cash and cash equivalents to include cash on hand, cash in bank, certificates of deposit and investments maturing in 90 days or less when purchased. All cash, unrestricted and restricted, are considered cash for the purposes of the statements of cash flows.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Short-term Investments

Short-term investments are certificates of deposit that mature or are available for withdrawal in one year or less.

Accounts Receivable

The Company provides for bad debts on the reserve method based on historical experience and an evaluation of outstanding accounts receivable at year end. The reserve for uncollectible accounts at June 30, 2015 totaled \$1,500.

Inventory

Inventory is maintained at lower of cost or market.

Capital Assets

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method. Interest costs during construction are capitalized net of interest earned on construction investments.

<u>CLASSIFICATION</u>	<u>RANGE OF LIVES</u>
Buildings	20 – 40
Plant and system	15 – 40
Furniture and equipment	5 – 10
Auto and trucks	5 – 7

Other Liabilities

Other liabilities represent agreements with developers to rebate a set fee per each customer added after one year of service.

Debt

Long-term debt is reported at face value. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter, and recorded as deferred outflows of resources.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employers' Retirement System Plan (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Management's Review of Subsequent Events

The Company has evaluated and considered the need to recognize or disclose subsequent events through August 19, 2015, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2015, have not been evaluated by the Company.

2. CASH AND INVESTMENTS

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

At June 30, 2015, The Lebanon Water Works Co., Inc. cash deposits were entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held by custodial banks. The carrying amount of the Company's deposits was \$2,078,903 at June 30, 2015 and the bank balance was \$3,075,723. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Company does not have a policy related to interest rate risk.

Statement of Cash Flows

The statement of cash flows includes as cash and cash equivalents the following at June 30, 2015:

Cash and cash equivalents	\$ 490,791
Restricted cash and cash equivalents	<u>888,112</u>
Total cash and cash equivalents	<u>\$ 1,378,903</u>

The Company's investments at June 30, 2015 are as follows:

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Unrestricted investments				
Farmers National Bank:				
Certificate of deposit	\$ 200,000	\$ 200,000	1.70%	8/5/2019
Certificate of deposit	100,000	100,000	0.70%	9/25/2015
Certificate of deposit	<u>100,000</u>	<u>100,000</u>	1.80%	11/20/2018
Total unrestricted investments	<u>\$ 400,000</u>	<u>\$ 400,000</u>		
Restricted investments				
Farmers National Bank:				
Certificate of deposit	\$ 200,000	\$ 200,000	0.70%	9/25/2015
Certificate of deposit	<u>100,000</u>	<u>100,000</u>	1.80%	11/20/2018
Total restricted investments	<u>\$ 300,000</u>	<u>\$ 300,000</u>		

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

3. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment is stated at cost and consists of the following:

	2014	Additions	Deletions	2015
Construction in progress	\$ 87,313	\$ 63,160	\$ (1,037)	\$ 149,436
Land	182,461	-	-	182,461
Buildings	219,117	-	-	219,117
Plant and system	20,426,895	49,713	(15,633)	20,460,975
Furniture and equipment	244,734	3,064	(6,287)	241,511
Vehicles	<u>155,644</u>	<u>-</u>	<u>-</u>	<u>155,644</u>
	21,316,164	115,937	(22,957)	21,409,144
Less: Accumulated depreciation	<u>(11,334,916)</u>	<u>(620,446)</u>	<u>21,920</u>	<u>(11,933,442)</u>
Property and equipment, net	<u>\$ 9,981,248</u>	<u>\$ (504,509)</u>	<u>\$ (1,037)</u>	<u>\$ 9,475,702</u>

4. CONSTRUCTION IN PROGRESS

The Company began studying an alternative water supply in fiscal year 2012. The study concluded that the best way to obtain an alternative water supply would be to build a water line connection with a neighboring county. The Company began work on the water line connection during fiscal year 2014. Total cost associated with this project at June 30, 2015, was \$111,413.

The Company initiated a project to renovate a raw water pump during fiscal year 2015. Total cost associated with this project at June 30, 2015, was \$38,023.

5. NOTES PAYABLE

Lebanon Water Work's long-term notes at June 30, 2015, are as follows:

	Amount Issued	Interest Rate	Balance Outstanding 6/30/14	(Retired) During Year	Balance Outstanding 6/30/15
KIA note	\$ 800,000	1.07%	\$ 489,647	\$ (27,285)	\$ 462,362
CNB note, 2010	\$ 1,026,050	3.25%	218,613	(218,613)	-
CNB note, 2012	\$ 4,022,993	3.50%	3,706,784	(176,542)	3,530,242
CNB note, 2013	\$ 394,503	2.90%	<u>323,885</u>	<u>(51,322)</u>	<u>272,563</u>
Total outstanding debt			<u>\$ 4,738,929</u>	<u>\$ (473,762)</u>	<u>\$ 4,265,167</u>

In December 2008, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$800,000. Draws from this loan were not made until fiscal year 2011, at which time \$582,883 was received. The proceeds from the loan are being used to finance capital projects including the Industrial Drive Extension project and the Calvary Road Tank Painting and Mixing project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest is charged at an annual rate of 1.07%, and the outstanding loan balance is subject to a 0.20% service fee at each interest payment date.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

5. NOTES PAYABLE (CONTINUED)

The 2010 Citizens National Bank loan was used to pay off the City of Lebanon Refunding Water Revenue Bonds Series 1997A. The loan has a term of five years and an interest rate of 3.25%. The Series 1997A issue was originally issued for the purpose of refunding a portion of the City's outstanding \$3,620,000 Waterworks Revenue Bonds, Series 1991. A portion of the proceeds from the refunding was deposited in an escrow fund held by escrow trustee, Citizens National Bank, Lebanon, Kentucky. The escrow trustee purchased certain direct obligations of the United States of America, which along with investment earnings, retired the applicable bonds that matured on April 1, 2015. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$137,592.

In August 2012, the Company refinanced the Series 1997B and 2002 bonds into one note with Citizens National Bank. The note was for \$4,022,993, bears interest at a rate of 3.5%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seventeen years. The 1997B Series was originally issued for the expansion of the treatment plant, and the 2002 Series was used to bring the water treatment plant to its rated capacity, construct water mains and a booster pump station. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$22,012.

Another loan agreement was entered into with Citizens National Bank in January 2013 to pay off the outstanding balance of the City of Lebanon, KY Waterworks Revenue Bonds, Series 2004. The Series 2004 issue was used for the purpose of refunding the remaining balance of the Company's outstanding \$1,400,000 Waterworks Revenue Bonds, Series 1992. The new agreement with Citizens National Bank was issued for \$394,503, bears interest at a rate of 2.9%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seven years. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$11,625.

The deferred amounts on refunding created by the activities described in the preceding paragraphs, are reported in the accompanying financial statement as deferred outflows of resources, and are deferred and amortized as a component of interest expense on the straight-line basis over the life the loans with Citizens National Bank in accordance with GASB.

The following is a summary of the long-term debt outstanding for the years ended June 30,

Year Ending	Principal	Interest	Fees	Total
2016	\$ 263,323	\$ 133,964	\$ 911	\$ 398,198
2017	271,774	125,512	856	398,142
2018	280,513	116,774	800	398,087
2019	289,546	107,738	744	398,028
2020	291,019	98,407	686	390,112
2021-2025	1,331,265	366,387	2,551	1,700,203
2026-2030	1,521,590	127,675	1,031	1,650,296
2031-2033	<u>16,167</u>	<u>86</u>	<u>16</u>	<u>16,239</u>
Total	<u>\$ 4,265,167</u>	<u>\$ 1,076,543</u>	<u>\$ 7,595</u>	<u>\$ 5,349,305</u>

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

5. NOTES PAYABLE (CONTINUED)

The Company is required to maintain a debt service reserve and depreciation reserve in accordance with the original bond issues, as required by the Citizens National Bank note agreements, and the KIA agreement. The Company has fully funded its depreciation reserve at June 30, 2015; however, the debt service reserve was underfunded at June 30, 2015 by \$261,832. On August 17, 2015 the Company approved to reallocate \$300,000 from the depreciation reserve to the debt service reserve to correct the underfunding. The balances of the reserves at June 30, 2015 were:

Depreciation reserve	\$ 888,847
Debt service reserve	<u>136,366</u>
Total reserves	<u>\$ 1,025,213</u>

6. RETIREMENT PLAN

Lebanon Water Works is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions – For the year ended June 30, 2015, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2015, participating employers contributed 17.67% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

6. RETIREMENT PLAN (CONTINUED)

The Company contributed \$90,611 for the year ended June 30, 2015, or 100% of the required contribution. The contribution was allocated \$65,382 to the CERS pension fund and \$25,230 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources –

At June 30, 2015, the Company reported a liability of \$700,108 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Company's proportion of the net pension liability was based on a projection of the Company's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the Company's proportion was .02 percent, which was equal to its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Company recognized pension expense of \$40,400. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	-	62,400
Changes in proportion and differences between Company contributions and proportionate share of contributions	-	-
Company contributions subsequent to the measurement date	65,382	-
Total	\$ 65,382	\$ 62,400

The \$65,382 of deferred outflows of resources resulting from the Company's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2016	\$ (15,600)
2017	(15,600)
2018	(15,600)
2019	(15,600)

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	4.50%, average, including inflation	
Investment rate of return	7.75%, net of Plan investment expense, including inflation	

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

6. RETIREMENT PLAN (CONTINUED)

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 - June 30, 2008.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

6. RETIREMENT PLAN (CONTINUED)

Sensitivity of the Company's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Company's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Company's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>Discount rate</u>		<u>Company's proportionate share of net pension liability</u>
1% decrease	6.75%	\$	921,059
Current discount rate	7.75%	\$	700,108
1% increase	8.75%	\$	504,554

Payable to the Pension Plan – At June 30, 2015, the Company reported a payable of \$8,860 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015. The payable includes both the pension and insurance contribution allocation.

7. COMMITMENTS

The following commitment to construct a project has been made by the Company as of June 30, 2015:

Raw water pump renovation	\$444,676
---------------------------	-----------

8. RISK MANAGEMENT

Lebanon Water Works, Co., Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. In addition to its general liability insurance, the company also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

In July 2011, the Company approved funding an Emergency Sinking Fund with \$2,000 monthly from the operations and maintenance account to be used for emergencies or disaster expenses.

9. NON EXCHANGE TRANSACTIONS

During the year ended June 30, 2015, the Company received \$27,481 in contributions from developers and customers for line extensions that remain the property of the Company. Developers and customers reimburse the Company, from time to time, for the construction cost of extending lines. The costs of construction are added to the Company's capital assets and reimbursements are recorded as nonoperating revenue in the statement of revenues, expenses and changes in net position. Also, during the year, the Company received water tap fees totaling \$3,600 from customers tapping onto the system. These fees are also recorded as nonoperating revenue.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

10. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 68

During 2015 the Company implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67, Financial Reporting for Pension Plans.

The guidance contained in Statement 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards GASB requires that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 68 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

	2015
Net position, at beginning of year	\$ 7,088,958
Beginning net pension liability	<u>(722,108)</u>
Net position, at beginning of year, as restated	<u>\$ 6,366,850</u>

**LEBANON WATER WORKS COMPANY, INC.
 REQUIRED SUPPLEMENTAL SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Last Two Fiscal Years***

	2015	2014
Company's proportion of the net pension liability	0.02%	0.02%
Company's proportionate share of the net pension liability (asset)	\$ 700,108	\$ 790,111
Company's covered employee payroll	\$ 512,797	\$ 494,932
Company's share of the net pension liability (asset) as a percentage of its covered employee payroll	136.53%	159.64%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

LEBANON WATER WORKS COMPANY, INC.
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS
Last Three Fiscal Years

	2015	2014	2013
Contractually required employer contribution	\$ 65,382	\$ 68,004	\$ 59,027
Contributions relative to contractually required employer contribution	<u>\$ 65,382</u>	<u>\$ 68,004</u>	<u>\$ 59,027</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 512,797	\$ 494,932	\$ 467,725
Employer contributions as a percentage of covered-employee payroll	12.75%	13.74%	12.62%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.



**LEBANON WATER WORKS CO., INC.
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lebanon Water Works Co., Inc.
Lebanon, Kentucky

We have audited, in accordance with the 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, the financial statements of the Lebanon Water Works Co., Inc. (the Company), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and have issued our report thereon dated August 19, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Compliance and Other Matters

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

Lebanon Water Works Co., Inc.'s Response to Findings

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
August 19, 2015

LEBANON WATER WORKS CO., INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

FINDING:

2015-1

The Company is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The Company lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

EXHIBIT 11-4

LEBANON WATER WORKS CO., INC.
Lebanon, Kentucky

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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Lebanon Water Works Co., Inc.

Management's Discussion and Analysis

Our discussion and analysis of the Lebanon Water Works Co. Inc.'s (the Company) financial performance provides an overview of the Company's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read in conjunction with the Company's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The Company's net position increased \$330,407.
- Operating revenues increased \$219,697.
- Operating expenses increased \$91,099.
- The Company continues to focus on improving equipment and services and review plans for future development.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of this management's discussion and analysis report, the independent auditors' report, the basic financial statements of the Company and the independent auditors' report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Company report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States of America. The statement of net position includes information on the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). The statement of revenues, expenses and changes in net position identify the Company's revenues and expenses for the fiscal years ended June 30, 2014 and 2013. This statement provides information on the Company's operations over the past two fiscal years and can be used to determine whether the Company has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the statement of cash flows. This statement provides information on the Company's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the statement of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

FINANCIAL ANALYSIS OF THE COMPANY

The statement of net position and the statement of revenues, expenses and changes in net position provide an indication of the Company's financial condition and also indicate that the financial condition of the company improved during the last fiscal year. The Company's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

NET POSITION

Our analysis begins with a summary of the Company's balance sheet, which is presented on Table A-1 followed by an explanation of the results.

Table A-1

Condensed Balance Sheet

	<u>FY 2014</u>	<u>FY 2013</u>
Current and other assets	\$ 2,144,043	\$ 1,854,982
Capital assets	9,981,248	10,277,548
Deferred outflows of resources	<u>49,496</u>	<u>79,970</u>
Total assets	\$ <u>12,174,787</u>	\$ <u>12,212,500</u>
Current liabilities	\$ 820,661	\$ 715,222
Noncurrent liabilities	<u>4,265,168</u>	<u>4,738,727</u>
Total liabilities	5,085,829	5,453,949
Net invested in capital assets	5,291,815	5,153,187
Restricted	977,226	854,603
Unrestricted	<u>819,917</u>	<u>750,761</u>
Total net position	<u>7,088,958</u>	<u>6,758,551</u>
Total liabilities and net position	\$ <u>12,174,787</u>	\$ <u>12,212,500</u>

The Company's increase in current and other assets was due mainly to grant money due from the State to the Company at June 30, 2014 for reimbursement of the cost of the relocation of waterlines on Highway 49, as well as additional cash and cash equivalents restricted for depreciation reserve. The reason for the decrease in capital assets is because depreciation expense was more than additions. Deferred outflows of resources relates to the advance refunding of debt associated with the Citizens National Bank loans and is being amortized over the life of the loans. The Company's increase in current liabilities was mainly due to an increase in accounts payable for a study of alternative water supply at June 30, 2014. The Company's decrease in non-current liabilities was due to retirement obligations of bonds, notes, and loans payable.

While the statement of net position shows the change in financial position, the statement of revenues, expenses and changes in net position provides answers as to the nature and source of these changes. The Company's source of revenue increased by approximately 10%. Overall operating expenses increased by 4% with power increasing 9%, pump station and filter plant increasing 20%, chemical expenses increasing over 16%, maintenance and repairs expenses increasing 8%, and salaries increasing 5%. Non-operating revenues (expenses) consist mainly of interest income on investments, water tap fees, interest expense on related debt, and disposal of certain capital assets, along with grant revenue from the State for reimbursement of the cost of the relocation of waterlines on Highway 49.

Table A-2

**Condensed Statement of Revenues,
Expenses and Changes in Net Position**

	<u>FY 2014</u>	<u>FY 2013</u>
Charges for services	\$2,476,979	\$2,257,282
Rental income	<u>2,400</u>	<u>2,400</u>
	2,479,379	2,259,682
Operating expenses		
Power	214,718	196,832
Pump station & filter plant	76,915	64,400
Chemicals	157,315	135,185
Maintenance & repairs	90,129	83,508
Salaries	494,932	469,867
Fringe benefits- employees	295,012	302,851
Payroll taxes	35,913	34,107
Directors' fees	12,600	12,600
Insurance	55,717	50,726
Office supplies & expense	26,715	28,500
Outside services	27,736	30,666
Bad debt	8,102	3,219
Miscellaneous	17,904	18,649
Depreciation	<u>611,047</u>	<u>602,546</u>
Total operating expenses	<u>2,124,755</u>	<u>2,033,656</u>
Operating income	354,624	226,026
Non operating revenues (expenses)	<u>(24,217)</u>	<u>(190,698)</u>
Change in net position	330,407	35,328
Beginning net position	<u>6,758,551</u>	<u>6,723,223</u>
Ending net position	<u>\$ 7,088,958</u>	<u>\$ 6,758,551</u>

CAPITAL ASSETS

The Company invested in capital assets during the past fiscal year. Some major items were the purchase of land on Old Calvary Road next to the water tanks, the relocation of waterlines on Highway 49, and the completion of a project installing a new emergency backup generator and new chlorine system modifications at the Water Treatment Plant. The Company will continue to invest in new technology and replace capital assets and review plans for future customer growth.

LONG-TERM DEBT

The Company's prior year total of \$5,204,331 decreased to \$4,738,929 due to \$465,402 retirements on the Citizens National Bank loans and Kentucky Infrastructure Authority loan.

Table A-3

Debt Outstanding at Year End

	<u>FY 2014</u>	<u>FY 2013</u>
Notes Payable	\$ <u>4,738,929</u>	\$ <u>5,204,331</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors approved the Company's budget for fiscal year 2015 on May 12, 2014. The budget is generally based on current year income and expenses, and any known capital expenditures. The most recent water rate increase went into effect September 17, 2013. The Company will continue to review the water rate structure periodically.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Company's customers, investors, creditors and other interested parties with a general overview of the Company's finances and to demonstrate the Company's accountability of the money it receives. If you have questions about this report or need additional financial information, please contact John L. Thomas, Superintendent at 120 S. Proctor Knott Avenue, Lebanon, KY. 40033.

rfh Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS
Michael D. Foley, CPA/CGMA
Lyman Hager, Jr., CPA/PFS
Bradley J. Hayes, CPA/CGFM
Jerry W. Hensley, CPA/CGMA
T. Cory Reitz, CPA/ABV, CVA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lebanon Water Works Co., Inc.
Lebanon, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Lebanon Water Works Co., Inc. (the Company) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lebanon Water Works Co., Inc., as of June 30, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated October 7, 2014, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the Company's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

October 7, 2014

LEBANON WATER WORKS CO., INC.
STATEMENTS OF NET POSITION
June 30,

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 289,253	\$ 307,117
Short-term investments	400,000	400,000
Receivables (net)	240,564	217,166
Grant receivable	157,342	-
Accrued interest receivable	2,354	2,638
Inventory	<u>77,207</u>	<u>73,458</u>
Total unrestricted current assets	<u>1,166,720</u>	<u>1,000,379</u>
Restricted cash and cash equivalents	677,323	554,603
Restricted short-term investments	<u>300,000</u>	<u>300,000</u>
Total current assets	<u>2,144,043</u>	<u>1,854,982</u>
Noncurrent assets		
Capital assets		
Construction in progress	87,313	482,446
Land	182,461	160,319
Buildings	219,117	219,117
Plant and system	20,426,895	19,768,890
Furniture and equipment	244,734	239,838
Vehicles	155,644	132,692
Less: accumulated depreciation	<u>(11,334,916)</u>	<u>(10,725,754)</u>
Total noncurrent assets	<u>9,981,248</u>	<u>10,277,548</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding of debt	<u>49,496</u>	<u>79,970</u>
Total assets and deferred outflows of resources	<u>\$ 12,174,787</u>	<u>\$ 12,212,500</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 271,624	\$ 168,564
Customer deposits	57,058	55,952
Customer overpayments	2,894	4,020
Payroll taxes payable	12,490	12,155
Other liabilities	-	5,200
Accrued interest payable	2,834	3,727
Bonds, notes, and loans payable, current portion	<u>473,761</u>	<u>465,604</u>
Total current liabilities	<u>820,661</u>	<u>715,222</u>
Long-term liabilities		
Bonds, notes, and loans payable, net of current portion	<u>4,265,168</u>	<u>4,738,727</u>
Total liabilities	<u>5,085,829</u>	<u>5,453,949</u>
NET POSITION		
Net invested in capital assets	5,291,815	5,153,187
Restricted for debt service	193,460	193,460
Restricted for depreciation reserve	677,913	512,354
Restricted for emergency sinking fund	72,019	48,003
Restricted for construction	33,834	100,786
Unrestricted	<u>819,917</u>	<u>750,761</u>
Total net position	<u>7,088,958</u>	<u>6,758,551</u>
Total liabilities and net position	<u>\$ 12,174,787</u>	<u>\$ 12,212,500</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
for the years ended June 30,

	2014	2013
Operating revenue		
Charges for services	\$ 2,476,979	\$ 2,257,282
Rental income	<u>2,400</u>	<u>2,400</u>
 Total operating revenue	 <u>2,479,379</u>	 <u>2,259,682</u>
 Operating expenses		
Power	214,718	196,832
Pump station and filter plant	76,915	64,400
Chemicals	157,315	135,185
Maintenance and repairs	90,129	83,508
Salaries	494,932	469,867
Fringe benefits - employees	295,012	302,851
Payroll taxes	35,913	34,107
Directors' fees	12,600	12,600
Insurance	55,717	50,726
Office supplies and expense	26,715	28,500
Outside services	27,736	30,666
Bad debt expense	8,102	3,219
Miscellaneous	17,904	18,649
Depreciation	<u>611,047</u>	<u>602,546</u>
 Total operating expenses	 <u>2,124,755</u>	 <u>2,033,656</u>
 Operating income	 <u>354,624</u>	 <u>226,026</u>
 Nonoperating revenue (expenses)		
Interest revenue	7,327	8,661
Water tap fees	10,200	5,278
Grant revenue	157,342	-
Interest expense	(199,886)	(203,750)
Amortization expense	-	(887)
Gain on disposal of capital assets	<u>800</u>	<u>-</u>
 Total nonoperating revenue (expenses)	 <u>(24,217)</u>	 <u>(190,698)</u>
 Change in net position	 330,407	 35,328
Net position at beginning of year	<u>6,758,551</u>	<u>6,723,223</u>
 NET POSITION AT END OF YEAR	 <u>\$ 7,088,958</u>	 <u>\$ 6,758,551</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENTS OF CASH FLOWS
for the years ended June 30,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,447,879	\$ 2,242,855
Payments to suppliers	(567,838)	(570,029)
Payments for employee services and benefits	(838,122)	(820,527)
Customer deposits received	20,120	19,161
Customer deposits returned	(19,014)	(16,031)
Other payments	<u>(6,326)</u>	<u>(6,988)</u>
Net cash provided by operating activities	<u>1,036,699</u>	<u>848,441</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	10,200	5,278
Proceeds from sale of capital assets	800	-
Purchases of capital assets	(314,746)	(855,111)
Principal additions of capital debt	-	4,417,496
Principal paid on capital debt	(465,402)	(4,791,286)
Interest paid on capital debt	<u>(170,306)</u>	<u>(229,487)</u>
Net cash (used in) capital and related financing activities	<u>(939,454)</u>	<u>(1,453,110)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	700,000	1,000,000
Purchase of investment securities	(700,000)	(700,000)
Interest and dividends	<u>7,611</u>	<u>9,119</u>
Net cash provided by investing activities	<u>7,611</u>	<u>309,119</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	104,856	(295,550)
Cash and cash equivalents at beginning of year	<u>861,720</u>	<u>1,157,270</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 966,576</u>	<u>\$ 861,720</u>
Reconciliation of change in net position to net cash provided by operating activities:		
Operating income	\$ 354,624	\$ 226,026
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	611,047	602,546
Bad debt expense	8,102	3,219
Change in assets and liabilities:		
Receivables	(31,500)	(16,827)
Customer deposits	1,106	3,130
Customer overpayments	(1,126)	1,012
Accounts and other payables	98,195	24,237
Inventory	<u>(3,749)</u>	<u>5,098</u>
Net cash provided by operating activities	<u>\$ 1,036,699</u>	<u>\$ 848,441</u>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Amortization of deferred loss on debt refundings	<u>\$ 30,474</u>	<u>\$ 30,474</u>

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

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

1. ORGANIZATION AND ACCOUNTING POLICIES

The Lebanon Water Works Co., Inc. (the Company) is an incorporated utility under the oversight of the City of Lebanon, Kentucky, which operates water services for the residents of Lebanon. Treated water is also distributed to the Marion County Water District that serves other Marion County residents.

Basis of Presentation

The Company's financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board (GASB) which establishes financial reporting requirements for all state and local governments including management's discussion and analysis (required supplementary information).

Basis of Accounting

The Company reports on the accrual basis of accounting. Under this method, the effects of transactions and other events on the assets and liabilities of the Company are recognized and reported when billed to customers. All customers are on the same billing cycle.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Company. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes which there are both restricted and unrestricted net position available, it is the Company's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses and capital contributions. Net position is classified in the following three components:

Net invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent, related, debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets. Rather, that portion of the debt is included in the same net assets component as unspent proceeds.

Restricted net position is restricted as to use by ordinance (Note 4) or by external parties. Restricted assets relating to debt covenants at June 30, 2014 and 2013, consisted of \$193,557 and \$193,460 in debt service reserve accounts and \$677,913 and \$512,354 in the depreciation fund, respectively. At June 30, 2014 and 2013, the Company also restricted funds internally for an emergency sinking fund (Note 7) in the amounts of \$72,019 and \$48,003, as well as construction funds of \$33,834 and \$100,786, respectively.

The unrestricted component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets."

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company defines cash and cash equivalents to include cash on hand, cash in bank, certificates of deposit and investments maturing in 90 days or less when purchased. All cash, Unrestricted and Restricted, are considered cash for the purposes of the Statements of Cash Flows.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Short-term Investments

Short-term investments are certificates of deposit that mature or are available for withdrawal in one year or less.

Accounts Receivable

The Company provides for bad debts on the reserve method based on historical experience and an evaluation of outstanding accounts receivable at year end. The reserve for uncollectible accounts at both June 30, 2014 and 2013, totaled \$1,500.

Inventory

Inventory is maintained at lower of cost or market.

Capital Assets

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method. Interest costs during construction are capitalized net of interest earned on construction investments.

<u>CLASSIFICATION</u>	<u>RANGE OF LIVES</u>
Buildings	20 - 40
Plant and system	15 - 40
Furniture and equipment	5 - 10
Auto and trucks	5 - 7

Other Liabilities

Other liabilities represent agreements with developers to rebate a set fee per each customer added after one year of service.

Debt

Long-term debt is reported at face value. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter, and recorded as deferred outflows of resources.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements

The Company applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting for its proprietary operations.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Implementation of new accounting standard GASB Statement No. 65

Effective July 1, 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement redefines certain financial elements previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. Under GASB Statement No. 65, the Company's refunding of debt as discussed in Note 4 which was previously netted with the Company's long-term liability of "Bonds, notes, and loans payable, net of current portion", and is reported as a deferred outflow of resources, on the Company's statement of net position for both 2014 and 2013.

Management's Review of Subsequent Events

The Company has evaluated and considered the need to recognize or disclose subsequent events through October 7, 2014, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2014, have not been evaluated by the Company.

2. CASH AND INVESTMENTS

Statutory Requirements

The Lebanon Water Works Co., Inc. cash deposits at June 30, 2014 were entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held by custodial banks. The carrying amount of the Company's deposits was \$1,666,576 and \$1,561,720 at June 30, 2014 and 2013, respectively, and the bank balance was \$1,727,198 and \$1,486,417 at June 30, 2014 and 2013, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Statement of Cash Flows

The statement of cash flows includes as cash and cash equivalents the following:

	2014	2013
Cash and cash equivalents	\$ 289,253	\$ 307,117
Restricted cash and cash equivalents	<u>677,323</u>	<u>554,603</u>
Total cash and cash equivalents	<u>\$ 966,576</u>	<u>\$ 861,720</u>

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

3. RETIREMENT PLAN

Lebanon Water Works is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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

Contributions – For the years ended June 30, 2014, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the years ended June 30, 2014 and 2013, participating employers contributed 18.89% and 19.55%, respectively, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the Company for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 118,239	100%
2013	\$ 114,826	100%
2012	\$ 109,385	100%

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

4. BONDS AND NOTES PAYABLE

Lebanon Water Work's bonded indebtedness and other long-term notes at June 30, 2014, are detailed as follows:

	Amount Issued	Interest Rate	Balance Outstanding 6/30/13	Issued (Retired) During Year	Balance Outstanding 6/30/14
KIA note	\$ 800,000	1.07%	\$ 516,642	\$ (26,995)	\$ 489,647
CNB note, 2010	\$ 1,026,050	3.25%	430,339	(211,726)	218,613
CNB note, 2012	\$ 4,022,993	3.50%	3,883,625	(176,841)	3,706,784
CNB note, 2013	\$ 394,503	2.90%	<u>373,725</u>	<u>(49,840)</u>	<u>323,885</u>
Total outstanding debt			<u>\$ 5,204,331</u>	<u>\$ (465,402)</u>	<u>\$ 4,738,929</u>

In December 2008, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$800,000. Draws from this loan were not made until fiscal year 2011, at which time \$582,883 was received. The proceeds from the loan are being used to finance capital projects including the Industrial Drive Extension project and the Calvary Road Tank Painting and Mixing project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest is charged at an annual rate of 1.07%, and the outstanding loan balance is subject to a 0.20% service fee at each interest payment.

The 2010 Citizens National Bank loan was used to pay off the City of Lebanon Refunding Water Revenue Bonds Series 1997A. The loan has a term of five years and an interest rate of 3.25%. The Series 1997A issue was originally issued for the purpose of refunding a portion of the City's outstanding \$3,620,000 Waterworks Revenue Bonds, Series 1991. A portion of the proceeds from the refunding was deposited in an escrow fund held by escrow trustee, Citizens National Bank, Lebanon, Kentucky. The escrow trustee purchased certain direct obligations of the United States of America, which along with investment earnings, will retire the applicable bonds maturing on April 1, in the years 2012 and 2016. This advance refunding resulted in a difference between the funds required for refunding and the net carrying amount of the old debt in the amount of \$137,592.

In August 2012, the Company refinanced the Series 1997B and 2002 bonds into one note with Citizens National Bank. The note was for \$4,022,993, bears interest at a rate of 3.5%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seventeen years. The 1997B Series was originally issued for the expansion of the treatment plant, and the 2002 Series was used to bring the water treatment plant to its rated capacity, construct water mains and a booster pump station. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$22,012.

Another loan agreement was entered into with Citizens National Bank in January 2013 to pay off the outstanding balance of the City of Lebanon, KY Waterworks Revenue Bonds, Series 2004. The Series 2004 issue was used for the purpose of refunding the remaining balance of the Company's outstanding \$1,400,000 Waterworks Revenue Bonds, Series 1992. The new agreement with Citizens National Bank was issued for \$394,503, bears interest at a rate of 2.9%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seven years. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$11,625.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

4. BONDS AND NOTES PAYABLE (CONTINUED)

The deferred amounts on refunding created by the activities described in the preceding paragraphs, are reported in the accompanying financial statement as deferred outflows of resources, and are deferred and amortized as a component of interest expense on the straight-line basis over the life the loans with Citizens National Bank in accordance with GASB.

The following is a summary of the long-term debt outstanding for the years ended June 30,

Year Ending	Principal	Interest	Fees	Total
2015	\$ 473,761	\$ 147,487	\$ 966	\$ 622,214
2016	263,323	133,964	911	398,198
2017	271,774	125,512	856	398,142
2018	280,513	116,774	800	398,087
2019	289,546	107,738	744	398,028
2020-2024	1,330,638	407,535	2,846	1,741,019
2025-2029	1,517,454	180,197	1,342	1,698,993
2029-2033	<u>311,920</u>	<u>4,823</u>	<u>96</u>	<u>316,839</u>
Total	<u>\$ 4,738,929</u>	<u>\$ 1,244,030</u>	<u>\$ 8,561</u>	<u>\$ 5,971,520</u>

Management believes the Company is in compliance with all significant financial covenants contained in the various bond ordinances.

The Company maintains its reserves in accordance with the bond issues. The balances of the reserves at June 30 were:

	2014	2013
Depreciation reserve	\$ 677,913	\$ 512,354
Debt service reserve	<u>193,460</u>	<u>193,460</u>
Total reserves	<u>\$ 871,373</u>	<u>\$ 705,814</u>

5. CONSTRUCTION IN PROGRESS

The Company began installing an emergency power generator at the Water Treatment Plant in fiscal year 2012. Total cost associated with this project at June 30, 2014, was \$443,813. The project was completed during fiscal year 2014.

The Company began studying Chlorine System Modifications in fiscal year 2013. Total cost associated with this project at June 30, 2014, was \$20,467. The project was completed during fiscal year 2014.

The Company began studying an alternative water supply in fiscal year 2012. Total cost associated with this project at June 30, 2014, was \$87,313.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

6. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment is stated at cost and consists of the following at June 30,:

	2013	Additions	Deletions	2014
Construction in progress	\$ 482,446	\$ 226,489	\$ (621,622)	\$ 87,313
Land	160,319	22,142	-	182,461
Buildings	219,117	-	-	219,117
Plant and system	19,768,890	659,890	(1,885)	20,426,895
Furniture and equipment	239,838	4,896	-	244,734
Vehicles	<u>132,692</u>	<u>22,952</u>	<u>-</u>	<u>155,644</u>
	21,003,302	936,369	(623,507)	21,316,164
Less: Accumulated depreciation	<u>(10,725,754)</u>	<u>(611,047)</u>	<u>1,885</u>	<u>(11,334,916)</u>
Property and equipment, net	<u>\$10,277,548</u>	<u>\$ 325,322</u>	<u>\$ (621,622)</u>	<u>\$ 9,981,248</u>

7. RISK MANAGEMENT

Lebanon Water Works, Co., Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. In addition to its general liability insurance, the company also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

In July 2011, the Company approved funding an Emergency Sinking Fund with \$2,000 monthly from the operations and maintenance account to be used for emergencies or disaster expenses.

8. NON EXCHANGE TRANSACTIONS

During the year, the Company did not receive any cash contributions from developers and customers for line extensions that remain the property of the Company. Developers and customers reimburse the Company, from time to time, for the construction cost of extending lines. The costs of construction are added to the Company's capital assets and reimbursements are recorded as nonoperating revenue in the Statement of Revenues, Expenses and Changes in Net assets. Also, during the year, the Company received water tap fees totaling \$10,200 from customers tapping onto the system. These fees are also recorded as nonoperating revenue.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

9. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The Company is currently evaluating the effects of this statement on its financial statements.

rfh Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**LEBANON WATER WORKS CO., INC.
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lebanon Water Works Co., Inc.
Lebanon, Kentucky

We have audited, in accordance with the 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, the financial statements of the Lebanon Water Works Co., Inc. (the Company), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and have issued our report thereon dated October 7, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

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**LEBANON WATER WORKS CO., INC.
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)**

Compliance and Other Matters

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

Lebanon Water Works Co., Inc.'s Response to Findings

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley, & Company
Ray, Foley, Hensley, & Company, PLLC
October 7, 2014

LEBANON WATER WORKS CO., INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

FINDING:
2014-1

The Company is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The Company lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

EXHIBIT 11-5

LEBANON WATER WORKS CO., INC.
Lebanon, Kentucky

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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Lebanon Water Works Co., Inc.

Management's Discussion and Analysis

Our discussion and analysis of the Lebanon Water Works Co. Inc.'s (the Company) financial performance provides an overview of the Company's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read in conjunction with the Company's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The Company's net position increased \$35,328.
- Operating revenues increased \$85,635.
- Operating expenses increased \$99,783.
- The Company continues to focus on improving equipment and services and review plans for future development.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of this management's discussion and analysis report, the independent auditors' report, the basic financial statements of the Company and the independent auditors' report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Company report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States of America. The balance sheet includes information on the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). The statement of revenues, expenses and changes in net position identify the Company's revenues and expenses for the fiscal years ended June 30, 2013 and 2012. This statement provides information on the Company's operations over the past two fiscal years and can be used to determine whether the Company has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the statement of cash flows. This statement provides information on the Company's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the statement of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

FINANCIAL ANALYSIS OF THE COMPANY

The balance sheet and the statement of revenues, expenses and changes in net position provide an indication of the Company's financial condition and also indicate that the financial condition of the company improved during the last fiscal year. The Company's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

NET POSITION

Our analysis begins with a summary of the Company's balance sheet, which is presented on Table A-1 followed by an explanation of the results.

Table A-1		
Condensed Balance Sheet		
	<u>FY 2013</u>	<u>FY 2012</u>
Current and other assets	\$ 1,854,982	\$ 2,476,778
Capital assets	<u>10,277,548</u>	<u>10,026,340</u>
Total assets	\$ <u>12,132,530</u>	\$ <u>12,503,118</u>
Current liabilities	\$ 715,222	\$ 592,168
Noncurrent liabilities	<u>4,658,757</u>	<u>5,187,727</u>
Total liabilities	5,373,979	5,779,895
Net invested in capital assets	5,153,187	4,523,895
Restricted	854,603	1,345,534
Unrestricted	<u>750,761</u>	<u>853,794</u>
Total net position	<u>6,758,551</u>	<u>6,723,323</u>
Total liabilities and net position	\$ <u>12,132,530</u>	\$ <u>12,503,118</u>

The Company's decrease in current and other assets was due mainly to fewer unrestricted and restricted cash and cash equivalents and short-term investments being used to fund the various projects the Company has ongoing at June 30, 2013, which is also the reason for the increase in capital assets. The Company's increase in current liabilities was due to an increase in accounts payable for these construction projects and an increase in the current portion of bonds, notes, and loans payable. The Company's decrease in non-current liabilities was due to retirement obligations of bonds, notes, and loans payable.

While the balance sheet shows the change in financial position, the statement of revenues, expenses and changes in net position provides answers as to the nature and source of these changes. The Company's source of revenue increased by approximately 4%. Overall operating expenses increased by 5% with chemical expenses increasing over 50%, maintenance and repairs expenses increasing 17%, power increasing 9%, and salaries remaining relatively consistent. Fringe benefits increased 6% due mainly to a slight increase to the Kentucky Retirement System employer contribution rate and an increase in health insurance premiums. Non-operating revenues (expenses) consist mainly of interest income on investments, water tap fees, interest expense on related debt, and disposal of certain capital assets.

Table A-2

**Condensed Statement of Revenues,
Expenses and Changes in Net Position**

	<u>FY 2013</u>	<u>FY 2012</u>
Charges for services	\$2,257,282	\$2,171,647
Rental income	<u>2,400</u>	<u>2,400</u>
	2,259,682	2,174,047
Operating expenses		
Power	196,832	181,240
Pump station & filter plant	64,400	66,692
Chemicals	135,185	89,634
Maintenance & repairs	83,508	71,361
Salaries	469,867	471,049
Fringe benefits- employees	302,851	286,637
Payroll taxes	34,107	34,245
Directors' fees	12,600	12,075
Insurance	50,726	48,233
Office supplies & expense	28,500	29,110
Outside services	30,666	35,326
Bad debt	3,219	7,260
Miscellaneous	18,649	16,041
Depreciation	<u>602,546</u>	<u>584,970</u>
Total operating expenses	<u>2,033,656</u>	<u>1,933,873</u>
Operating income	226,026	240,174
Non operating revenues (expenses)	<u>(190,698)</u>	<u>(244,495)</u>
Change in net position	35,328	(4,321)
Beginning net position	<u>6,723,223</u>	<u>6,727,544</u>
Ending net position	<u>\$ 6,758,551</u>	<u>\$ 6,723,223</u>

CAPITAL ASSETS

The Company invested in capital assets during the past fiscal year. Some major items were water main replacements on East Main Street and a project installing a new emergency backup generator at the Water Treatment Plant. The Company will continue to invest in new technology and replace capital assets and review plans for future customer growth.

LONG-TERM DEBT

The Company's prior year total of \$5,578,121 decreased to \$5,204,331 due to refunding and retirements of \$142,072 on the bond issues, and \$231,718 retirements on the Citizens National Bank loan and Kentucky Infrastructure Authority loan.

Table A-3

Debt Outstanding at Year End

	<u>FY 2013</u>	<u>FY 2012</u>
Revenue Bonds & Notes Payable	\$ <u>5,204,331</u>	\$ <u>5,578,121</u>

Also included in long-term debt on the balance sheet is the amortization of the deferred loss on the retirement of Series 1997A, Series 1997B and 2002, and 2004 Refunding bonds of \$79,970 and \$75,676 at June 30, 2013 and 2012, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors approved the Company's budget for fiscal year 2014 on May 13, 2013. The budget is generally based on current year income and expenses, and any known capital expenditures. The most recent water rate increase went into effect May 1, 2007 with an increase to go into effect subsequent to June 30, 2013, in October 2013. The Company will continue to review the water rate structure periodically.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Company's customers, investors, creditors and other interested parties with a general overview of the Company's finances and to demonstrate the Company's accountability of the money it receives. If you have questions about this report or need additional financial information, please contact John L. Thomas, Superintendent at 120 S. Proctor Knott Avenue, Lebanon, KY. 40033.



Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA
Mark R. Wadlington, CPA, CGMA
Gwendolyn B. Young, CPA, CVA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lebanon Water Works Co., Inc.
Lebanon, Kentucky

We have audited the accompanying financial statements of Lebanon Water Works Co., Inc. (the Company) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lebanon Water Works Co., Inc., as of June 30, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 1–4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated November 20, 2013, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the Company's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

November 20, 2013

LEBANON WATER WORKS CO., INC.
STATEMENTS OF NET POSITION
June 30,

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 307,117	\$ 411,736
Short-term investments	400,000	400,000
Receivables (net)	217,166	203,558
Accrued interest receivable	2,638	3,096
Inventory	<u>73,458</u>	<u>78,556</u>
Total unrestricted current assets	1,000,379	1,096,946
Restricted cash and cash equivalents	554,603	745,534
Restricted short-term investments	<u>300,000</u>	<u>600,000</u>
Total current assets	<u>1,854,982</u>	<u>2,442,480</u>
Noncurrent assets		
Other assets	-	34,298
Capital assets		
Construction in progress	482,446	123,321
Land	160,319	160,319
Buildings	219,117	219,117
Plant and system	19,768,890	19,287,301
Furniture and equipment	239,838	230,912
Vehicles	132,692	132,692
Less: accumulated depreciation	<u>(10,725,754)</u>	<u>(10,127,322)</u>
Total noncurrent assets	<u>10,277,548</u>	<u>10,060,638</u>
Total assets	<u>\$ 12,132,530</u>	<u>\$ 12,503,118</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 168,564	\$ 135,225
Customer deposits	55,952	52,822
Customer overpayments	4,020	3,008
Payroll taxes payable	12,155	13,257
Other liabilities	5,200	13,200
Accrued interest payable	3,727	59,938
Bonds, notes, and loans payable, current portion	<u>465,604</u>	<u>314,718</u>
Total current liabilities	715,222	592,168
Long-term liabilities		
Bonds, notes, and loans payable, net of current portion	<u>4,658,757</u>	<u>5,187,727</u>
Total liabilities	5,373,979	5,779,895
Net position		
Net invested in capital assets	5,153,187	4,523,895
Restricted for debt service	193,460	393,329
Restricted for depreciation reserve	512,354	825,827
Restricted for emergency sinking fund	48,003	24,000
Restricted for construction	100,786	102,378
Unrestricted	<u>750,761</u>	<u>853,794</u>
Total net position	<u>6,758,551</u>	<u>6,723,223</u>
Total liabilities and net position	<u>\$ 12,132,530</u>	<u>\$ 12,503,118</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the years ended June 30,

	2013	2012
Operating revenue		
Charges for services	\$ 2,257,282	\$ 2,171,647
Rental income	<u>2,400</u>	<u>2,400</u>
 Total operating revenue	 <u>2,259,682</u>	 <u>2,174,047</u>
 Operating expenses		
Power	196,832	181,240
Pump station and filter plant	64,400	66,692
Chemicals	135,185	89,634
Maintenance and repairs	83,508	71,361
Salaries	469,867	471,049
Fringe benefits - employees	302,851	286,637
Payroll taxes	34,107	34,245
Directors' fees	12,600	12,075
Insurance	50,726	48,233
Office supplies and expense	28,500	29,110
Outside services	30,666	35,326
Bad debt expense	3,219	7,260
Miscellaneous	18,649	16,041
Depreciation	<u>602,546</u>	<u>584,970</u>
 Total operating expenses	 <u>2,033,656</u>	 <u>1,933,873</u>
 Operating income	 <u>226,026</u>	 <u>240,174</u>
 Nonoperating revenue (expenses)		
Interest revenue	8,661	11,065
Water tap fees	5,278	1,800
Interest expense	(203,750)	(256,724)
Amortization expense	(887)	(2,140)
Loss on disposal of capital assets	<u>-</u>	<u>1,504</u>
 Total nonoperating revenue (expenses)	 <u>(190,698)</u>	 <u>(244,495)</u>
 Change in net position	 35,328	 (4,321)
 Net position at beginning of year	 <u>6,723,223</u>	 <u>6,727,544</u>
 NET POSITION AT END OF YEAR	 <u>\$ 6,758,551</u>	 <u>\$ 6,723,223</u>

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

LEBANON WATER WORKS CO., INC.
STATEMENTS OF CASH FLOWS
for the years ended June 30,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,242,855	\$ 2,180,522
Payments to suppliers	(570,029)	(514,527)
Payments for employee services and benefits	(820,527)	(801,532)
Customer deposits received	19,161	15,225
Customer deposits returned	(16,031)	(12,725)
Other payments	(6,988)	823
	<u>848,441</u>	<u>867,786</u>
Net cash provided by operating activities		
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	5,278	1,800
Proceeds from sale of capital assets	-	2,385
Purchases of capital assets	(855,111)	(820,338)
Principal additions of capital debt	4,417,496	-
Principal paid on capital debt	(4,791,286)	(306,367)
Interest paid on capital debt	(229,487)	(231,501)
	<u>(1,453,110)</u>	<u>(1,354,021)</u>
Net cash (used in) capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,000,000	1,000,000
Purchase of investment securities	(700,000)	(1,000,000)
Interest and dividends	9,119	12,045
	<u>309,119</u>	<u>12,045</u>
Net cash provided by (used in) investing activities		
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(295,550)	(474,190)
Cash and cash equivalents at beginning of year	<u>1,157,270</u>	<u>1,631,460</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 861,720</u>	<u>\$ 1,157,270</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Operating income	\$ 226,026	\$ 240,174
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	602,546	584,970
Bad debt expense	3,219	7,260
Change in assets and liabilities:		
Receivables	(16,827)	6,475
Customer deposits	3,130	2,500
Customer overpayments	1,012	823
Accounts and other payables	24,237	10,783
Inventory	5,098	(1,767)
Prepaid expenses	-	16,568
	<u>848,441</u>	<u>867,786</u>
Net cash provided by operating activities		
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Amortization of discount and deferred loss on debt refundings	<u>\$ 30,474</u>	<u>\$ 27,518</u>

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

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. ORGANIZATION AND ACCOUNTING POLICIES

The Lebanon Water Works Co., Inc. (the Company) is an incorporated utility under the oversight of the City of Lebanon, Kentucky, which operates water services for the residents of Lebanon. Treated water is also distributed to the Marion County Water District that serves other Marion County residents.

Basis of Presentation

The Company's financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board (GASB) which establishes financial reporting requirements for all state and local governments including management's discussion and analysis (required supplementary information).

Basis of Accounting

The Company reports on the accrual basis of accounting. Under this method, the effects of transactions and other events on the assets and liabilities of the Company are recognized and reported when billed to customers. All customers are on the same billing cycle.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Company. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes which there are both restricted and unrestricted net assets available, it is the Company's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses and capital contributions. Net position is classified in the following three components:

Net invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent, related, debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets. Rather, that portion of the debt is included in the same net assets component as unspent proceeds.

Restricted net assets are restricted as to use by ordinance (Note 4) or by external parties. Restricted assets relating to debt covenants at June 30, 2013 and 2012, consisted of \$193,460 and \$393,329 in debt service reserve accounts and \$512,354 and \$825,827 in the depreciation fund, respectively. At June 30, 2013 and 2012, the Company also restricted funds internally for an emergency sinking fund (Note 7) in the amounts of \$48,003 and \$24,000, as well as construction funds of \$100,786 and \$102,378, respectively.

The unrestricted component of net position consists of net assets that do not meet the definition of "restricted" or "net invested in capital assets."

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company defines cash and cash equivalents to include cash on hand, cash in bank, certificates of deposit and investments maturing in 90 days or less when purchased. All cash, Unrestricted and Restricted, are considered cash for the purposes of the Statements of Cash Flows.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Short-term Investments

Short-term investments are certificates of deposit that mature or are available for withdrawal in one year or less.

Accounts Receivable

The Company provides for bad debts on the reserve method based on historical experience and an evaluation of outstanding accounts receivable at year end. The reserve for uncollectible accounts at both June 30, 2013 and 2012, totaled \$1,500.

Inventory

Inventory is maintained at lower of cost or market.

Capital Assets

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method. Interest costs during construction are capitalized net of interest earned on construction investments.

<u>CLASSIFICATION</u>	<u>RANGE OF LIVES</u>
Buildings	20 – 40
Plant and system	15 – 40
Furniture and equipment	5 – 10
Auto and trucks	5 – 7

Other Liabilities

Other liabilities represent agreements with developers to rebate a set fee per each customer added after one year of service.

Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the life of the bonds using the straight-line method. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements

The Company applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting for its proprietary operations.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Management's Review of Subsequent Events

The Company has evaluated and considered the need to recognize or disclose subsequent events through November 20, 2013, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2013, have not been evaluated by the Company.

2. CASH AND INVESTMENTS

Statutory Requirements

The Lebanon Water Works Co., Inc. cash deposits at June 30, 2013 were not entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held by custodial banks. The Company opened an account at a bank on May 20, 2013, and minimal funds were initially deposited into the account. On June 28, 2013 larger deposits were made into the account, and the security pledges were not recorded as of June 30, 2013. Therefore, at June 30, 2013, the total amount of deposits exceeded the \$250,000 FDIC Insurance limit by \$229,712. Subsequent to June 30, 2013, the bank completed the pledging of securities to adequately secure these deposits.

The carrying amount of the Company's deposits was \$1,561,720 and \$2,157,270 at June 30, 2013 and 2012, respectively, and the bank balance was \$1,486,417 and \$1,963,099 at June 30, 2013 and 2012, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Statement of Cash Flows

The statement of cash flows includes as cash and cash equivalents the following:

	2013	2012
Cash and cash equivalents	\$ 307,117	\$ 411,736
Restricted cash and cash equivalents	<u>554,603</u>	<u>745,534</u>
Total cash and cash equivalents	<u>\$ 861,720</u>	<u>\$ 1,157,270</u>

3. RETIREMENT PLAN

Lebanon Water Works is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

3. RETIREMENT PLAN (CONTINUED)

Contributions – For the years ended June 30, 2013, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the years ended June 30, 2013 and 2012, participating employers contributed 19.55% and 18.96%, respectively, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the Company for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 91,440	100%
2012	\$ 86,558	100%
2011	\$ 76,250	100%

4. BONDS, NOTES, AND NOTES PAYABLE

Lebanon Water Work's bonded indebtedness and other long-term notes at June 30, 2013, are detailed as follows:

	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Balance Outstanding 6/30/12</u>	<u>Issued (Retired) During Year</u>	<u>Balance Outstanding 6/30/13</u>
Series 1997B	\$ 1,864,000	4.5%	\$ 1,448,422	\$ (1,448,422)	\$ -
Series 2002	\$ 2,787,000	4.5%	2,515,000	(2,515,000)	-
Series 2004	\$ 745,000	2.06-4.19%	436,000	(436,000)	-
KIA note	\$ 800,000	1.07%	543,351	(26,709)	516,642
CNB note, 2010	\$ 1,026,050	3.25%	635,348	(205,009)	430,339
CNB note, 2012	\$ 4,022,993	3.50%	-	3,883,625	3,883,625
CNB note, 2013	\$ 394,503	2.90%	-	373,725	373,725
			5,578,121	(373,790)	5,204,331
Less: Deferred amount on refunding			(75,676)	(4,294)	(79,970)
Total outstanding debt			<u>\$ 5,502,445</u>	<u>\$ (378,084)</u>	<u>\$ 5,124,361</u>

In December 2008, the Company was approved for a Kentucky Infrastructure Authority loan in the amount of \$800,000. Draws from this loan were not made until fiscal year 2011, at which time \$582,883 was received. The proceeds from the loan are being used to finance capital projects including the Industrial Drive Extension project and the Calvary Road Tank Painting and Mixing project. The loan is to be repaid over a period of twenty years with payments occurring on June 1 and December 1. Interest is charged at an annual rate of 1.07%, and the outstanding loan balance is subject to a 0.20% service fee at each interest payment.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

4. BONDS, NOTES, AND NOTES PAYABLE (CONTINUED)

The 2010 Citizens National Bank loan was used to pay off the City of Lebanon Refunding Water Revenue Bonds Series 1997A. The loan has a term of five years and an interest rate of 3.25%. The Series 1997A issue was originally issued for the purpose of refunding a portion of the City's outstanding \$3,620,000 Waterworks Revenue Bonds, Series 1991. A portion of the proceeds from the refunding was deposited in an escrow fund held by escrow trustee, Citizens National Bank, Lebanon, Kentucky. The escrow trustee purchased certain direct obligations of the United States of America, which along with investment earnings, will retire the applicable bonds maturing on April 1, in the years 2004 through 2007, 2012, and 2016. This advance refunding resulted in a difference between the funds required for refunding and the net carrying amount of the old debt in the amount of \$397,100.

In August 2012, the Company refinanced the Series 1997B and 2002 bonds into one note with Citizens National Bank. The note was for \$4,022,993, bears interest at a rate of 3.5%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seventeen years. The 1997B Series was originally issued for the expansion of the treatment plant, and the 2002 Series was used to bring the water treatment plant to its rated capacity, construct water mains and a booster pump station. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$22,012.

Another loan agreement was entered into with Citizens National Bank in January 2013 to pay off the outstanding balance of the City of Lebanon, KY Waterworks Revenue Bonds, Series 2004. The Series 2004 issue was used for the purpose of refunding the remaining balance of the Company's outstanding \$1,400,000 Waterworks Revenue Bonds, Series 1992. The new agreement with Citizens National Bank was issued for \$394,503, bears interest at a rate of 2.9%, and matures on an annual basis. The loan is expected to be renewed annually, for a total term of seven years. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$11,625.

The deferred amounts on refunding created by the activities described in the preceding paragraphs, are reported in the accompanying financial statement as reductions of the long-term debt, and are deferred and amortized as a component of interest expense on the straight-line basis over the life the loans with Citizens National Bank in accordance with GASB.

The following is a summary of the long-term debt outstanding for the years ended June 30,

Year Ending	Principal	Interest	Deferred loss	Fees	Total
2014	\$ 465,604	\$ 167,615	\$ 30,474	\$ 1,020	\$ 664,713
2015	473,761	147,487	23,596	966	645,810
2016	263,323	133,964	2,956	911	401,154
2017	271,774	125,512	2,956	856	401,098
2018	280,513	116,774	2,956	800	401,043
2019-2023	1,347,445	450,825	9,103	3,139	1,810,512
2024-2028	1,468,471	229,181	6,475	1,649	1,705,776
2029-2033	<u>633,440</u>	<u>20,287</u>	<u>1,454</u>	<u>240</u>	<u>655,421</u>
Total	<u>\$ 5,204,331</u>	<u>\$ 1,391,645</u>	<u>\$ 79,970</u>	<u>\$ 9,581</u>	<u>\$ 6,685,527</u>

Management believes the Company is in compliance with all significant financial covenants contained in the various bond ordinances.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

4. BONDS, NOTES, AND NOTES PAYABLE (CONTINUED)

The Company maintains its reserves in accordance with the bond issues. The balances of the reserves at June 30 were:

	2013	2012
Depreciation reserve	\$ 512,354	\$ 825,827
Debt service reserve	<u>193,460</u>	<u>393,329</u>
 Total reserves	 <u>\$ 705,814</u>	 <u>\$ 1,219,156</u>

5. CONSTRUCTION IN PROGRESS

The Company began installing an emergency power generator at the Water Treatment Plant in fiscal year 2012. Total cost associated with this project at June 30, 2013, was \$412,001.

The Company began studying an alternative water supply in fiscal year 2012. Total cost associated with this project at June 30, 2013, was \$66,244.

The Company began studying Chlorine System Modifications in fiscal year 2013. Total cost associated with this project at June 30, 2013, was \$4,201.

6. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment is stated at cost and consists of the following at June 30,:

	2012	Additions	Deletions	2013
Construction in progress	\$ 123,321	\$ 743,016	\$ (383,891)	\$ 482,446
Land	160,319	-	-	160,319
Buildings	219,117	-	-	219,117
Plant and system	19,287,301	481,589	-	19,768,890
Furniture and equipment	230,912	13,040	(4,114)	239,838
Vehicles	<u>132,692</u>	<u>-</u>	<u>-</u>	<u>132,692</u>
	20,153,662	1,237,645	(388,005)	21,003,302
Less: Accumulated depreciation	<u>(10,127,322)</u>	<u>(602,546)</u>	<u>(4,114)</u>	<u>10,725,754</u>
Property and equipment, net	<u>\$10,026,340</u>	<u>\$ 635,098</u>	<u>\$ (383,891)</u>	<u>\$10,277,548</u>

7. RISK MANAGEMENT

Lebanon Water Works, Co., Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. In addition to its general liability insurance, the company also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

In July 2011, the Company approved funding an Emergency Sinking Fund with \$2,000 monthly from the operations and maintenance account to be used for emergencies or disaster expenses.

LEBANON WATER WORKS CO., INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

8. NON EXCHANGE TRANSACTIONS

During the year, the Company did not receive any cash contributions from developers and customers for line extensions that remain the property of the Company. Developers and customers reimburse the Company, from time to time, for the construction cost of extending lines. The costs of construction are added to the Company's capital assets and reimbursements are recorded as nonoperating revenue in the Statement of Revenues, Expenses and Changes in Net assets. Also, during the year, the Company received water tap fees totaling \$5,278 from customers tapping onto the system. These fees are also recorded as nonoperating revenue.

9. SUBSEQUENT EVENTS

Financial Reporting for Pensions

In June 2012 the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined. Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective mounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later).

Water Rate Increase

The Company approved a water rate increase that went into effect in October 2013. The Company will continue to review the water rate structure periodically.

**LEBANON WATER WORKS CO., INC.
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lebanon Water Works Co., Inc.
Lebanon, Kentucky

We have audited, in accordance with the 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, the financial statements of the Lebanon Water Works Co., Inc. (the Company), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated November 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

LEBANON WATER WORKS CO., INC.
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
November 20, 2013

**LEBANON WATER WORKS CO., INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

**FINDING:
2013-1**

The Company is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The Company lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 12

Responding Witnesses: Daren Thompson & Lisa Mattingly

Q-12. Please provide a copy of the Company's most recent unaudited Financial Statement for the current fiscal year.

A-12. The Company's most recent unaudited Profit & Loss Statement is attached as **Exhibit 12-1**. The Company's most recent unaudited Balance Sheet is attached as **Exhibit 12-2**.

EXHIBIT 12-1

Current Year: 2018
 Comparative Year: 2017
 Period: February
 Period Begin: 02/01/18
 Period End: 02/28/18

Lebanon Water Works Company, Inc.
Profit & Loss Statement

Account	Title	Current Period	Comparative Period	% Variance	Current YTD Balance	Comparative YTD Balance	% Variance
Income							
00401-0000	Penalties	\$3,501.21	\$2,382.64	47	27,925.29	24,955.27	12
00405-0000	Residential & Commercial Sales	\$204,486.58	\$172,444.37	19	1,614,843.36	1,478,309.89	9
00406-0000	Industrial Sales	\$45,207.95	\$32,927.33	37	355,240.33	298,152.04	19
00407-0000	Miscellaneous Water Sales	(\$0.20)	(\$5.00)	-96	(0.20)	(5.00)	-96
00408-0000	Water Taps	\$2,100.00	\$0.00	N/A	11,100.00	9,900.00	12
00409-0000	Developer Contributions - Income	\$0.00	\$0.00	N/A	24,202.49	20,279.90	19
00410-0000	Gain on Sale of Assets	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00411-0000	Other Miscellaneous Income	\$0.00	\$0.00	N/A	(71.13)	525.93	-114
00412-0000	Interest Income - CD's	\$1,714.13	\$1,713.97	0	6,273.89	6,282.74	0
00413-0000	Interest Income - NOW Account	\$42.89	\$50.93	-16	368.74	438.43	-16
00415-0000	Interest Income - Bond Issues	\$23.91	\$5.15	364	79.09	46.40	70
00417-0000	Grant Funds	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00417-0005	Sale of Surplus Property	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00418-0000	Rental House Income - Calvary	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00420-0000	Garbage Fees	\$994.12	\$974.27	2	7,919.32	7,520.36	5
00425-0000	State Capital Contribution	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00430-0000	Other Capital Contributions	\$0.00	\$0.00	N/A	0.00	0.00	N/A
	Total Income	\$258,070.59	\$210,493.66	23	2,047,881.18	1,846,405.96	11
Expense							
00500-0000	Purchased Water-Cville Water & Sewer	\$7,966.26	\$0.00	N/A	7,966.26	0.00	N/A
00501-0000	Salaries - Gross	\$50,237.92	\$49,072.53	2	425,094.70	423,268.78	0
00501-0002	Vac/Pers Accumulated	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00502-0000	Equipment - Repairs & Maintenance	\$439.09	\$539.36	-19	3,009.27	1,843.82	63
00503-0000	Fringe Benefits - Employees (hlth ins)	\$11,357.55	\$26,330.68	-57	113,297.54	202,742.82	-44
00503-0001	KRS Employer Share	\$9,420.84	\$0.00	N/A	71,085.27	0.00	N/A
00503-0002	Fringe Benefits - Dental Ins	\$318.11	\$0.00	N/A	2,567.64	0.00	N/A
00503-0003	Fringe Benefits - Vision Ins	\$79.04	\$0.00	N/A	637.79	0.00	N/A
00503-0004	Fringe Benefits - Life Ins	\$70.59	\$0.00	N/A	542.42	0.00	N/A
00503-0005	Fringe Benefits - STD/LTD Ins	\$205.48	\$0.00	N/A	1,643.84	0.00	N/A

Account	Title	Current Period	Comparative Period	% Variance	Current YTD Balance	Comparative YTD Balance	% Variance
00503-0006	Fringe Benefits - HRA Reimbursement	\$1,655.00	\$0.00	N/A	6,220.49	0.00	N/A
00504-0000	Power	\$16,251.38	\$18,517.34	-12	149,547.26	153,601.58	-3
00505-0000	Chemicals - Water Treatment	\$19,312.76	\$15,195.26	27	117,514.21	133,474.24	-12
00505-0001	Chemicals - Sludge Treatment	\$0.00	\$0.00	N/A	5,016.47	0.00	N/A
00506-0000	Pump Station & Filter Plant	\$0.00	\$3,542.81	-100	0.00	44,478.29	-100
00506-0001	WTP-Utilities	\$1,265.00	\$0.00	N/A	4,805.32	0.00	N/A
00506-0002	WTP-Repairs & Maintenance	\$26,524.58	\$0.00	N/A	126,142.38	0.00	N/A
00506-0003	WTP-Supplies	\$279.58	\$0.00	N/A	3,837.05	0.00	N/A
00506-0004	WTP-Lab Equipment Expense	\$668.36	\$0.00	N/A	5,807.15	0.00	N/A
00506-0005	Flood - May 2, 2010	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00506-0006	WTP-Pump Equipment Expense	\$0.00	\$0.00	N/A	11,430.22	0.00	N/A
00506-0007	WTP-Sludge Handling-Rep/Maint	\$4,182.68	\$0.00	N/A	7,107.68	0.00	N/A
00507-0000	Pump Station/Filter Plant-Bldg & Equip	\$0.00	\$0.00	N/A	0.00	11,474.42	-100
00507-0001	Warehouse Rd Booster Pump Station Exp	\$2,095.70	\$0.00	N/A	14,494.10	0.00	N/A
00507-0005	Valve Bldg Expense-Lebanon Bypass	\$107.39	\$0.00	N/A	7,011.81	0.00	N/A
00508-0000	Repairs, Supp, & Exp - Buena Vista	\$0.00	\$102.50	-100	0.00	633.24	-100
00508-0001	Buena Vista - Utilities	\$107.67	\$0.00	N/A	586.06	0.00	N/A
00508-0002	Buena Vista - Supplies	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00508-0003	Buena Vista - Repairs & Maintenance	\$80.95	\$0.00	N/A	94.15	0.00	N/A
00509-0000	Meters - Repairs	\$4,354.28	\$4,612.70	-6	64,550.95	48,717.85	32
00510-0000	Mains - Repairs	\$166.68	\$392.77	-58	37,964.37	14,768.89	157
00510-0001	Lab Testing - Distribution System	\$0.00	\$0.00	N/A	10,547.67	0.00	N/A
00511-0000	Fire Hydrants - Repairs	\$0.00	\$0.00	N/A	7,065.16	13,624.68	-48
00512-0000	Tanks - Repairs & Expense	\$0.00	\$322.28	-100	12,306.09	14,687.67	-16
00512-0001	Tanks - Utilities	\$381.12	\$0.00	N/A	2,785.24	0.00	N/A
00513-0000	Insurance	\$5,448.00	\$4,180.39	30	66,996.90	32,543.51	106
00514-0000	Bad Debts	(\$75.06)	(\$70.12)	7	(480.39)	(600.42)	-20
00515-0000	Payroll Taxes - Employer S.S.	\$3,713.20	\$3,754.12	-1	31,512.06	31,130.46	1
00516-0000	Shop & Garage - Expense	\$4,164.63	\$131.09	> 999	5,048.01	2,147.51	135
00517-0000	Truck Expense	\$0.00	\$1,814.69	-100	0.00	15,972.69	-100
00517-0001	Vehicle Expense - Fuel	\$459.70	\$0.00	N/A	6,734.99	0.00	N/A
00517-0002	Vehicle Expense - Reps/Maint	\$282.00	\$0.00	N/A	9,410.96	0.00	N/A
00518-0000	Lake - Repairs & Maint.	\$5,725.00	\$0.00	N/A	6,815.81	515.69	> 999
00519-0000	Interest on Customer Deposits	\$84.19	\$95.79	-12	828.65	837.33	-1
00520-0000	Office - Expense & Supplies	\$0.00	\$5,761.47	-100	2,592.71	35,224.38	-93
00520-0001	Office - Utilities	\$1,169.33	\$0.00	N/A	7,456.08	0.00	N/A

Account	Title	Current Period	Comparative Period	% Variance	Current YTD Balance	Comparative YTD Balance	% Variance
00520-0002	Office - Repairs & Maintenance	\$2,553.42	\$0.00	N/A	23,596.24	0.00	N/A
00520-0003	Office - Supplies	\$298.33	\$0.00	N/A	6,893.83	0.00	N/A
00521-0000	Office - Electric	\$0.00	\$209.06	-100	0.00	2,240.14	-100
00522-0000	Office - Heat	\$0.00	\$121.88	-100	0.00	581.94	-100
00523-0000	Office - Telephone	\$0.00	\$402.88	-100	0.00	3,105.65	-100
00524-0000	Office - Miscellaneous	\$0.00	\$14.00	-100	0.00	12,476.49	-100
00525-0000	Legal & Accounting	\$22,906.24	\$0.00	N/A	69,142.70	19,590.50	253
00525-0005	Surveying/Engineering Fees	\$0.00	\$0.00	N/A	10,000.00	0.00	N/A
00526-0000	Postage & Freight	\$886.63	\$820.31	8	7,912.84	6,978.59	13
00529-0000	Rep & Supp Expense-New Bldg	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00531-0000	Depreciation Expense	\$50,000.00	\$50,000.00	0	400,000.00	400,000.00	0
00532-0000	Donations	\$0.00	\$0.00	N/A	150.00	350.00	-57
00535-0000	Directors' Fees	\$0.00	\$0.00	N/A	6,300.00	6,300.00	0
00536-0000	Unemployment Insurance	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00538-0000	Laboratory Expense	\$751.75	\$881.75	-15	6,234.00	12,081.50	-48
00539-0000	Advertisements	\$0.00	\$0.00	N/A	192.00	775.10	-75
00541-0000	Interest Exp - Revenue Bonds	\$10,414.94	\$9,600.24	8	99,044.51	83,276.69	19
00542-0000	Rental House Expense - Calvary	\$40.47	\$70.39	-43	413.54	548.38	-25
00545-0000	Amortization - Bond Interest	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00546-0000	Miscellaneous Expense	\$0.00	\$470.00	-100	5,650.09	7,464.62	-24
00546-0001	Uniforms & Safety Exp	\$1,967.29	\$0.00	N/A	22,702.63	0.00	N/A
00546-0002	Cont Education Expense	\$1,513.09	\$0.00	N/A	13,452.74	0.00	N/A
00546-0003	Membership Dues/Fees	\$831.26	\$0.00	N/A	7,472.62	0.00	N/A
	Total Expense	(\$270,662.42)	(\$196,886.17)	37	(2,036,752.08)	(1,736,857.03)	17
	NET PROFIT (LOSS)	(\$12,591.83)	\$13,607.49	-193	11,129.10	109,548.93	-90

EXHIBIT 12-2

Lebanon Water Works Company, Inc.
Balance Sheet

Fiscal Year: 2018
Comparative Year: 2017
InclueThru: February

Account	2018 Balance	2017 Balance
ASSETS		
Checking/Savings		
00101-0000 Petty Cash	30.00	30.00
00102-0000 Change Account	25.00	25.00
00103-0000 Water Revenue Fund	5,394.48	4,896.81
00104-0000 Operations & Maintenance Fund	570,100.77	679,933.92
00105-0000 Depreciation Fund	662,394.86	552,220.08
00111-0000 Sinking Fund	163,052.31	134,287.87
00112-0000 Cash - Regions Bank	0.00	0.00
00113-0000 Construction Fund	42,578.00	52,127.54
00114-0000 Emergency Sinking Fund	160,125.42	136,088.24
00116-0000 Debt Service Reserve Fund	0.00	0.00
00110-0000 Certificates of Deposit	700,000.00	700,000.00
Total Checking/Savings	2,303,700.84	2,259,609.46
Other Current Assets		
00102-0005 Undeposited Funds	0.00	0.00
00120-0000 Accounts Receivable - Customers	379,363.25	315,765.53
00120-0001 A/R - Community Assistance Vouchers	194.28	232.77
00120-0005 Accts Receivable-Developer Contributions	0.00	0.00
00121-0000 Reserve for Uncollectible Accounts	(1,500.00)	(1,500.00)
00122-0000 Returned Checks	0.00	0.00
00125-0000 Accounts Receivable - Miscellaneous	0.00	0.00
00126-0000 Accrued Interest Receivable	2,272.60	2,323.70
00130-0000 Inventory	131,563.99	94,605.99
00140-0000 Prepaid Insurance	21,790.19	16,721.57
00141-0000 Prepaid Employee Benefits	0.00	0.00
00142-0000 Prepaid Expenses - Other	18,960.09	0.00
00151-0000 Bond Issue Cost - 1997A	0.00	0.00
00152-0000 Bond Issue Cost - 1997B	0.00	0.00
00152-0005 Bond Issue Cost - 2002	0.00	0.00
00152-0006 Bond Issue Cost - 2004	0.00	0.00
00153-0000 Loss on retirement of bonds	19,987.62	22,943.62
00160-0000 Deferred Outflows of Resources - Contrib	256,505.00	189,195.00
Total Other Current Assets	829,137.02	640,288.18
Fixed Assets		
00168-0000 Land - Construction in Progress	0.00	0.00
00169-0000 Suspended Solids Facilities	476,791.10	476,791.10
00170-0000 Source of Supply	5,101,205.46	5,101,205.46
00171-0000 Water Filtration Plant	5,065.17	5,065.17
00171-0005 Chlorine Building	402,860.99	402,860.99
00172-0000 Structure & Equipment	2,543,090.43	2,519,038.54
00172-0005 Clearwell/High Service Pump Bldg	1,529,292.00	1,529,292.00
00173-0000 Buena Vista	92,518.25	92,518.25
00174-0000 Land & Right of Way	191,553.35	182,460.65
00175-0000 New Mains	1,935,258.04	1,936,197.92
00175-0002 Pressure Regulating Valves 2008	37,056.25	37,056.25

Account		2018 Balance	2017 Balance
00176-0000	Reservoirs & Standpipe Structures	332,510.88	332,510.88
00176-0005	Radio Modem Telemetry 2004-05	19,350.00	19,350.00
00177-0000	Services	14,206.38	14,206.38
00178-0000	New Meters - Customers	65,367.82	65,367.82
00178-0005	Radio Read Meter Reading Upgrade	656,410.04	656,410.04
00179-0000	New Fire Hydrants	153,848.82	153,848.82
00180-0000	Office & Storage Land	28,855.00	28,855.00
00181-0000	Office Structure	39,111.96	39,111.96
00181-0001	Office Renovation - 2002	70,595.97	70,595.97
00182-0000	Shop, Garage & Storage Structures	80,553.53	80,553.53
00183-0000	Office Equipment	128,400.06	109,231.16
00183-0001	Mobile Field Services Module	5,470.00	0.00
00184-0000	Shop, Warehouse & Lab Equipment	165,681.91	147,239.91
00185-0000	Transportation Equipment	241,982.90	171,492.30
00186-0000	Calvary WTP Upgrade (1996-1998)	3,328,476.25	3,328,476.25
00187-0000	Vulnerability Assessment - 2004	30,794.00	30,794.00
00187-0001	Dist System-ArcGIS Mapping System	5,500.00	0.00
00188-0000	GIS Mapping System - 2004	41,085.00	41,085.00
00188-0005	Hydraulic Study - 2005-06	18,500.00	18,500.00
00188-0006	Field Calibration - 2006	17,600.00	17,600.00
00188-0007	Elevated Tank Springfield Hwy 2006-08	859,529.25	859,529.25
00188-0008	System Specific Study Plan Stage 2	0.00	0.00
00188-0009	Industrial Dr Relocation/Extension	833,537.10	833,537.10
00188-0010	Calvary Rd Tanks Mixing/Painting 09-10	318,131.63	318,131.63
00188-0011	Water Main Improvements 2010-11	592,213.12	592,213.12
00188-0012	WTP Emergency Power Generator	443,813.00	443,813.00
00188-0013	Water Main Replacement-E Main St	309,296.68	309,296.68
00188-0015	Raw Water Supply Study	66,913.00	66,913.00
00188-0016	WTP Disinfect Byprdt Reduction Project	74,594.09	74,594.09
00188-0017	WTP Chlorine System Modifications	24,219.61	24,219.61
00188-0018	WTP Raw Water Pump Renovation 2014-16	641,423.18	0.00
00188-0019	WTP Filter Rehabilitation Project - 2017	62,838.99	0.00
00188-0020	WTP Security System	12,520.00	0.00
00188-0021	WTP Modifications Contract No. 3	17,500.00	0.00
00189-0000	Utility Line Relocation	241,908.29	241,908.29
00189-0001	Hwy 49 WL Relocation 2013	158,378.68	158,378.68
00189-0002	WoodlawnAve/LorettoRd WaterMain	710,265.00	0.00
00189-0009	Construction in Progress	2,489,646.66	3,666,472.40
00190-0000	Depreciation Reserve	(13,463,007.72)	(12,890,316.72)
	Total Fixed Assets	12,152,712.12	12,306,405.48
	TOTAL ASSETS	15,285,549.98	15,206,303.12

LIABILITIES & EQUITY

Current Liabilities

00201-0000	Federal Income Tax w/h	0.00	0.00
00202-0000	KY Income Tax w/h	2,235.28	2,171.47
00203-0000	Social Security Tax w/h	0.00	0.00
00204-0000	Payroll W/H - Health Ins	(1,205.03)	0.00
00204-0002	Payroll W/H - Dental	(22.88)	0.00
00204-0003	Payroll W/H - Vision	(5.51)	0.00
00204-0004	Payroll W/H - Life Ins	(54.70)	0.00
00204-0005	Payroll W/H - LTD	(18.76)	0.00

Account	2018 Balance	2017 Balance
00204-0006 Payroll W/H - FSA Sect 125	680.00	0.00
00205-0000 Educational Tax	3,869.18	2,438.85
00206-0000 Customer Overpayments	4,887.41	4,230.58
00207-0000 Accounts Payable	37,326.88	37,867.80
00208-0000 Sewer Department	161,401.01	154,276.19
00209-0000 Garbage Department	42,093.12	39,983.27
00210-0000 Water Deposits - Customers	76,761.41	72,824.18
00211-0000 Sales Tax - A/P	6,102.21	4,758.43
00212-0000 Compensated Absences (vac/pers)	18,300.00	0.00
00228-0000 Accrued Bond Interest Payable	14,854.96	(2,153.32)
00231-0000 Revenue Bonds Payable	2,804,091.43	3,108,684.52
00232-0000 Current Year portion-Long Term Debt	352,856.02	297,723.02
00233-0000 KIA Loan (B08-09)	392,861.95	420,884.55
00234-0000 KIA Loan 2015-2016 (F15-057)	686,502.51	720,000.00
00235-0000 KIA Loan 2016-2017 (F14-036)	1,667,628.34	2,272,216.66
00236-0000 KRS Employee W/H	13,154.77	8,499.35
00238-0000 City of Lebanon tax w/h	581.67	719.42
00239-0000 Marion County tax w/h	1,028.90	1,098.80
00240-0000 Deferred Compensation w/h	0.00	0.00
00241-0000 Wage Garnishment	(452.07)	0.00
00250-0000 Moraja Subdivision	0.00	0.00
00251-0000 Grundy Woods Subdivision	0.00	0.00
00252-0000 Pebble Brook Estates	0.00	0.00
00253-0000 Field Crest - Phase I	0.00	0.00
00254-0000 Fowlco Subdivision-Fowler	0.00	0.00
00255-0000 John Young Howard	0.00	0.00
00256-0000 Mt. Airy Subdivision	0.00	0.00
00257-0000 Highland Park Subdivision	0.00	0.00
00258-0000 Net Inflows of Resources	1,222.00	0.00
00260-0000 Net Pension Liability	1,083,029.00	947,711.00
Total Current Liabilities	7,369,709.10	8,093,934.77
Equity		
00300-0000 Net Invested in Capital Assets	6,291,276.33	5,572,759.33
00310-0000 Contributed Capital-RECD Grant	0.00	0.00
00311-0000 Contributed Capital-KIA Grant	714,697.00	0.00
00310-0005 Developer Contributions - Equity	0.00	0.00
00320-0000 Debt Service Reserve	422,995.11	434,137.11
00330-0000 Depreciation Reserve	562,931.22	435,383.22
00340-0000 Restricted Construction Reserve	50,200.00	36,285.00
00390-0000 Unrestricted Net Position	(137,387.88)	524,254.76
Net Income	11,129.10	109,548.93
Total Equity	7,915,840.88	7,112,368.35
TOTAL LIABILITIES & EQUITY	15,285,549.98	15,206,303.12

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 13

Responding Witnesses: Daren Thompson, Lisa Mattingly, & Tyler Fallin

Q-13. Please provide a schedule of the Company's capital expenditures for fiscal years 2015 through 2017.

A-13. The Company's capital expenditures for fiscal years 2015, 2016, and 2017 are shown on the attached **Exhibits 13-1, 13-2, and 13-3**, respectively.

EXHIBIT 13-1

Lebanon Water Works Company, Inc.
Ledger Analysis

Fiscal Year 2015 Open
Transaction Date Range 07/01/14 To 06/30/15
Account Range 00168-0000 To 00199-0999

Trans	Reference	Date	Description	Number	Debit Amount	Credit Amount
00172-0000	Structure & Equipment					
			Beginning Balance		\$2,416,438.17	
06/30/15			To record junked assets ID'd by client	AJE JE-14	\$0.00	\$2,220.00
06/30/15			To record A/P for FYE 6-30-15	AJE-8	\$6,800.00	\$0.00
					<u>\$2,423,238.17</u>	<u>\$2,220.00</u>
			Ending Balance	Transactions: 2	\$2,421,018.17	
00172-0005	Clearwell/High Service Pump Bldg					
			Beginning Balance		\$1,522,402.00	
06/30/15			To capitalize fxed assts orig expensed	AJE JE-2	\$6,890.00	\$0.00
					<u>\$1,529,292.00</u>	<u>\$0.00</u>
			Ending Balance	Transactions: 1	\$1,529,292.00	
00175-0000	New Mains					
			Beginning Balance		\$1,893,878.25	
06/30/15			Reclass reduction fixed assts re to inv	AJE JE-1	\$12,692.00	\$0.00
06/30/15			To capitalize fxed assts orig expensed	AJE JE-2	\$19,404.00	\$0.00
06/30/15			To adjust inventory FYE 15	AJE-4	\$0.00	\$12,692.20
					<u>\$1,938,609.25</u>	<u>\$25,327.20</u>
			Ending Balance	Transactions: 5	\$1,913,282.05	
00178-0000	New Meters - Customers					
			Beginning Balance		\$51,535.95	
07/15/14			118 11102 Neptune Equipment Compæ CK# 61583		\$2,348.65	\$0.00
09/30/14			Corr mispost ck#7016 Depr-MCWD mstr n GJE-14		\$12,635.00	\$0.00
06/30/15			To reverse prior year A/P	AJE-1	\$0.00	\$2,348.65
					<u>\$66,519.60</u>	<u>\$2,348.65</u>
			Ending Balance	Transactions: 3	\$64,170.95	
00179-0000	New Fire Hydrants					
			Beginning Balance		\$132,924.47	
07/15/14			73 11113 Harco, Inc.	CK# 7014	\$11,303.34	\$0.00
04/30/15			Reimb-KY Farm Bur Ins-accid fire hydrnt	GJE - 16	\$0.00	\$3,418.45
06/30/15			To record gain on ins proceds frm hydrnt	AJE JE-8	\$3,418.00	\$0.00
06/30/15			To record gain on ins proceds frm hydrnt	AJE JE-8	\$0.00	\$1,730.00
06/30/15			To reverse prior year A/P	AJE-1	\$0.00	\$11,303.34
					<u>\$147,645.81</u>	<u>\$16,451.79</u>
			Ending Balance	Transactions: 5	\$131,194.02	
00184-0000	Shop, Warehouse & Lab Equipment					
			Beginning Balance		\$132,052.91	
03/06/15			411 11742 64 Seconds	CK# 7021	\$3,064.00	\$0.00
06/30/15			To record junked assets ID'd by client	AJE JE-14	\$0.00	\$6,287.00
					<u>\$135,116.91</u>	<u>\$6,287.00</u>
			Ending Balance	Transactions: 2	\$128,829.91	
00186-0000	Calvary WTP Upgrade (1996-1998)					
			Beginning Balance		\$3,340,159.25	
06/30/15			To record junked assets ID'd by client	AJE JE-14	\$0.00	\$11,683.00
					<u>\$3,340,159.25</u>	<u>\$11,683.00</u>
			Ending Balance	Transactions: 1	\$3,328,476.25	
00188-0010	Calvary Rd Tanks Mixing/Painting 09-10					
			Beginning Balance		\$315,184.63	
06/30/15			To capitalize fxed assts orig expensed	AJE JE-2	\$2,947.00	\$0.00
					<u>\$318,131.63</u>	<u>\$0.00</u>
			Ending Balance	Transactions: 1	\$318,131.63	
00189-0001	Hwy 49 WL Relocation 2013					
			Beginning Balance		\$157,342.00	
11/13/14			Reimb from KY DOT Hwy 49 Relocation	GJE - 14	\$0.00	\$34,552.32
11/20/14			Reimb from KY DOT Hwy 49 Relocation	GJE - 14	\$0.00	\$125,307.00
06/30/15			To reclassify rec of grant money	AJE JE-6	\$159,859.00	\$0.00
06/30/15			To reclassify Hwy 49 reloc proj disburse	AJE JE-7	\$1,037.00	\$0.00
					<u>\$157,342.00</u>	<u>\$0.00</u>

				\$318,238.00	\$159,859.32
	Ending Balance		Transactions: 4	\$158,378.68	
00189-0009	Construction in Progress				
	Beginning Balance			\$20,400.40	
07/02/14	402 11075 Twin States Utilities, I	CK#	189	\$117,635.65	\$0.00
07/30/14	402 11121 Twin States Utilities, I	CK#	190	\$6,191.35	\$0.00
08/08/14	174 11174 O'Brien & Gere Engineers	CK#	191	\$1,036.57	\$0.00
08/08/14	174 11175 O'Brien & Gere Engineers	CK#	191	\$6,800.00	\$0.00
10/21/14	174 11383 O'Brien & Gere Engineers	CK#	193	\$8,268.75	\$0.00
10/21/14	174 11382 O'Brien & Gere Engineers	CK#	192	\$2,000.00	\$0.00
12/09/14	174 11520 O'Brien & Gere Engineers	CK#	194	\$4,800.00	\$0.00
01/13/15	174 11628 O'Brien & Gere Engineers	CK#	195	\$6,000.00	\$0.00
01/13/15	174 11629 O'Brien & Gere Engineers	CK#	196	\$6,142.50	\$0.00
03/06/15	174 11743 O'Brien & Gere Engineers	CK#	197	\$4,500.00	\$0.00
03/24/15	174 11786 O'Brien & Gere Engineers	CK#	198	\$11,196.09	\$0.00
05/05/15	174 11939 O'Brien & Gere Engineers	CK#	199	\$3,103.92	\$0.00
06/12/15	174 12030 O'Brien & Gere Engineers	CK#	200	\$9,311.76	\$0.00
06/30/15	To reclassify Hwy 49 reloc proj disburse	AJE	JE-7	\$0.00	\$7,228.00
06/30/15	To reverse prior year A/P	AJE	-1	\$0.00	\$117,635.65
				\$207,386.99	\$124,863.65
	Ending Balance		Transactions: 15	\$82,523.34	

00190-0000	Depreciation Reserve				
	Beginning Balance				\$11,334,915.72
07/31/14	Est depr	GJE	-2	\$0.00	\$50,250.00
08/31/14	Est depr	GJE	-2	\$0.00	\$50,250.00
09/30/14	Est depr	GJE	-2	\$0.00	\$52,500.00
10/31/14	Est depr	GJE	-2	\$0.00	\$51,000.00
11/30/14	Est depr	GJE	-2	\$0.00	\$51,000.00
12/31/14	Est depr	GJE	-2	\$0.00	\$51,000.00
01/31/15	Est depr	GJE	-2	\$0.00	\$51,000.00
02/28/15	Est depr	GJE	-2	\$0.00	\$51,000.00
03/31/15	Est depr	GJE	-2	\$0.00	\$51,000.00
04/30/15	Est depr	GJE	-2	\$0.00	\$51,000.00
05/31/15	Est depr	GJE	-2	\$0.00	\$51,000.00
06/30/15	To record junked assets ID'd by client	AJE	JE-14	\$20,190.00	\$0.00
06/30/15	To tie depr to schedule	AJE	JE-15	\$0.00	\$8,446.00
06/30/15	To record gain on ins proceeds frm hydrnt	AJE	JE-8	\$1,730.00	\$0.00
06/30/15	Est depr	GJE	-2	\$0.00	\$51,000.00
				\$21,920.00	\$11,955,361.72
	Ending Balance		Transactions: 15		\$11,933,441.72

EXHIBIT 13-2

Lebanon Water Works Company, Inc.
Ledger Analysis

Fiscal Year 2016 Open
 Transaction Date Range 07/01/15 To 06/30/16
 Account Range 00168-0000 To 00190-0999

Trans	Reference		Debit Amount	Credit Amount
Date	Description	Number		
00175-0000	New Mains			
	Beginning Balance		\$1,913,282.05	
01/12/16	117 12699 HD Supply Waterworks	CK# 102641	\$4,013.66	\$0.00
06/30/16	To adjust Inventory for fye 16	AJE-3	\$2,825.71	\$0.00
06/30/16	To record A/P for fye 16	AJE-7	\$8,038.25	\$0.00
			<hr/>	
			\$1,928,159.67	\$0.00
	Ending Balance	Transactions: 3	\$1,928,159.67	
00178-0000	New Meters - Customers			
	Beginning Balance		\$64,170.95	
06/30/16	To adjust Inventory for fye 16	AJE-3	\$1,196.87	\$0.00
			<hr/>	
			\$65,367.82	\$0.00
	Ending Balance	Transactions: 1	\$65,367.82	
00178-0005	Radio Read Meter Reading Upgrade			
	Beginning Balance		\$651,481.04	
11/17/15	118 12528 Neptune Equipment Compan	CK# 594	\$4,929.00	\$0.00
			<hr/>	
			\$656,410.04	\$0.00
	Ending Balance	Transactions: 1	\$656,410.04	
00179-0000	New Fire Hydrants			
	Beginning Balance		\$131,194.02	
11/17/15	73 12527 Harco, Inc.	CK# 593	\$20,854.80	\$0.00
06/30/16	To adjust Inventory for fye 16	AJE-3	\$1,800.00	\$0.00
			<hr/>	
			\$153,848.82	\$0.00
	Ending Balance	Transactions: 2	\$153,848.82	
00185-0000	Transportation Equipment			
	Beginning Balance		\$155,644.30	
11/17/15	406 12529 Don Franklin Family of D	CK# 595	\$25,010.00	\$0.00
06/30/16	To capitalize city donated dump truck	AJE JE-14	\$7,283.00	\$0.00
06/30/16	To record trade in of pick up truck	AJE JE-3	\$2,000.00	\$0.00
06/30/16	To record trade in of pick up truck	AJE JE-3	\$0.00	\$18,445.00
			<hr/>	
			\$189,937.30	\$18,445.00
	Ending Balance	Transactions: 4	\$171,492.30	
00188-0017	WTP Chlorine System Modifications			
	Beginning Balance		\$20,466.73	
04/12/16	21 12956 C. I. Thornburg Co., Inc	CK# 596	\$3,752.88	\$0.00
			<hr/>	
			\$24,219.61	\$0.00
	Ending Balance	Transactions: 1	\$24,219.61	
00189-0009	Construction in Progress			
	Beginning Balance		\$82,523.34	
07/08/15	174 12121 O'Brien & Gere Engineers	CK# 201	\$1,200.00	\$0.00
07/31/15	Deposit "plan fee" cks from contractors	GJE - 15	\$0.00	\$1,200.00
09/01/15	174 12261 O'Brien & Gere Engineers	CK# 202	\$20,175.48	\$0.00
10/02/15	174 12400 O'Brien & Gere Engineers	CK# 203	\$2,327.94	\$0.00
10/02/15	416 12401 Dugan & Meyers Construct	CK# 204	\$9,896.40	\$0.00
10/27/15	342 12453 Kentucky Engineering Gro	CK# 205	\$45,112.00	\$0.00
12/08/15	174 12572 O'Brien & Gere Engineers	CK# 206	\$3,879.90	\$0.00
12/08/15	342 12573 Kentucky Engineering Gro	CK# 207	\$16,335.12	\$0.00
12/08/15	380 12574 Horsley Construction, In	CK# 208	\$134,942.06	\$0.00
01/05/16	174 12667 O'Brien & Gere Engineers	CK# 209	\$1,551.96	\$0.00
01/15/16	416 12712 Dugan & Meyers Construct	CK# 210	\$184,018.55	\$0.00
01/15/16	342 12713 Kentucky Engineering Gro	CK# 211	\$15,208.56	\$0.00
01/15/16	380 12714 Horsley Construction, In	CK# 212	\$136,453.58	\$0.00
02/10/16	342 12756 Kentucky Engineering Gro	CK# 213	\$5,069.52	\$0.00
02/10/16	380 12757 Horsley Construction, In	CK# 214	\$42,834.37	\$0.00

03/08/16	342 12845 Kentucky Engineering Gro	CK# 215	\$6,196.08	\$0.00
03/08/16	380 12846 Horsley Construction, In	CK# 216	\$54,288.59	\$0.00
03/11/16	416 12847 Dugan & Meyers Construct	CK# 217	\$64,800.00	\$0.00
04/05/16	416 12926 Dugan & Meyers Construct	CK# 218	\$137,332.47	\$0.00
04/15/16	342 12958 Kentucky Engineering Gro	CK# 219	\$10,702.32	\$0.00
04/15/16	380 12959 Horsley Construction, In	CK# 220	\$90,602.15	\$0.00
04/26/16	174 12974 O'Brien & Gere Engineers	CK# 221	\$7,759.80	\$0.00
05/17/16	416 13027 Dugan & Meyers Construct	CK# 222	\$12,933.55	\$0.00
06/21/16	416 13149 Dugan & Meyers Construct	CK# 223	\$120,601.29	\$0.00
06/29/16	174 13154 O'Brien & Gere Engineers	CK# 224	\$10,356.96	\$0.00
			<u>\$1,217,101.99</u>	<u>\$1,200.00</u>
	Ending Balance	Transactions: 25	\$1,215,901.99	

00190-0000

Depreciation Reserve

	Beginning Balance			\$11,933,441.72
07/31/15	Est depr	GJE-2	\$0.00	\$51,000.00
08/31/15	Est depr	GJE-2	\$0.00	\$53,000.00
09/30/15	Est depr	GJE-2	\$0.00	\$52,000.00
10/31/15	Est depr	GJE-2	\$0.00	\$52,000.00
11/30/15	Est depr	GJE-2	\$0.00	\$52,000.00
12/31/15	Est depr	GJE-2	\$0.00	\$52,000.00
01/31/16	Est depr	GJE-2	\$0.00	\$52,000.00
02/29/16	Est depr	GJE-2	\$0.00	\$52,000.00
03/31/16	Est depr	GJE-2	\$0.00	\$52,000.00
04/30/16	Est depr	GJE-2	\$0.00	\$52,000.00
05/31/16	Est depr	GJE-2	\$0.00	\$52,000.00
06/30/16	To record trade in of pick up truck	AJE JE-3	\$22,134.00	\$0.00
06/30/16	To tie depr exp to schedule	AJE JE-4	\$44,991.00	\$0.00
06/30/16	Est depr	GJE-2	\$0.00	\$52,000.00
			<u>\$67,125.00</u>	<u>\$12,557,441.72</u>
	Ending Balance	Transactions: 14		\$12,490,316.72

EXHIBIT 13-3

Lebanon Water Works Company, Inc.
Ledger Analysis

Fiscal Year 2017 Open
 Transaction Date Range 07/01/16 To 06/30/17
 Account Range 00168-0000 To 00199-0999

Trans Date	Description	Reference Number	Debit Amount	Credit Amount
00172-0000 Structure & Equipment				
	Beginning Balance		\$2,421,018.17	
11/30/16	Reclassify VFD to capitalize 10-18-16	GJE-14	\$49,382.37	\$0.00
11/30/16	Reclassify VFD to capitalize 11-15-16	GJE-15	\$48,638.00	\$0.00
05/09/17	150 14145 United Systems & Softwar	CK# 603	\$6,082.00	\$0.00
06/30/17	capitalize additions originally expensed	AJE JE-9	\$4,725.00	\$0.00
			\$2,529,845.54	\$0.00
	Ending Balance	Transactions:	\$2,529,845.54	
00174-0000 Land & Right of Way				
	Beginning Balance		\$182,460.65	
03/23/17	146 13993 The Lancaster Agency Inc	CK# 601	\$5,026.00	\$0.00
05/31/17	Atmos Energy Easement-Land&RoW	GJE-19	\$0.00	\$4,934.30
06/30/17	remove pymt from easement orig in land	AJE JE-8	\$4,934.00	\$0.00
			\$192,420.65	\$4,934.30
	Ending Balance	Transactions:	\$187,486.35	
00175-0000 New Mains				
	Beginning Balance		\$1,928,159.67	
07/12/16	21 13234 C. I. Thornburg Co., Inc	CK# 103338	\$8,038.25	\$0.00
05/16/17	117 14173 HD Supply Waterworks	CK# 104757	\$7,098.37	\$0.00
06/30/17	To reverse prior year A/P	AJE-1	\$0.00	\$8,038.25
			\$1,943,296.29	\$8,038.25
	Ending Balance	Transactions:	\$1,935,258.04	
00183-0000 Office Equipment				
	Beginning Balance		\$93,331.16	
11/15/16	46 13629 Danville Office Equipmen	CK# 599	\$15,900.00	\$0.00
05/09/17	459 14144 DCS Alarm Co.	CK# 602	\$4,030.00	\$0.00
05/09/17	150 14146 United Systems & Softwar	CK# 604	\$14,441.90	\$0.00
06/30/17	record disposal of copier	AJE JE-7	\$0.00	\$3,598.00
06/30/17	capitalize additions originally expensed	AJE JE-9	\$4,295.00	\$0.00
			\$131,998.06	\$3,598.00
	Ending Balance	Transactions:	\$128,400.06	
00184-0000 Shop, Warehouse & Lab Equipment				
	Beginning Balance		\$128,829.91	
11/15/16	21 13630 C. I. Thornburg Co., Inc	CK# 600	\$18,410.00	\$0.00
06/30/17	capitalize additions originally expensed	AJE JE-9	\$18,442.00	\$0.00
			\$165,681.91	\$0.00
	Ending Balance	Transactions:	\$165,681.91	
00185-0000 Transportation Equipment				
	Beginning Balance		\$171,492.30	
06/15/17	465 14286 Paul Milller Ford Inc.	CK# 605	\$40,991.30	\$0.00
06/15/17	465 14287 Paul Milller Ford Inc.	CK# 605	\$32,999.30	\$0.00
00188-0018 WTP Raw Water Pump Renovation 2014-16				
	Beginning Balance			\$0.00
06/30/17	Reclassify CIP to InService Fixed Assets	AJE-7	\$641,423.18	\$0.00
			\$641,423.18	\$0.00
	Ending Balance	Transactions:	\$641,423.18	
00189-0002 WoodlawnAve/LorettoRd WaterMain				
	Beginning Balance			\$0.00
06/30/17	Reclassify CIP to InService Fixed Assets	AJE-7	\$710,265.00	\$0.00
			\$710,265.00	\$0.00
	Ending Balance	Transactions:	\$710,265.00	
00189-0009 Construction in Progress				

Beginning Balance				\$1,215,901.99	
08/17/16	342 13320 Kentucky Engineering Gro	CK# 225		\$16,795.00	\$0.00
08/17/16	380 13321 Horsley Construction, In	CK# 226		\$105,032.00	\$0.00
08/17/16	342 13322 Kentucky Engineering Gro	CK# 227		\$161,700.00	\$0.00
08/17/16	380 13323 Horsley Construction, In	CK# 228		\$632,799.32	\$0.00
09/16/16	342 13415 Kentucky Engineering Gro	CK# 229		\$44,823.28	\$0.00
09/16/16	380 13416 Horsley Construction, In	CK# 230		\$381,119.72	\$0.00
10/21/16	342 13525 Kentucky Engineering Gro	CK# 231		\$23,591.20	\$0.00
10/21/16	380 13526 Horsley Construction, In	CK# 232		\$204,793.89	\$0.00
10/21/16	342 13527 Kentucky Engineering Gro	CK# 233		\$1,001.40	\$0.00
10/21/16	380 13528 Horsley Construction, In	CK# 234		\$29,692.25	\$0.00
11/15/16	416 13586 Dugan & Meyers Construct	CK# 235		\$15,202.92	\$0.00
11/18/16	342 13632 Kentucky Engineering Gro	CK# 236		\$35,386.80	\$0.00
11/18/16	380 13633 Horsley Construction, In	CK# 237		\$513,206.36	\$0.00
12/20/16	342 13721 Kentucky Engineering Gro	CK# 238		\$4,718.24	\$0.00
12/20/16	380 13722 Horsley Construction, In	CK# 239		\$78,223.50	\$0.00
01/10/17	174 13774 O'Brien & Gere Engineers	CK# 240		\$10,630.18	\$0.00
01/24/17	451 13819 Lincoln Trail Area Devel	CK# 241		\$7,500.00	\$0.00
01/24/17	380 13820 Horsley Construction, In	CK# 242		\$179,636.11	\$0.00
01/24/17	342 13821 Kentucky Engineering Gro	CK# 243		\$4,718.24	\$0.00
05/16/17	380 14185 Horsley Construction, In	CK# 244		\$99,420.00	\$0.00
05/16/17	342 14186 Kentucky Engineering Gro	CK# 245		\$10,688.68	\$0.00
06/16/17	174 14285 O'Brien & Gere Engineers	CK# 246		\$1,932.76	\$0.00
06/30/17	capitalize int on debt for Marion/Taylor	AJE JE-15		\$5,191.00	\$0.00
06/30/17	Reclassify CIP to InService Fixed Assets	AJE-7		\$0.00	\$641,423.18
06/30/17	Reclassify CIP to InService Fixed Assets	AJE-7		\$0.00	\$710,265.00
				<hr/>	
				\$3,783,704.84	\$1,351,688.18

Ending Balance Transactions:

\$2,432,016.66

00190-0000 Depreciation Reserve

Beginning Balance					\$12,490,316.72
07/31/16	Est depr	GJE-2		\$0.00	\$52,000.00
08/31/16	Est depr	GJE-2		\$0.00	\$48,000.00
09/30/16	Est depr	GJE-2		\$0.00	\$50,000.00
10/31/16	Est depr	GJE-2		\$0.00	\$50,000.00
11/30/16	Est depr	GJE-2		\$0.00	\$50,000.00
12/31/16	Est depr	GJE-2		\$0.00	\$50,000.00
01/31/17	Est depr	GJE-2		\$0.00	\$50,000.00
02/28/17	Est depr	GJE-2		\$0.00	\$50,000.00
03/31/17	Est depr	GJE-2		\$0.00	\$50,000.00
04/30/17	Est depr	GJE-2		\$0.00	\$50,000.00
05/31/17	Est depr	GJE-2		\$0.00	\$50,000.00
06/30/17	to tie depr to depr schedule	AJE JE-6		\$24,790.00	\$0.00
06/30/17	record disposal of copier	AJE JE-7		\$2,519.00	\$0.00
06/30/17	Est depr	GJE-2		\$0.00	\$50,000.00
				<hr/>	
				\$27,309.00	\$13,090,316.72

Ending Balance Transactions:

\$13,063,007.72

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 14

Responding Witness: Daren Thompson

Q-14. Please provide a schedule of the Company's actual and/or forecasted capital expenditures for fiscal years 2018 through 2022.

A-14. The Company's 5-year Capital Improvement Plan ("CIP") is attached as **Exhibit 14-1**. The capital expenditures shown on the CIP are planned, but some are dependent upon receiving funding from Kentucky Infrastructure Authority.

EXHIBIT 14-1



Lebanon Water Works Capital Improvement Plan (CIP)

	Total Estimated Project Cost	FY 18	FY 19	FY 20	FY 21	FY 22
Neptune Automated Meter Reading System	\$70,000	\$30,000	\$20,000	\$20,000		
WTP - Plant SCADA Upgrades	\$200,000	\$100,000	\$100,000			
WTP - Filter Rehabilitation 4 Filters	\$75,000			\$75,000		
WTP - Sludge Press Construction/Building	\$150,000		\$150,000			
WTP Flouride Room Upgrades	\$50,000			\$50,000		
WTP - VFD's on Raw Water Pumps	\$100,000	\$100,000				
WTP- Replace old MCC's	\$150,000			\$75,000	\$75,000	
Install 1 VFD in New high service building	\$125,000	\$60,000	\$65,000			
Distribution System Water Quality Monitoring	\$75,000	\$25,000	\$25,000	\$25,000		
Calvary Tank inlet/outlet piping	\$500,000				\$250,000	\$250,000
6" Boldrick & Long Ave & Oak/E High	\$110,000		\$110,000			
6" Elm St & Rose Ave	\$65,000	\$65,000				
6" College St	\$45,000			\$45,000		
6" W High St	\$120,000				\$120,000	
6" S Proctor Knott Ave	\$30,000			\$30,000		
6" Radio Station Rd	\$50,000	\$50,000				
6" Hwy 208 near Calvary School	\$55,000			\$55,000		
Oak St/Deering Court	\$50,000			\$50,000		
North Proctor to MLK						\$60,000
Harrison Ave to MLK						\$60,000
Trucks	\$175,000	\$35,000		\$60,000	\$45,000	\$35,000
Backhoe	\$75,000					\$75,000
Totals	\$2,270,000	\$465,000	\$470,000	\$485,000	\$490,000	\$480,000

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 15

Responding Witness: Daren Thompson

Q-15. Please provide a schedule showing the amounts of actual water purchases from the City of Campbellsville for each month from January 1, 2016 through February 28, 2018.

A-15. No water was purchased from the City of Campbellsville before December 1, 2017. For the period of December 1, 2017 to February 8, 2018, the Company purchased 2,664,300 gallons. This bill is attached as **Exhibit 15-1**. For the period of February 8, 2018 to February 27, 2018, the Company purchased 70,500 gallons. This bill is attached as **Exhibit 15-2**. These bills were for water used to flush the water transmission main and do not reflect the daily minimum contract amount.

The Company has not yet received its bill from Campbellsville for the water it purchased during the billing cycle for February 27, 2018 through March 29, 2018. To avoid supplementing the Company's response at a later date, the Company requested and received an Example Bill Inquiry statement from Campbellsville. It shows that 10,034,000 gallons were purchased during the most recent billing cycle. Campbellsville charged the

new, lower rate of \$2.99 per 1,000 gallons to calculate the bill. This billing statement is attached as **Exhibit 15-3**.

Campbellsville did not require the Company to commence purchasing the minimum daily amount of 400,000 gallons until March 9, 2018. Therefore, the Company did not need to purchase 12,000,000 gallons during this billing cycle.

The Company monitors the flow of water from Campbellsville multiple times per day to ensure that it is meeting, but not exceeding, its minimum purchase requirements.

EXHIBIT 15-1



110 S. COLUMBIA AVE., STE A
CAMPBELLSVILLE, KY 42718

ACCOUNT #	0038-01290-001	
Net Due On or Before	03/02/18	7,966.26
Penalty Amount		398.31
Pay After	03/02/18	8,364.57

SNGLP
LEBANON WATER WORKS
120 S PROCTOR KNOTT AVE
LEBANON KY 40033



RETURN THIS PORTION WITH PAYMENT - RETURN ADDRESS ON REVERSE SIDE
RETAIN THIS SECTION FOR YOUR RECORDS



110 S. COLUMBIA AVE., STE A
CAMPBELLSVILLE, KY 42718

ACCOUNT #		ACCOUNT NAME		SERVICE ADDRESS		
0038-01290-001		Lebanon Water Works		7550 New Lebanon Rd		
SERVICE DESCRIPTION	METER	READING DATES	PREVIOUS	PRESENT	USAGE	CHARGES
WT	200182816	12/01 02/08	0	2661100	2664300	7,966.26
PAYMENTS RECEIVED IN OFFICE AFTER 2:00 P.M. WILL BE POSTED THE NEXT WORKING DAY.						INCLUDES MULTIPLE METERS
				Net Due On or Before	03/02/18	7,966.26
				Penalty Amount		398.31
				Pay After	03/02/18	8,364.57

Disconnect Day is Wednesday, March 14, 2018.
Payment must be received by 8:30 a.m. on the Disconnect Day.

Our office will be closed Monday, February 19, 2018 for President's Day.

Get a **Bonus** for having your bill automatically deducted from your bank account. Sign up anytime to have your Water Bill automatically deducted from your checking or savings account and you will receive a **one time** credit of \$5.00 on your next Water Bill. You will still receive your monthly bill that will tell you the amount that is being deducted from your checking or savings account.

To get started all we need is the customer's signature and a voided check.
Never Pay a late fee again! Take Advantage of this free service today!

This Institution is an equal opportunity provider and employer.

EXHIBIT 15-2

ACCOUNT #	0038-01290-001	
Net Due On or Before	03/30/18	210.80
Penalty Amount		10.54
Pay After	03/30/18	221.34

SNGLP
 LEBANON WATER WORKS
 120 S PROCTOR KNOTT AVE
 LEBANON KY 40033



RETURN THIS PORTION WITH PAYMENT - RETURN ADDRESS ON REVERSE SIDE
 RETAIN THIS SECTION FOR YOUR RECORDS

	ACCOUNT #	ACCOUNT NAME		SERVICE ADDRESS			
	0038-01290-001	Lebanon Water Works		7550 New Lebanon Rd			
SERVICE DESCRIPTION	METER	READING DATES		PREVIOUS	PRESENT	USAGE	CHARGES
WT	200182816	02/08	02/27	2661100	2731600	70500	210.80
PAYMENTS RECEIVED IN OFFICE AFTER 2:00 P.M. WILL BE POSTED THE NEXT WORKING DAY.		INCLUDES MULTIPLE METERS		Net Due On or Before	03/30/18		210.80
				Penalty Amount			10.54
				Pay After	03/30/18		221.34

Disconnect Day is Thursday, April 12, 2018.
Payment must be received by 8:30 a.m. on the Disconnect Day.

Our office will be closed Friday, March 30, 2018 for Good Friday.

Get a **Bonus** for having your bill automatically deducted from your bank account. Sign up anytime to have your Water Bill automatically deducted from your checking or savings account and you will receive a **one time** credit of \$5.00 on your next Water Bill. You will still receive your monthly bill that will tell you the amount that is being deducted from your checking or savings account.

To get started all we need is the customer's signature and a voided check.
 Never Pay a late fee again! Take Advantage of this free service today!

This Institution is an equal opportunity provider and employer.

EXHIBIT 15-3

**Cville Municipal Water & Sewer
Example Bill Inquiry**

Account 0038-01290-001 Lebanon Water Works
Service Date 04/10/2018

Service Type	Rates						Status	Previous Reading	Present Reading	Usage	Demand Usage	Chngout Usage	Deduct Usage	Previous Reading Date	Present Reading Date
	SV	S1	S2	LT	ST	PN									
WT Water	55	00	00	00	00	01	Active	27,316	31,556	4,240	0	0	0	02/27/18	03/29/18
WT Water	55	00	00	00	00	01	Active	32	5,826	5,794	0	0	0	02/27/18	03/29/18

Account 0038-01290-001 **Name** Lebanon Water Works **Service Address** 7550 New Lebanon Rd
Campbellsville, KY 42718

Charge	Rates	Amounts	Usage
WT Water	55 Lebanon Wtr Part Mo	30,001.66	4,240
Surcharge 1	00	0.00	
Surcharge 2	00	0.00	
Local Tax	00	0.00	
State Tax	00	0.00	
Net Amount		30,001.66	
Penalty	01 Penalty	1,500.08	
Gross Amount		31,501.74	
WT Water	55 Lebanon Wtr Part Mo	0.00	5,794
Surcharge 1	00	0.00	
Surcharge 2	00	0.00	
Local Tax	00	0.00	
State Tax	00	0.00	
Net Amount		0.00	
Penalty	01 Penalty	0.00	
Gross Amount		0.00	
Totals		Service	
		30,001.66	
		Surcharge 1	
		0.00	
		Surcharge 2	
		0.00	
		Local Tax	
		0.00	
		State Tax	
		0.00	
		Net Amount	
		30,001.66	
		Penalty	
		1,500.08	
		Gross Amount	
		31,501.74	

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 16

Responding Witness: Daren Thompson

Q-16. Please state the Company's variable cost of production of water at the following quantities:

A. 300,000 Gallons Per Day ("GPD");

B. 400,000 GPD;

C. 500,000 GPD;

D. 600,000 GPD;

E. 700,000 GPD;

F. 800,000 GPD;

G. 900,000 GPD; and

H. 1,000,000 GPD.

A-16. The Company has never calculated variable costs at these levels and is uncertain how these calculations would be made. Over the last few years, the average daily production has ranged from approximately 2.0 to 2.6 million GPD. The Company has not operated its water treatment plant at the low volume amounts shown above. Therefore, it does not have any historical data to support such calculations.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 17

Responding Witness: Daren Thompson

Q-17. Please provide any and all documents supporting the Company's analysis and election to pick "Run #2" with regard to water purchases from the City of Campbellsville, Kentucky.

A-17. First, Spreadsheet No. 1 and Spreadsheet No. 2 attached to the Company's response to Question No. 1B of the Commission Staff's First Request for Information filed on March 7, 2018 support the analysis and election to select "Run #2." Further, the minutes of the Company's Board of Directors meeting on January 15, 2018, a copy of which is attached as **Exhibit 17-1**, support the decision to purchase 400,000 GPD from Campbellsville. The minutes state: "All members agreed to purchase 400,000 gallons per day, as originally considered to allow for more flexibility to catch up on deferred maintenance at the water plant."

EXHIBIT 17-1

MINUTES
LEBANON WATER WORKS CO., INC.

January 15, 2018

A regular meeting of the Board of Directors was called to order at 5:00 pm by James R. Moraja, Sr., President. Also present were John Turner, Vice-President, Dr. Robert H. Smith, Denise Thomas, William P. Thompson, Secretary/Treasurer, Daren Thompson, Operations and Management Superintendent, Jamie Garrett, Distribution Manager and Lisa Mattingly, secretary at the water company.

Motion by Mrs. Thomas, seconded by Dr. Smith, and all in favor to approve prior month's minutes.

Treatment Plant Operations and Distribution System Operations were reviewed. Also reviewed were Office Operations, Financials and Regulatory Report.

Jim Thompson with Kentucky Engineering Group was present and updated the Board on the progress of the Marion/Taylor Interconnect Project. He also updated the Board on the Bid Opening for Contract III – Water Treatment Plant Modifications. This project will be funded through the Depreciation Account. The low bid was \$172,750 submitted by Herrick Company (Lawrenceburg, KY). Motion by Dr. Smith to accept this bid, seconded by Mrs. Thomas and all in favor.

Daren Thompson informed the Board of the request by Campbellsville Water to notify them of the daily volume of water to be purchased. All members agreed to purchase 400,000 gallons per day, as originally considered to allow for more flexibility to catch up on deferred maintenance at the water plant.

Daren also updated the Board on the PSC proceedings in the Marion County Water District (MCWD) Rate Case. After discussion, motion was made by Mr. Turner to enforce the provisions of the Water Purchase Agreement (12-23-1988) with MCWD, including the single, unified rate structure whereby MCWD pays the same rate as "in-city" customers. Motion was seconded by Dr. Smith and all voted in favor. Damon Talley plans to file a Motion to enforce the Agreement with the PSC.

Daren Thompson was recognized for earning his Utility Management Certification administered through the National Rural Water Association.

The Secretary/Treasurer audited the invoices listed in the attached Schedule A and authorized the payment of these invoices.

There was no further business, the meeting adjourned at 7:25 p.m.; all in favor.


Secretary/Treasurer


President

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 18

Responding Witnesses: Daren Thompson & Lisa Mattingly

Q-18. Please provide any and all documents evidencing the sale or transfer of any Company-owned vehicles or heavy construction equipment between 2014 and 2018.

A-18. The Company sold or transferred the following vehicles or heavy construction equipment between 2014 and 2018:

- 11/17/2015: The Company traded-in a 2008 Dodge Pickup Truck when it purchased a 2016 Dodge Ram Truck. It received a trade-in allowance of \$2,000. The purchase order is attached as **Exhibit 18-1**.
- 8/8/2017: The Company sold a 2003 IH 4200 Truck for \$3,500. The receipt is attached as **Exhibit 18-2**.

EXHIBIT 18-1

DON FRANKLIN LEBANON CHRYSLER-DODGE-JEEP-RAM

108 N. Depot St. • P.O. Box 1039 • Lebanon, Ky. 40033 • 270-692-2126 • Fax 270-692-6521

PURCHASE ORDER

Date 11/16/15	Price of Vehicle	\$	27,010.00
Salesman JAMES SUTPHIN	State Tax, License and Transfer	\$	N/A
Purchaser Name LEBANON WATER WORKS COMPANY INC	Processing Fee		389.00
Address 120 SOUTH PROCTOR KNOTT AVE		\$	N/A
City LEBANON State KY ZIP 40033		\$	N/A
DOB N/A Phone N/A		\$	N/A
Cell Phone E-mail	Total Selling Price	\$	27,010.00
Co-Purchaser Name	Less Trade-In(s) 2008 Dodge Pickup	\$	2,000.00
Address	Amount Owed on Trade-In(s) (truck 2)	\$	N/A
City State ZIP	Difference	\$	25,010.00
DOB Phone	Cash Down Payment	\$	N/A
Cell Phone E-mail	Rebate (If Applicable)	\$	N/A
NEW VEHICLE PURCHASED	Balance Due on Delivery	\$	25,010.00
Year 2016 Make RAM	Unpaid Difference (Financed)	\$	25,010.00
Model 1500	PURCHASER CERTIFICATION		
VIN # 1C6RR7FQXGS178529	1. I hereby certify that this order includes all of the terms and conditions on both the face and the reverse side hereof, that this order cancels and supersedes any prior agreement and as of the date hereof comprises the complete and exclusive statement of the terms of the agreement relating to the subject matters covered hereby, and that THIS ORDER SHALL NOT BECOME BINDING UNTIL ACCEPTED BY DEALER OR HIS AUTHORIZED REPRESENTATIVE; AND		
Mileage 8 Color BRIGHT SILVER METAL	2. All equipment (including tires) as appraised on my trade-in will remain.		
TRADE-IN INFORMATION			
Year 2008 Make DODGE	3. I certify that I am 18 years of age or older, and that I have read the printed matter on the front and back hereof, and agree to it as a part of this order the same as if it were printed above my signature.		
Model 1500	A processing fee is not an official fee and is not required by law, but may be charged to a buyer for the handling of documents and the performing of services related to the closing of a sale. A buyer may avoid payment of the fees by handling these documents and performing these services.		
VIN # 1D7HA16N98J158406	COMMENTS		
Mileage 106,763 Color SILVER	pd. 11-17-2015		
Salvage Title Yes No	Depr. CK# 595		
PAYOFF ON TRADE-IN			
Amount N/A	N/A		
Where	N/A		
Good Until Per Diem			

If Purchasing A New Vehicle:

GMS **Supplier** **No Plan**

WARRANTY

- As-Is No Warranty** – This vehicle does not come with any warranty and customer is responsible for all repairs from this day forward.
- Factory Warranty** – This vehicle is covered by a factory warranty as disclosed by the manufacturer of it.
- Extended Warranty** – This vehicle is covered by an extended warranty for a certain period of time. The period of time for this extended warranty is as follows:

Signature of Purchaser

Signature of Co-Purchaser

Signature of Management for Don Franklin Lebanon Chrysler-Dodge-Jeep-Ram

EXHIBIT 18-2

1H 4200 Sludge Truck

Sold at City

Surplus Auction

on 8-18-17 (5:30 PM)

for \$3,500⁰⁰ to

John Robert King

King Trucking

ph# 270-692-6929

830 St. Rose Rd.

Lebanon Ky 40033

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 19

Responding Witnesses: Daren Thompson & Lisa Mattingly

Q-19. Please provide any and all documents evidencing the purchase or receipt of any Company-owned vehicles or heavy construction equipment between 2014 and 2018.

A-19. The Company purchased or received the following vehicles or heavy construction equipment between 2014 and 2018:

- 3/7/2014: The Company purchased a 2003 IH 4200 Truck for \$20,500. The invoice is attached as **Exhibit 19-1**.
- 11/16/2015: The Company purchased a 2016 Dodge Ram for \$27,010. The advertisement to bid is attached as **Exhibit 19-2** and the purchase order for the truck is attached as **Exhibit 19-3**.
- 6/15/2017: The Company purchased a 2017 Ford F15 4WD Cab for \$32,999 and a Ford F15 4WD Crew for \$40,991. The invoices are attached as **Exhibit 19-4** and **Exhibit 19-5**. The Company used state contract pricing to purchase each vehicle.
- 2017: During 2017, the City transferred a 1993 IH dump truck to the Company. The City indicated that the dump truck was a surplus vehicle that was only used by the City during the annual Ham Days

Festival. No money was exchanged for the dump truck and the City transferred the title to the Company. The Company and City entered into a verbal agreement to allow the City to use the dump truck annually for the Ham Days Festival, if needed. The title of the dump truck is attached as **Exhibit 19-6**.

EXHIBIT 19-1

Vin # 1 HT M P A F P 13 H 557290

Date: 03-07-2014

Invoice: 6
LEE FARM EQUIPMENT AUCTION

LEE FARM EQUIPMENT CONSIGNMENT AUCTION
3020 HIGHWAY 208
LEBANON, KY 40033
1-270-692-0220

Invoice
Buyer: 339

JOHN THOMAS

Page: 1

2003

SN	BN	Item	Description	Tax	Price	Qty	Total
100	339	1082	IH 4200 TRUCK 8557290	N		1	20,500.00

11:38:45

Items: 1 Amount: 20,500.00

#7011 Check: 20,500.00

SALE TERMS: CASH OR GOOD CHECK DAY OF AUCTION. ALL ITEMS SOLD "AS IS WHERE IS" WITH NO GUARANTEES AND BUYER ASSUMES ALL RESPONSIBILITY FOR ITEMS AFTER SOLD. ANNOUNCEMENTS MADE AUCTION DAY TAKE PRECEDENCE OVER ANY PRINTED MATERIAL. LEE FARMS & KAUFMAN AUCTION SERVICE IS NOT RESPONSIBLE FOR ACCIDENT OF THEFT. THANK YOU!

I, THE PURCHASER, CERTIFY THAT THE ABOVE ITEMS ARE FOR USE IN THE PRODUCTION OF AGRICULTURE PRODUCTS INCLUDING CROPS, LIVESTOCK AND OTHER PRODUCTS PURSUANT KENTUCKY DEPARTMENT OF REVENUE FORM 51A158, KRS 139.480

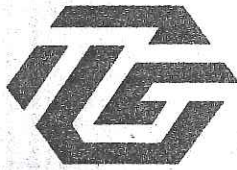
pd. 3-7-14
Depr.
CL# 7011

SIGN: _____ DATE: _____

EXHIBIT 19-2

CLASSIFIEDS

5 Employment **120** Apartments For Rent **300** Legal **300** Legal **300** Legal



AI

sively for TGKY -
y, August 13th
11 A.M. - 7 P.M.
ain St, Lebanon, KY
70-692-2423
 ly complete a pre-employment drug screen.

**Cash, Gas Cards,
 Gift Cards
 and more!**

**n't miss out on
 opportunity to work
 employer in Marion County.**
 EOE

Marion House Transport, LLC, 113 Campbellville St Columbia, KY 42728, hereby declares the intention to apply for a **disabled persons vehicle** with the Kentucky Transportation Cabinet, Department of Vehicle Regulation, on **August 12, 2015**. The origin of operation of the authority requested is Marion County. The LLC members are as follows: Agent, Melanie Rena McCloud, 113 Campbellville St, Columbia, KY 42728. Any person, association, corporation, or LLC who has an interest in the granting of the certificate or permit in the territory sought to be served may protest the granting of the certificate or permit by writing the Kentucky Transportation Cabinet, Office of Legal Services, 200 Metro Street, Frankfort, Kentucky 40622, within (30) days of the date of legal publication.

NOTICE TO BID

The **Lebanon Water Works Company** will be accepting bids for the purchase of a **2016 4-WD 1/2 TON PICK-UP**. Specifications may be obtained by calling John L. Thomas, Supt. at 270-692-2491. Submit bids to the attention of John L. Thomas, Lebanon Water Works, 120 S. Proctor Knott Ave., Lebanon, KY 40033. Bids will be opened on **August 20, 2015 at 11 a.m.**, at the Water Company Office. The Lebanon Water Works Company reserves the right to accept or reject any or all bids.

PUBLIC NOTICE

The City of Lebanon will sell at public auction on Friday, **August 21, 2015 at 5:30 p.m.** at the City of Lebanon parking lot located on West Mulberry Street adjacent to the Lebanon Police Department, the following items:

1 - 2003 Ford Crown Victoria	1 - Kawasaki Mule
1 - 1995 Mercury Sable	1 - Ford Sickle Mower
1 - 1989 Chevrolet 2500	2 - Rear Mount Salt Spreaders
1 - 1999 Ford Expedition	1 - Tiller Box 3pt. Hitch
1 - 1999 Dodge Truck 2WD	Several Miscellaneous items
1 - 72" Encore Mower	

All items sold strictly as is, with no warranties. Purchasers of vehicles are responsible for payment of transfer fees and taxes. Vehicle titles cannot be obtained until Monday following the sale.
 Terms: Cash
 Vehicles may be inspected at the lot on West Mulberry Street prior to the day of sale.



SICAL THERAPIST / UPSTAIRS Apartment,
 - Full Time or Part 2 bedroom, 1 bath, central
 Hours - 8:00 a.m. to heat & air. Includes:
 p.m. Applicant must range, frig, W/D, water,
 KY License and garbage and pest control.
 uate of accredited \$475 mo. 270-692-6377

125 Real Estate Rentals

2 BEDROOM, 1.5 BATH TOWNHOUSE,
 405 College St., Lebanon. Appliances include:
 refrigerator, stove, washer/dryer hookup, central heat/air. \$500 a month plus deposit. Call (270) 699-6886 after 5pm or leave message. Morgeson Development, LLC.

**COMMONWEALTH OF KENTUCKY
 11TH JUDICIAL CIRCUIT
 MARION CIRCUIT COURT
 DIVISION I
 CASE NO. 15-CI-00095**

LAKEVIEW LOAN SERVICING, LLC PLAINTIFF

v. **NOTICE OF MASTER COMMISSIONER'S SALE**

ROBERT WRIGHT JR., ET AL. DEFENDANTS

In order to comply with the order of Marion County Circuit Court, I will sell at public outcry to the highest bidder in the front entrance of the Marion County Judicial Center, 121 N. Spalding Avenue, Lebanon, Kentucky, on Friday, August 21, 2015 at 9:00 a.m., the hereinafter described property, according to the following terms and conditions to raise \$76,590.19 plus interest, charges, costs and attorney fees.
 Property address: 446 North Street, Lebanon, KY 40033

LEGAL DESCRIPTION

PARCEL I:
 Tract #1: Beginning at a stake on the West side of North Street, in said City of Lebanon, Kentucky, corner to the land of E.A. Lee, thence in Southwesterly direction 209-1/2 feet to a stake corner to Mrs. Zay Hill, thence in her line in a Southeasterly direction 100 feet, to a stake in line of first parties original deed. thence with his line in a northeasterly

3 BEDROOM, 1 BATH -
 with appliances,

EXHIBIT 19-3

DON FRANKLIN LEBANON CHRYSLER-DODGE-JEEP-RAM

108 N. Depot St. • P.O. Box 1039 • Lebanon, Ky. 40033 • 270-692-2126 • Fax 270-692-6521

PURCHASE ORDER

Date 11/16/15	Price of Vehicle	\$	27,010.00
Salesman JAMES SUTPHIN	State Tax, License and Transfer	\$	N/A
Purchaser Name LEBANON WATER WORKS COMPANY INC	Processing Fee		389.00
Address 120 SOUTH PROCTOR KNOTT AVE		\$	N/A
City LEBANON State KY ZIP 40033		\$	N/A
DOB N/A Phone N/A		\$	N/A
Cell Phone E-mail	Total Selling Price	\$	27,010.00
Co-Purchaser Name	Less Trade-In(s) 2008 Dodge Pickup	\$	2,000.00
Address	Amount Owed on Trade-In(s) (truck 2)	\$	N/A
City State ZIP	Difference	\$	25,010.00
DOB Phone	Cash Down Payment	\$	N/A
Cell Phone E-mail	Rebate (If Applicable)	\$	N/A
NEW VEHICLE PURCHASED	Balance Due on Delivery	\$	25,010.00
Year 2016 Make RAM	Unpaid Difference (Financed)	\$	25,010.00

Model 1500
VIN # 1C6RR7FQXGS178529
Mileage 8 Color BRIGHT SILVER METAL

TRADE-IN INFORMATION	
Year 2008	Make DODGE
Model 1500	
VIN # 1D7HA16N98J158406	
Mileage 106,763	Color SILVER
Salvage Title	<input type="checkbox"/> Yes <input type="checkbox"/> No

PAYOFF ON TRADE-IN	
Amount	N/A
Where	
Good Until	<input checked="" type="checkbox"/> Per Diem

PURCHASER CERTIFICATION	
1. I hereby certify that this order includes all of the terms and conditions on both the face and the reverse side hereof, that this order cancels and supersedes any prior agreement and as of the date hereof comprises the complete and exclusive statement of the terms of the agreement relating to the subject matters covered hereby, and that THIS ORDER SHALL NOT BECOME BINDING UNTIL ACCEPTED BY DEALER OR HIS AUTHORIZED REPRESENTATIVE; AND	
2. All equipment (including tires) as appraised on my trade-in will remain.	
3. I certify that I am 18 years of age or older, and that I have read the printed matter on the front and back hereof, and agree to it as a part of this order the same as if it were printed above my signature.	
A processing fee is not an official fee and is not required by law, but may be charged to a buyer for the handling of documents and the performing of services related to the closing of a sale. A buyer may avoid payment of the fees by handling these documents and performing these services.	

COMMENTS	
N/A	N/A
Pd. 11-17-2015 Depr. CK# 595	

If Purchasing A New Vehicle:

GMS **Supplier** **No Plan**

WARRANTY	
<input checked="" type="checkbox"/>	As-Is No Warranty – This vehicle does not come with any warranty and customer is responsible for all repairs from this day forward.
<input type="checkbox"/>	Factory Warranty – This vehicle is covered by a factory warranty as disclosed by the manufacturer of it.
<input type="checkbox"/>	Extended Warranty – This vehicle is covered by an extended warranty for a certain period of time. The period of time for this extended warranty is as follows:

Signature of Purchaser <i>[Signature]</i>	Signature of Co-Purchaser
Signature of Management for Don Franklin Lebanon Chrysler-Dodge-Jeep-Ram <i>[Signature]</i>	

EXHIBIT 19-4



SALES SERVICE GEAR
YOUR TOTAL SOLUTIONS COMPANY.

975 East New Circle Road
Lexington, KY 40505
859.255.4242 X3212
jeffkeller@paulmillerauto.com

DATE June 12, 2017
CUSTOMER ID
STATE CONTRACT # MA 758 1100000907 1

TO LEBANON WATER WORKS CO
ATTN: DAREN THOMPSON
120 S. PROCTOR KNOTT AVE
LEBANON, KY. 40033
270-692-2491

SHIP TO LEBANON WATER WORKS CO
ATTN: DAREN THOMPSON
120 S. PROCTOR KNOTT AVE
LEBANON, KY. 40033
270-692-2491

INVOICE

SALESPERSON	JOB	VIN #	P.O.#	Delivery Date	Payment Terms
KELLER	2017 F150 4WD SUPERCAB XL	1FTFX1EF5HKD27454		TBD	UPON RECEIPT
QUANTITY	DESCRIPTION	ITEM #		UNIT PRICE	LINE TOTAL
1.00	2017 FORD F150 4WD XL SUPER CAB 145" WB (6 1/2' BED)	X1E		\$ 29,698.00	\$ 29,698.00
	5.0L V8 ENGINE	99F			
	6-SPEED AUTOMATIC TRANSMISSION	446			
	A/C, TILT WHEEL	100A			
	POWER WINDOWS, LOCKS & MIRRORS	85A			
	AM/FM STEREO	incl			
	SKID PLATES	413			
	BLACK POWDER COATED STEP BARS	STEP BARS			
	DAYTIME RUNNING LAMPS	942			
	EXTRA KEY (PROGRAMMABLE)	KEY			
	CRUISE CONTROL	50S			
	TRAILER TOW PACKAGE	53A			
	TOFF SPRAY-IN BED LINER	TOFF			
	WINDOW TINT	TINT			
	REARVIEW CAMERA	76C			
1.00	TONNEAU COVER PAINTED TO MATCH			1,599.00	\$ 1,599.00
1.00	(4) WHELEN VERTEX LED - (2) AMBER (2) WHITE			792.30	\$ 792.30
	EXTERIOR - INGOT SILVER	UX			
	INTERIOR - MEDIUM EARTH GRAY VINYL	AG			
1.00	5 YR/100,000 MI POWERTRAIN WARR \$0 DEDUCTIBLE	PWRT/WARR		910.00	910.00

LINE TOTALS	32,999.30	32,999.30
SUBTOTAL	\$	32,999.30
SALES TAX		
TOTAL	\$	32,999.30

YOUR SIGNATURE & PURCHASE ORDER CONFIRMS ORDER.

Signature: _____
 Print Name: _____
 Title: _____
 Purchase Order #: _____ Date: _____

pd. 6-15-2017
Depr. ck# 605

Make all checks payable to Paul Miller Ford Inc.
 THANK YOU FOR YOUR BUSINESS!

EXHIBIT 19-5



SALES SERVICE GEAR
YOUR TOTAL SOLUTIONS COMPANY.

975 East New Circle Road
Lexington, KY 40505
859.255.4242 X3212
jeffkeller@paulmillerauto.com

DATE June 14, 2017
CUSTOMER ID
STATE CONTRACT # MA 758 1100000907 1

TO LEBANON WATER WORKS CO
ATTN: DAREN THOMPSON
120 S. PROCTOR KNOTT AVE
LEBANON, KY. 40033
270-692-2491

SHIP TO LEBANON WATER WORKS CO
ATTN: DAREN THOMPSON
120 S. PROCTOR KNOTT AVE
LEBANON, KY. 40033
270-692-2491

INVOICE

SALESPERSON	JOB	VIN #	P.O.#	Delivery Date	Payment Terms
KELLER	2017 F150 4WD CREW XLT	1FTFW1EFOHKD47999		TBD	UPON RECEIPT
QUANTITY	DESCRIPTION	ITEM #		UNIT PRICE	LINE TOTAL
1.00	2017 FORD F150 4WD XLT SUPER CREW 157" WB (6 1/2' BED)	W1E		\$ 33,532.00	\$ 33,532.00
	5.0L V8 ENGINE	99F			
	6-SPEED AUTOMATIC TRANSMISSION	446			
	A/C, TILT WHEEL, CRUISE CONTROL	500A			
	POWER WINDOWS, LOCKS & MIRRORS	incl			
	AM/FM STEREO - SINGLE CD PLAYER	incl			
	FOG LAMPS, CHROME GRILL & BUMPERS	incl			
	SKID PLATES	413			
	DAYTIME RUNNING LAMPS	942			
	EXTRA KEY (PROGRAMMABLE)	KEY			
	REVERSE SENSING SYSTEM (REQ 53A)	76R			
	TRAILER TOW PACKAGE	53A			
	TOFF SPRAY-IN BED LINER	TOFF			
	WINDOW TINT	TINT			
	REARVIEW CAMERA	76C			
1.00	TONNEAU COVER PAINTED TO MATCH			1,599.00	1,599.00
1.00	(4) WHELEN VERTEX LED - (2) AMBER (2) WHITE			792.30	792.30
1.00	LARIAT LEATHER PACKAGE			4,158.00	4,158.00
	EXTERIOR - INGOT SILVER	UX			
	INTERIOR - 40/CONSOLE/40 MEDIUM LIGHT CAMEL CLOTH	UC			
1.00	5 YR/100,000 MI POWERTRAIN WARR \$0 DEDUCTIBLE	PWRT/WARR		910.00	910.00
LINE TOTALS				40,991.30	40,991.30
				SUBTOTAL	\$ 40,991.30
				SALES TAX	
				TOTAL	\$ 40,991.30

YOUR SIGNATURE & PURCHASE ORDER CONFIRMS ORDER.


Signature: _____
 Print Name: _____
 Title: _____
 Purchase Order #: _____ Date: _____

pd. 6-15-2017
Depr. Clk# 605

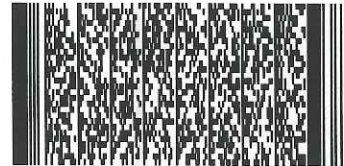
Make all checks payable to Paul Miller Ford Inc.
 THANK YOU FOR YOUR BUSINESS!

EXHIBIT 19-6

**COMMONWEALTH OF KENTUCKY
TRANSPORTATION CABINET
CERTIFICATE OF TITLE**

TITLE NO. 160150780015	YEAR 93	MAKE INTL	MODEL NAME 4700	VIN/HIN 1HTSCPLP8PH472740	TITLE TYPE TRANSFER	MODEL NO. 4700
BODY TYPE TT	COLOR WHI	NO. CYL 06	ODOMETER 113280	MOTOR NO.	WEIGHT 29040	PREV. TITLE NO./STATE 922060780021 KY
KY NO.	BOAT TYPE	LENGTH	BEAM	CAPACITY	HULL MATERIAL	PROPULSION
OWNER(S) NAME 			DATE OF ISSUE 02/08/16	FUEL	USAGE TAX PAID 0.00	

T5
LEBANON WATER WORKS INC
120 S PROCTOR KNOTT AVE
LEBANON KY 40033-1249



REMARKS:

BRAND(S)

FIRST LIENHOLDER

SECOND LIENHOLDER

Notation No.	FIRST LIEN	County	Notation No.	SECOND LIEN	County
Filing Date			Filing Date		
Released By:			Released By:		
County Clerk's use Only		Date	County Clerk's use Only		Date

I certify that the Department of Vehicle Regulation has exercised due diligence in examining an application for a certificate of title for the above-described vehicle and to the best of our knowledge and belief the applicant whose name appears above is the lawful owner of the apparently legitimate vehicle described herein.

Commissioner, Department of Vehicle Regulation   (STATE SEAL) CONTROL NO. **C23033056**

49 USC SEC. 32705 AND KRS 190.300 REQUIRE THAT YOU STATE THE VEHICLE MILEAGE IN CONNECTION WITH THE TRANSFER OF OWNERSHIP. FAILURE TO COMPLETE, OR PROVIDING FALSE STATEMENT, MAY RESULT IN PENALTIES.

FIRST DEALER ASSIGNMENT

The undersigned owner hereby certifies that the vehicle described in this title has been transferred to the following (print name and address of transferee):

I certify to the best of my knowledge that the odometer reading is the actual mileage of the vehicle unless one of the following statements is checked.

*****CAUTION READ CAREFULLY BEFORE YOU CHECK A BLOCK*****

- 1. The mileage stated is in excess of its mechanical limits.
- 2. The odometer reading is not the actual mileage. **WARNING-ODOMETER DISCREPANCY**

Odometer Reading _____ (no tenths)

Transferor(s) Signature(s) _____ (Seller) To be notarized Transferee(s) Signature(s) _____ (Owner)

Transferor(s) Printed Name(s) _____ (Seller) Transferee(s) Printed Name(s) _____ (Owner)

Date of Transfer _____ Seller Dealer No. _____ Purchasing Dealer No. _____

Attesting Official _____ Title _____

Subscribed and sworn before me this _____ day of _____, 20____ My commission expires _____ NOTARY PUBLIC

SECOND DEALER ASSIGNMENT

The undersigned owner hereby certifies that the vehicle described in this title has been transferred to the following (print name and address of transferee):

I certify to the best of my knowledge that the odometer reading is the actual mileage of the vehicle unless one of the following statements is checked.

*****CAUTION READ CAREFULLY BEFORE YOU CHECK A BLOCK*****

- 1. The mileage stated is in excess of its mechanical limits.
- 2. The odometer reading is not the actual mileage. **WARNING-ODOMETER DISCREPANCY**

Odometer Reading _____ (no tenths)

Transferor(s) Signature(s) _____ (Seller) To be notarized Transferee(s) Signature(s) _____ (Owner)

Transferor(s) Printed Name(s) _____ (Seller) Transferee(s) Printed Name(s) _____ (Owner)

Date of Transfer _____ Seller Dealer No. _____ Purchasing Dealer No. _____

Attesting Official _____ Title _____

Subscribed and sworn before me this _____ day of _____, 20____ My commission expires _____ NOTARY PUBLIC

DO NOT ACCEPT TITLE SHOWING ANY ERASURES, ALTERATIONS, OR MUTILATIONS. MUST BE COMPLETED IN BLUE OR BLACK INK. 49 USC SEC. 32705 AND KRS 190.300 REQUIRE THAT YOU STATE THE VEHICLE MILEAGE IN CONNECTION WITH THE TRANSFER OF OWNERSHIP. FAILURE TO COMPLETE, OR PROVIDING FALSE STATEMENT, MAY RESULT IN PENALTIES.

DO NOT ACCEPT TITLE SHOWING ANY ERASURES, ALTERATIONS OR MUTILATIONS

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LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 20

Responding Witness: Daren Thompson

Q-20. Please provide a copy of any and all documents provided by the Company to the City Council to support the requested rate increase.

A-20. Before the first reading of the ordinance, the Company provided the City Council with a packet of information attached as **Exhibit 20-1**. This packet of information included a comparison of rates if depreciation was funded at 100% or 75%, the 5-year CIP attached as **Exhibit 14-1**, examples of the impact of the rate increase on customers, including Marion District, and charts showing a comparison of the Company's rates with rates in other local cities and communities. In addition, members of the City Council viewed Spreadsheets No. 1 and No. 2 referenced in response to Question No. 17. Much of the information in **Exhibit 20-1** was discussed in Daren Thompson's presentation to the City Council and other community groups. A copy of this presentation is attached as **Exhibit 20-2**. Mr. Thompson also showed City Council and community members physical pieces of pipe to show the state of the Company's system. Photographs of these pipes are attached as **Exhibit 20-3**.

EXHIBIT 20-1

Basis for Calculations:

- Proposed June 30, 2018 Budget plus:
- Water Purchases from C-ville at varying levels
- Savings at WTP at varying levels
- Debt -
 - KIA Fund B
 - KIA Fund F14-036
 - KIA Fund F15-057
 - 2 CNB Loans
- Depreciation at 100% of 6/30/18 budget number

Proposed rates at:

Effect on Average Usage: 534 Cubic Feet

	<u>Meter Chg</u>	<u>Volume Chg</u>	<u>Existing</u>	<u>Proposed</u>	<u>Percent Change</u>
300,000 gallon purchase					
In Town/MCWD	\$ 7.30	\$ 3.30	\$ 20.10	\$ 24.92	24%
Out of Town	\$ 8.03	\$ 3.630	\$ 22.11	\$ 27.41	24%
400,000 gallon purchase					
In Town/MCWD	\$ 7.35	\$ 3.35	\$ 20.10	\$ 25.24	26%
Out of Town	\$ 8.085	\$ 3.69	\$ 22.11	\$ 27.76	26%
500,000 gallon purchase					
In Town/MCWD	\$ 7.40	\$ 3.40	\$ 20.10	\$ 25.56	27%
Out of Town	\$ 8.14	\$ 3.740	\$ 22.11	\$ 28.11	27%
600,000 gallon purchase					
In Town/MCWD	\$ 7.45	\$ 3.45	\$ 20.10	\$ 25.87	29%
Out of Town	\$ 8.195	\$ 3.80	\$ 22.11	\$ 28.46	29%
700,000 gallon purchase					
In Town/MCWD	\$ 7.45	\$ 3.50	\$ 20.10	\$ 26.14	30%
Out of Town	\$ 8.20	\$ 3.850	\$ 22.11	\$ 28.75	30%
800,000 gallon purchase					
In Town/MCWD	\$ 7.45	\$ 3.55	\$ 20.10	\$ 26.41	31%
Out of Town	\$ 8.20	\$ 3.91	\$ 22.11	\$ 29.05	31%

900,000 gallon purchase				<u>Existing</u>	<u>Proposed</u>	<u>Percent Change</u>	
In Town/MCWD	\$	7.55	\$	3.55	\$ 20.10	\$ 26.51	32%
Out of Town	\$	8.31	\$	3.905	\$ 22.11	\$ 29.16	32%

1,000,000 gallon purchase				<u>Existing</u>	<u>Proposed</u>	<u>Percent Change</u>	
In Town/MCWD	\$	7.60	\$	3.60	\$ 20.10	\$ 26.82	33%
Out of Town	\$	8.360	\$	3.960	\$ 22.11	\$ 29.51	33%

Basis for Calculations:

Proposed June 30, 2018 Budget plus:
 Water Purchases from C-ville at varying levels
 Savings at WTP at varying levels
 Debt -
 KIA Fund B
 KIA Fund F14-036
 KIA Fund F15-057
 2 CNB Loans
 Depreciation at 75% of 6/30/18 budget number

Proposed rates at:

Effect on Average Usage: 534 Cubic Feet

	<u>Meter Chg</u>	<u>Volume Chg</u>	<u>Existing</u>	<u>Proposed</u>	<u>Percent Change</u>
300,000 gallon purchase					
In Town/MCWD	\$ 7.20	\$ 3.15	\$ 20.10	\$ 24.02	20%
Out of Town	\$ 7.92	\$ 3.465	\$ 22.11	\$ 26.42	20%
400,000 gallon purchase					
In Town/MCWD	\$ 7.25	\$ 3.20	\$ 20.10	\$ 24.34	21%
Out of Town	\$ 7.975	\$ 3.52	\$ 22.11	\$ 26.77	21%
500,000 gallon purchase					
In Town/MCWD	\$ 7.30	\$ 3.25	\$ 20.10	\$ 24.66	23%
Out of Town	\$ 8.03	\$ 3.575	\$ 22.11	\$ 27.12	23%
600,000 gallon purchase					
In Town/MCWD	\$ 7.35	\$ 3.30	\$ 20.10	\$ 24.97	24%
Out of Town	\$ 8.085	\$ 3.63	\$ 22.11	\$ 27.47	24%
700,000 gallon purchase					
In Town/MCWD	\$ 7.40	\$ 3.35	\$ 20.10	\$ 25.29	26%
Out of Town	\$ 8.14	\$ 3.685	\$ 22.11	\$ 27.82	26%
800,000 gallon purchase					
In Town/MCWD	\$ 7.40	\$ 3.40	\$ 20.10	\$ 25.56	27%
Out of Town	\$ 8.14	\$ 3.74	\$ 22.11	\$ 28.11	27%

900,000 gallon purchase				<u>Existing</u>	<u>Proposed</u>	<u>Percent Change</u>	
In Town/MCWD	\$	7.40	\$	3.43	\$ 20.10	\$ 25.72	28%
Out of Town	\$	8.14	\$	3.773	\$ 22.11	\$ 28.29	28%

1,000,000 gallon purchase				<u>Existing</u>	<u>Proposed</u>	<u>Percent Change</u>	
In Town/MCWD	\$	7.45	\$	3.48	\$ 20.10	\$ 26.03	30%
Out of Town	\$	8.195	\$	3.828	\$ 22.11	\$ 28.64	30%



Lebanon Water Works Capital Improvement Plan (CIP)

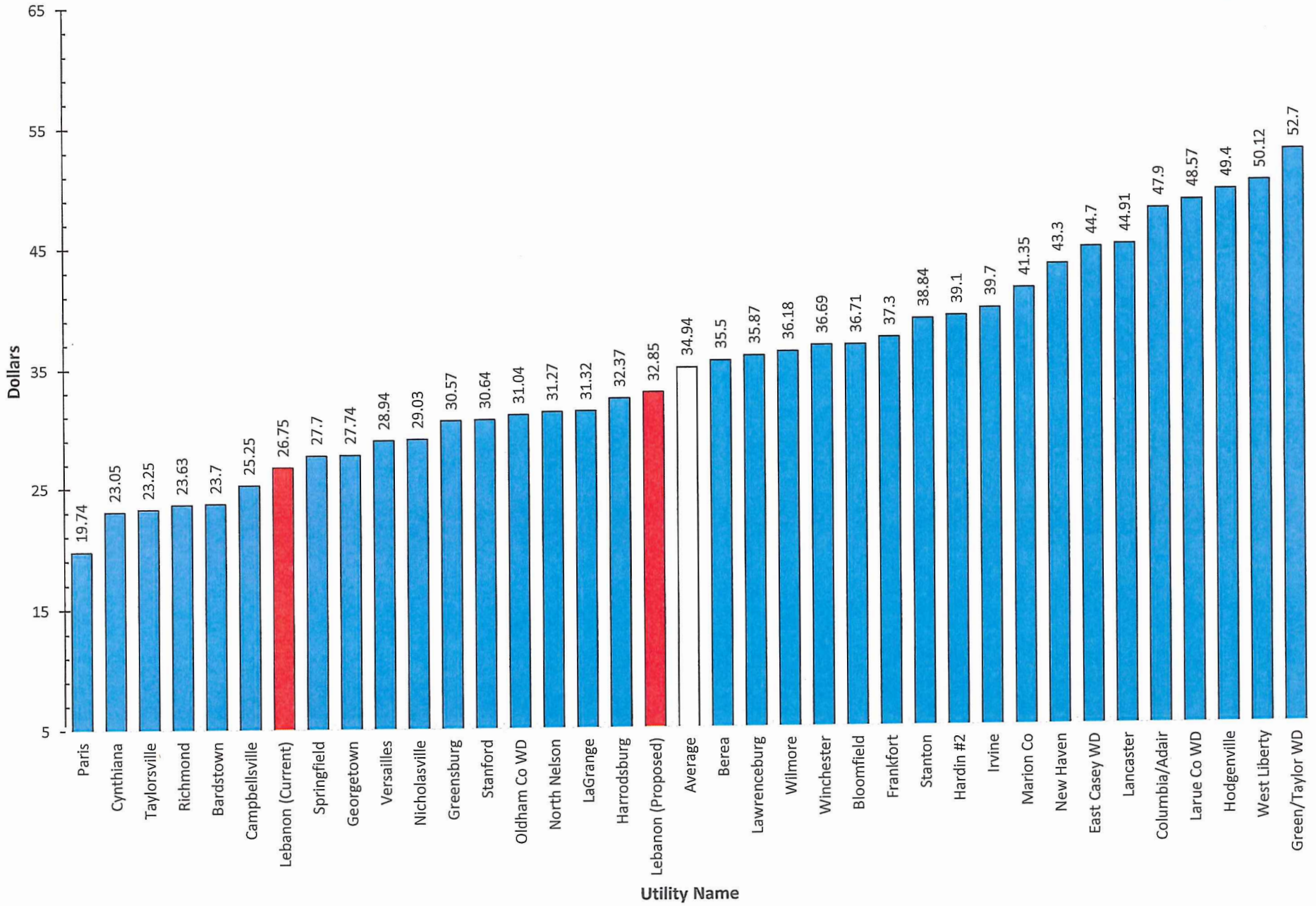
	Total Estimated Project Cost	FY 18	FY 19	FY 20	FY 21	FY 22
Neptune Automated Meter Reading System	\$70,000	\$30,000	\$20,000	\$20,000		
WTP - Plant SCADA Upgrades	\$200,000	\$100,000	\$100,000			
WTP - Filter Rehabilitation 4 Filters	\$75,000			\$75,000		
WTP - Sludge Press Construction/Building	\$150,000		\$150,000			
WTP Flouride Room Upgrades	\$50,000			\$50,000		
WTP - VFD's on Raw Water Pumps	\$100,000	\$100,000				
WTP- Replace old MCC's	\$150,000			\$75,000	\$75,000	
Install 1 VFD in New high service building	\$125,000	\$60,000	\$65,000			
Distribution System Water Quality Monitoring	\$75,000	\$25,000	\$25,000	\$25,000		
Calvary Tank inlet/outlet piping	\$500,000				\$250,000	\$250,000
6" Boldrick & Long Ave & Oak/E High	\$110,000		\$110,000			
6" Elm St & Rose Ave	\$65,000	\$65,000				
6" College St	\$45,000			\$45,000		
6" W High St	\$120,000				\$120,000	
6" S Proctor Knott Ave	\$30,000			\$30,000		
6" Radio Station Rd	\$50,000	\$50,000				
6" Hwy 208 near Calvary School	\$55,000			\$55,000		
Oak St/Deering Court	\$50,000			\$50,000		
North Proctor to MLK						\$60,000
Harrison Ave to MLK						\$60,000
Trucks	\$175,000	\$35,000		\$60,000	\$45,000	\$35,000
Backhoe	\$75,000					\$75,000
Totals	\$2,270,000	\$465,000	\$470,000	\$485,000	\$490,000	\$480,000

Example of Proposed Water Rate Increase on Select Customers

	Per Cu. Ft.	Effective _____	Per Cu. Ft.
Effective 11-1-2013			
Current City Rate	0.025	Proposed City Rate	0.0335
Current City Meter Charge	6.75	Proposed City Meter Charge	7.35
Current County Rate	0.0275	Proposed County Rate	0.0369
Current County Meter Charge	7.43	Proposed County Meter Charge	8.09

	June 15, 2017 Usage (cubic feet)	Current Water Charge	Proposed Water Charge	\$ Increase Per Month
Commercial				
MCWD (12 meters)	5,335,360	133,390.75	178,822.76	45,432.01
Lebanon Hsg Auth (8 meters)	96,780	2,473.50	3,300.93	827.43
Marion County Jail	93,800	2,351.75	3,149.65	797.90
Brookhaven Manor 2	34,650	873.00	1,168.13	295.13
Brookhaven Manor 1	16,450	418.00	558.43	140.43
N & S Invest (Blossom Ln Tr Park)	8,900	229.25	305.50	76.25
Cedars of Leb Nurs Home (2 meters)	15,600	403.50	537.30	133.80
Industrial				
TG-Kentucky Corp	386,810	9,677.00	12,965.49	3,288.49
Kentucky Cooperage Inc (3 meters)	214,790	5,390.00	7,217.52	1,827.52
Curtis-Maruyasu (5 meters)	505,958	12,682.70	16,986.34	4,303.64
Angell Manufacturing (W Main St)	50,275	1,263.63	1,691.56	427.94
Montebello Pkg (2 meters)	56,550	1,427.25	1,909.13	481.88
US Chita	10,250	263.00	350.73	87.73
Plastic Products Inc	10,350	265.50	354.08	88.58
Lebanon Oak Flooring	11,700	299.25	399.30	100.05
Joy Mining Co.	3,600	96.75	127.95	31.20
Central KY Tool & Eng	1,200	36.75	47.55	10.80
Lebanon Power & Apparatus	900	29.25	37.50	8.25
Portland Forge (County Rate)	25,500	708.68	949.04	240.36
Small Business				
The Lancaster Agency	70	8.50	9.70	1.20
Farmers National Bank (5 meters)	1,130	62.00	74.61	12.61
Bosley Funeral Home	835	27.63	35.32	7.70
Dr. Bob Smith Dentist Ofc	1,830	52.50	68.66	16.16
Citizens National Bank	795	26.63	33.98	7.36
Residential				
J. R. Moraja, Sr.	175	11.13	13.21	2.09
John S. Turner	800	26.75	34.15	7.40
Robert Smith	800	26.75	34.15	7.40
Mary Jane Shockency	205	11.88	14.22	2.34
Denise Thomas	340	15.25	18.74	3.49
Gary Crenshaw	530	20.00	25.11	5.11
Jim Richardson	745	25.38	32.31	6.93
Kate Palagi	975	31.13	40.01	8.89
Jerry Abell	380	16.25	20.08	3.83
John O. Thomas	480	18.75	23.43	4.68

Regional Utility Data- 6,000 Gallons Water Usage



Regional Utility Data- 2,000 Gallons Water Usage

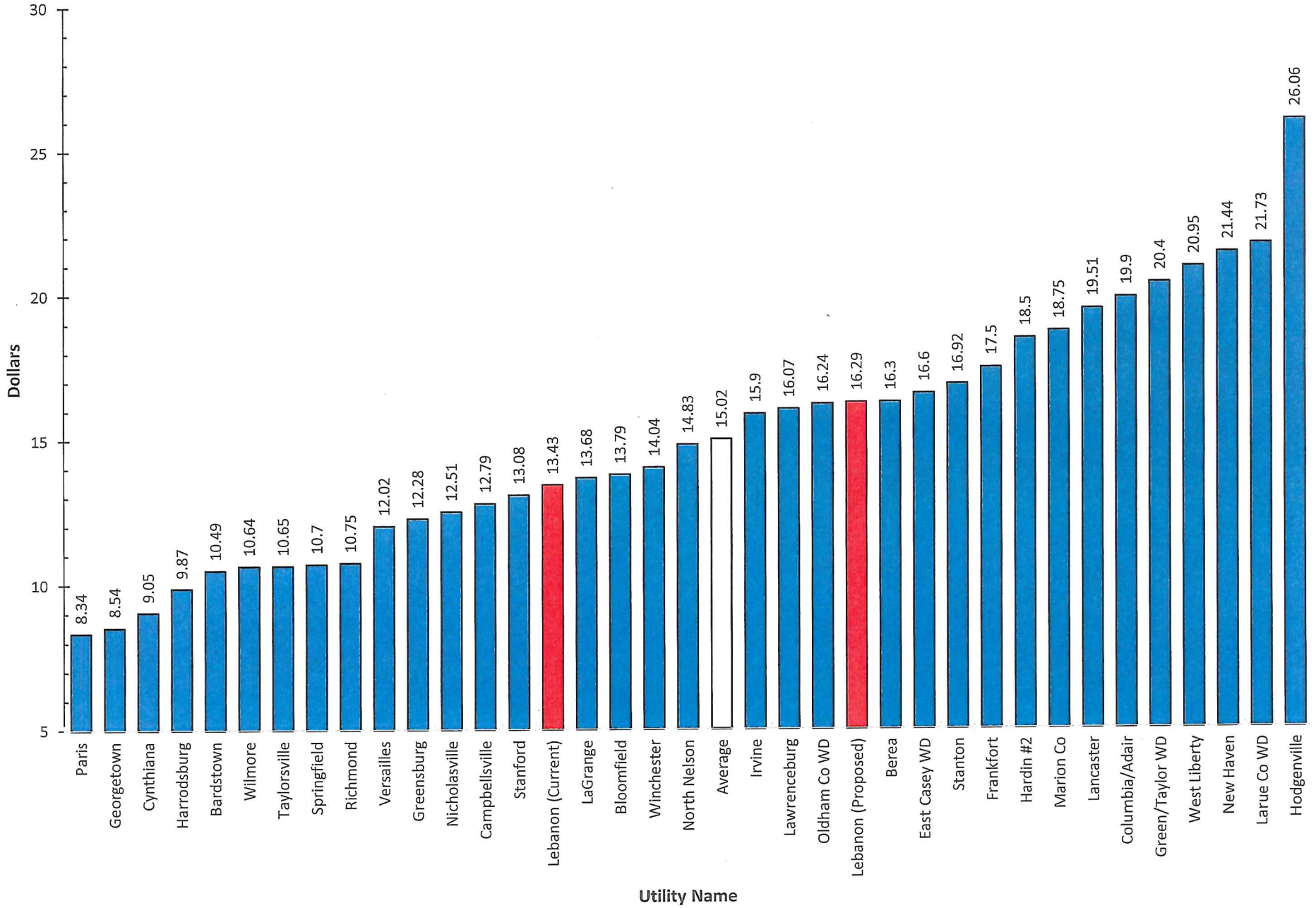


EXHIBIT 20-2



Rate Increase 2017

Daren Thompson
Operations & Management Superintendent



Water Treatment Plant



Water Treatment Plant



Water Treatment Plant



Water Treatment Plant



Water Treatment Plant



Water Treatment Plant



Water Treatment Plant



Water Treatment Plant- Old Clearwell



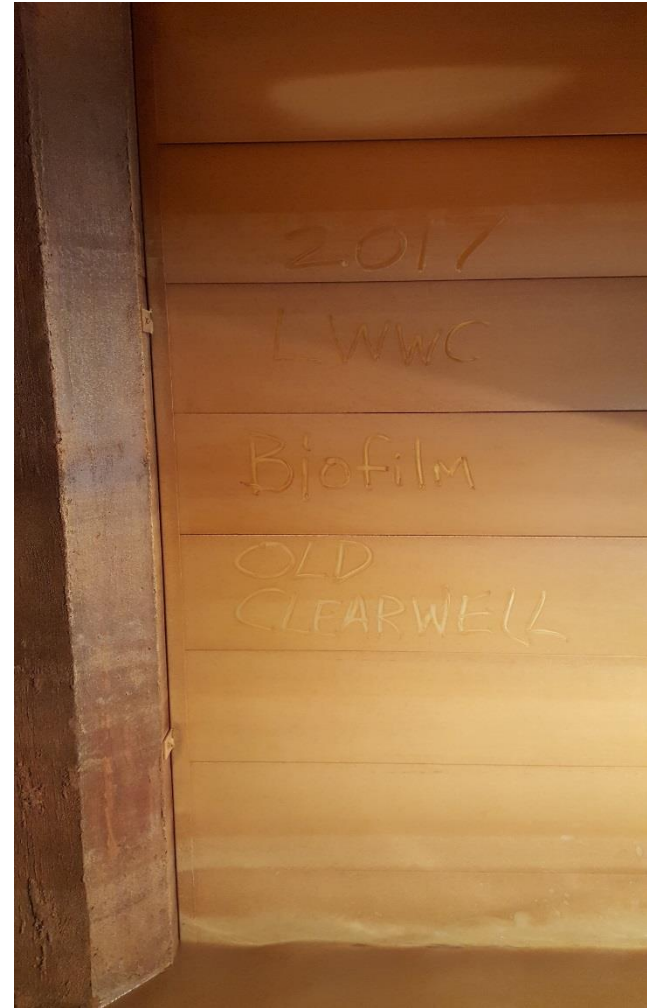
Water Treatment Plant- Old Clearwell



Water Treatment Plant- Old Clearwell



Water Treatment Plant



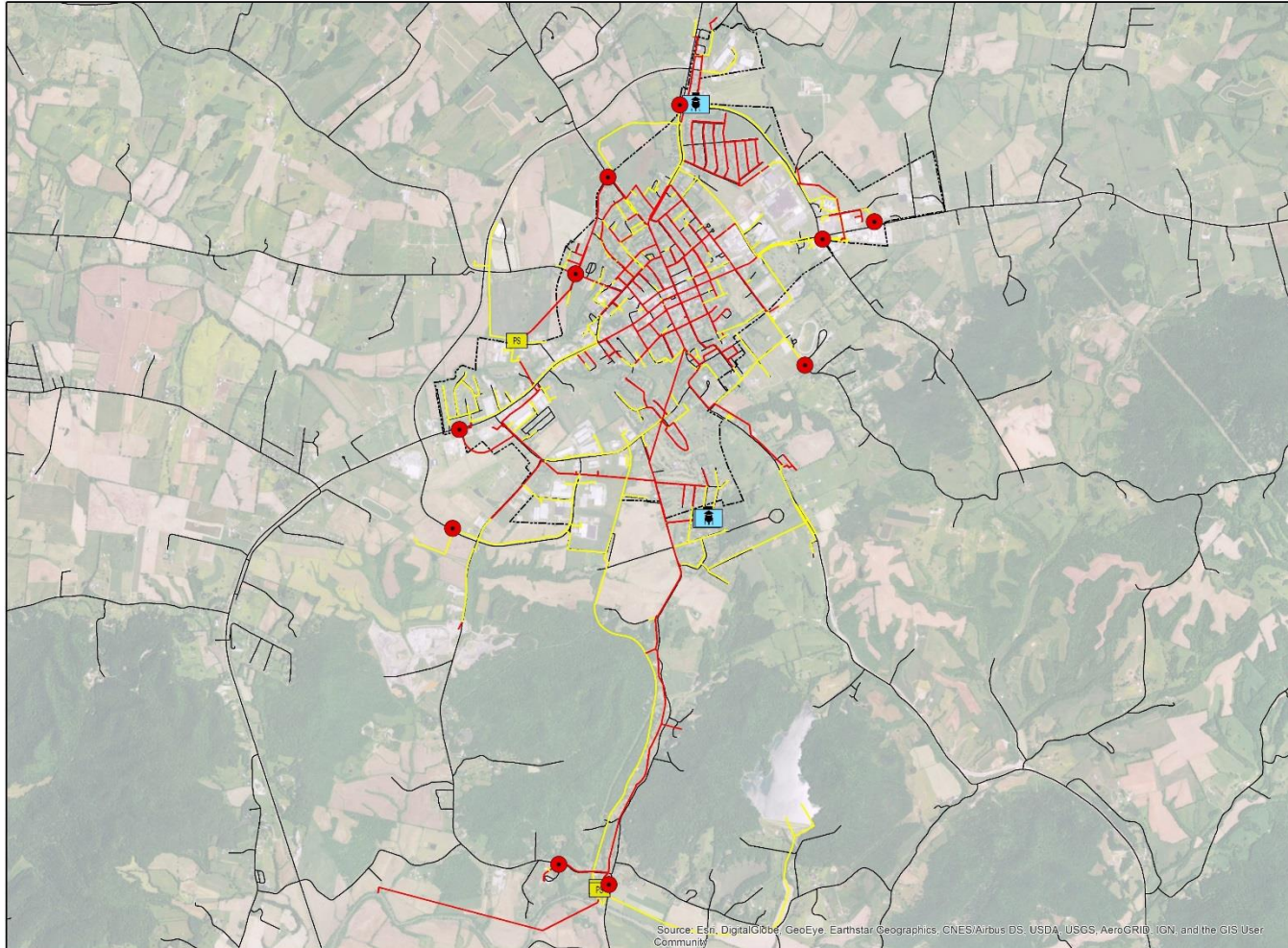
Water Treatment Plant- Old Clearwell



Water Treatment Plant- Old Clearwell



Lebanon Water Distribution System



Lebanon Water Works Company Water System Atlas

Legend

- w_master_meters
- Water Intakes
- Water Pumps
- w_tanks
- WTP Water Treatment Plants
- <all other values>

MATERIAL

- CI
- Lebanon City Limits
- Roads



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No part of this map may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording or by any information storage or retrieval system, except as expressly permitted in writing by LWWC.

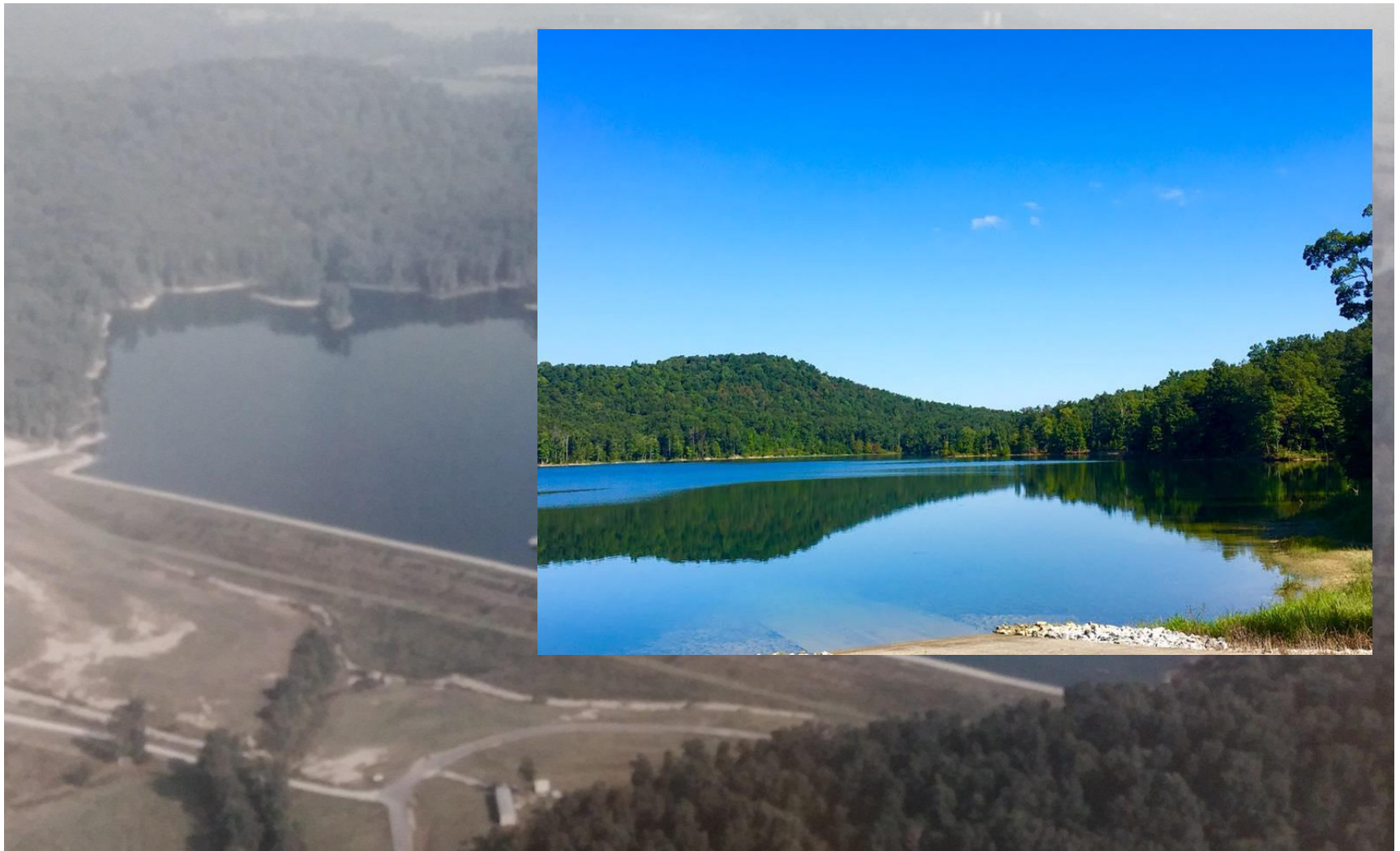
Lebanon Water Distribution System



***WARNING:
Do we have enough water sources?***



Fagan Branch Reservoir



Campbellsville Hwy Pipeline



Factors Driving the Rate Increase

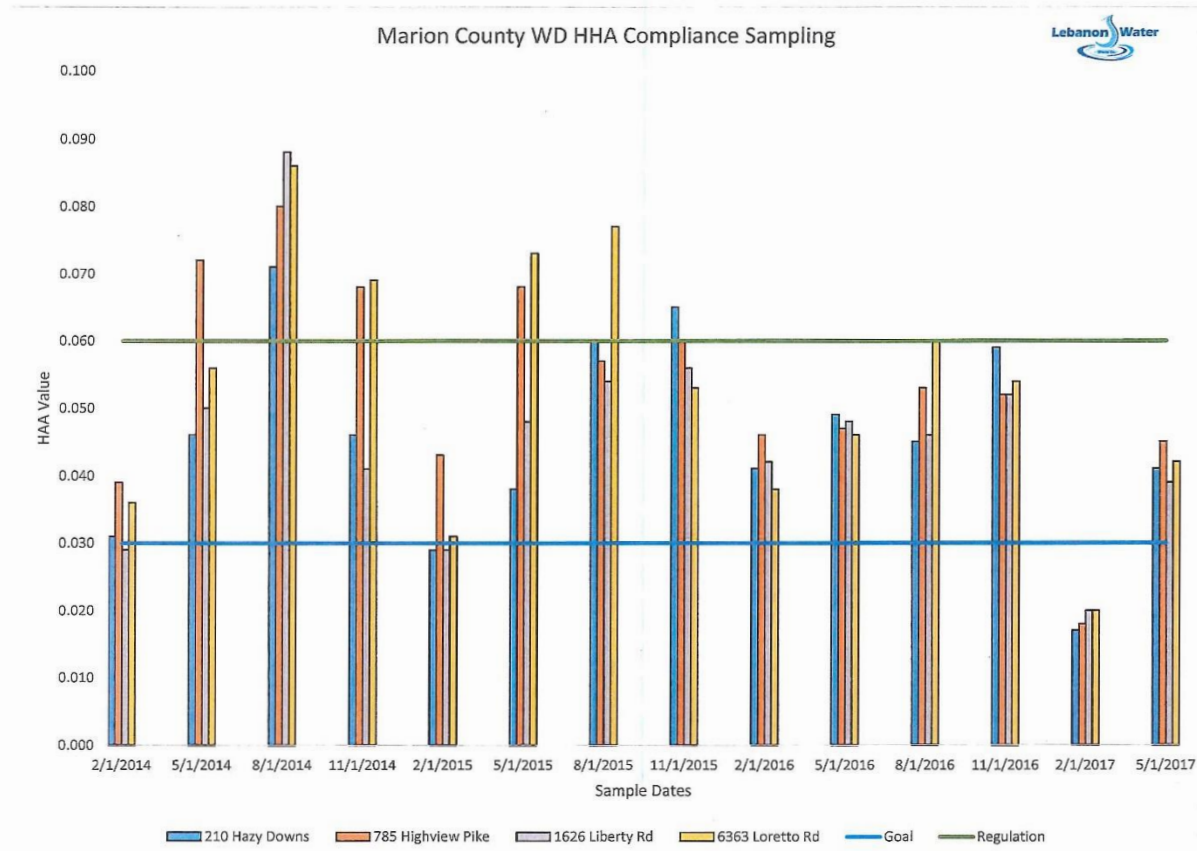
- The Need to Replace Aging Infrastructure
- Increase Supply of Water (Pipe to Cville)
- Increase of O&M Costs

Aging Infrastructure- Capital Improvement Plan



Lebanon Water Works Capital Improvement Plan (CIP)						
	Total Estimated Project Cost	FY 18	FY 19	FY 20	FY 21	FY 22
Neptune Automated Meter Reading System	\$70,000	\$30,000	\$20,000	\$20,000		
WTP - Plant SCADA Upgrades	\$200,000	\$100,000	\$100,000			
WTP - Filter Rehabilitation 4 Filters	\$75,000			\$75,000		
WTP - Sludge Press Construction/Building	\$150,000		\$150,000			
WTP Flouride Room Upgrades	\$50,000			\$50,000		
WTP - VFD's on Raw Water Pumps	\$100,000	\$100,000				
WTP- Replace old MCC's	\$150,000			\$75,000	\$75,000	
Install 1 VFD in New high service building	\$125,000	\$60,000	\$65,000			
Distribution System Water Quality Monitoring	\$75,000	\$25,000	\$25,000	\$25,000		
Calvary Tank inlet/outlet piping	\$500,000				\$250,000	\$250,000
6" Boldrick & Long Ave & Oak/E High	\$110,000		\$110,000			
6" Elm St & Rose Ave	\$65,000	\$65,000				
6" College St	\$45,000			\$45,000		
6" W High St	\$120,000				\$120,000	
6" S Proctor Knott Ave	\$30,000			\$30,000		
6" Radio Station Rd	\$50,000	\$50,000				
6" Hwy 208 near Calvary School	\$55,000			\$55,000		
Oak St/Deering Court	\$50,000			\$50,000		
North Proctor to MLK						\$60,000
Harrison Ave to MLK						\$60,000
Trucks	\$175,000	\$35,000		\$60,000	\$45,000	\$35,000
Backhoe	\$75,000					\$75,000
Totals	\$2,270,000	\$465,000	\$470,000	\$485,000	\$490,000	\$480,000

Regulatory



Rate Increase Breakdown

• Projected Revenue Increase	\$857,914
• Purchase of Water from C-ville	-\$450,827
• New C-ville Pipeline Debt Service	-\$126,350
• Woodlawn Loretto Rd Debt Service	-\$40,123
• Increase in O&M Cost	-\$134,600

Increased Depreciation,
Reserve Accounts,

\$106,014

Rate Impacts for MCWD Customers

Lebanon Water Works Rate Increase Impact on Customers of Marion County Water District				
Monthly Usage (Gallons)	Monthly Water Bill at Current Rates	Monthly Water Bill at Proposed Rates	Monthly Increase	Annual Increase
500	\$10.28	\$10.93	\$0.65	\$7.80
1000	\$13.10	\$14.40	\$1.30	\$15.60
1,500	\$15.93	\$17.88	\$1.95	\$23.40
2,000	\$18.75	\$21.35	\$2.60	\$31.20
2,500	\$21.58	\$24.83	\$3.25	\$39.00
3,000	\$24.40	\$28.30	\$3.90	\$46.80
4,000	\$30.05	\$35.25	\$5.20	\$62.40
5,000	\$35.70	\$42.20	\$6.50	\$78.00
6,000	\$41.35	\$49.15	\$7.80	\$93.60
7,000	\$47.00	\$56.10	\$9.10	\$109.20
8,000	\$52.65	\$63.05	\$10.40	\$124.80
9,000	\$58.30	\$70.00	\$11.70	\$140.40
10,000	\$63.95	\$76.95	\$13.00	\$156.00
15,000	\$92.20	\$111.70	\$19.50	\$234.00
50,000	\$289.95	\$354.95	\$65.00	\$780.00
100,000	\$572.45	\$702.45	\$130.00	\$1,560.00
200,000	\$1,137.45	\$1,397.45	\$260.00	\$3,120.00
500,000	\$2,832.45	\$3,482.45	\$650.00	\$7,800.00
* 6,200,000	\$35,037.45	\$43,097.45	\$8,060.00	\$96,720.00

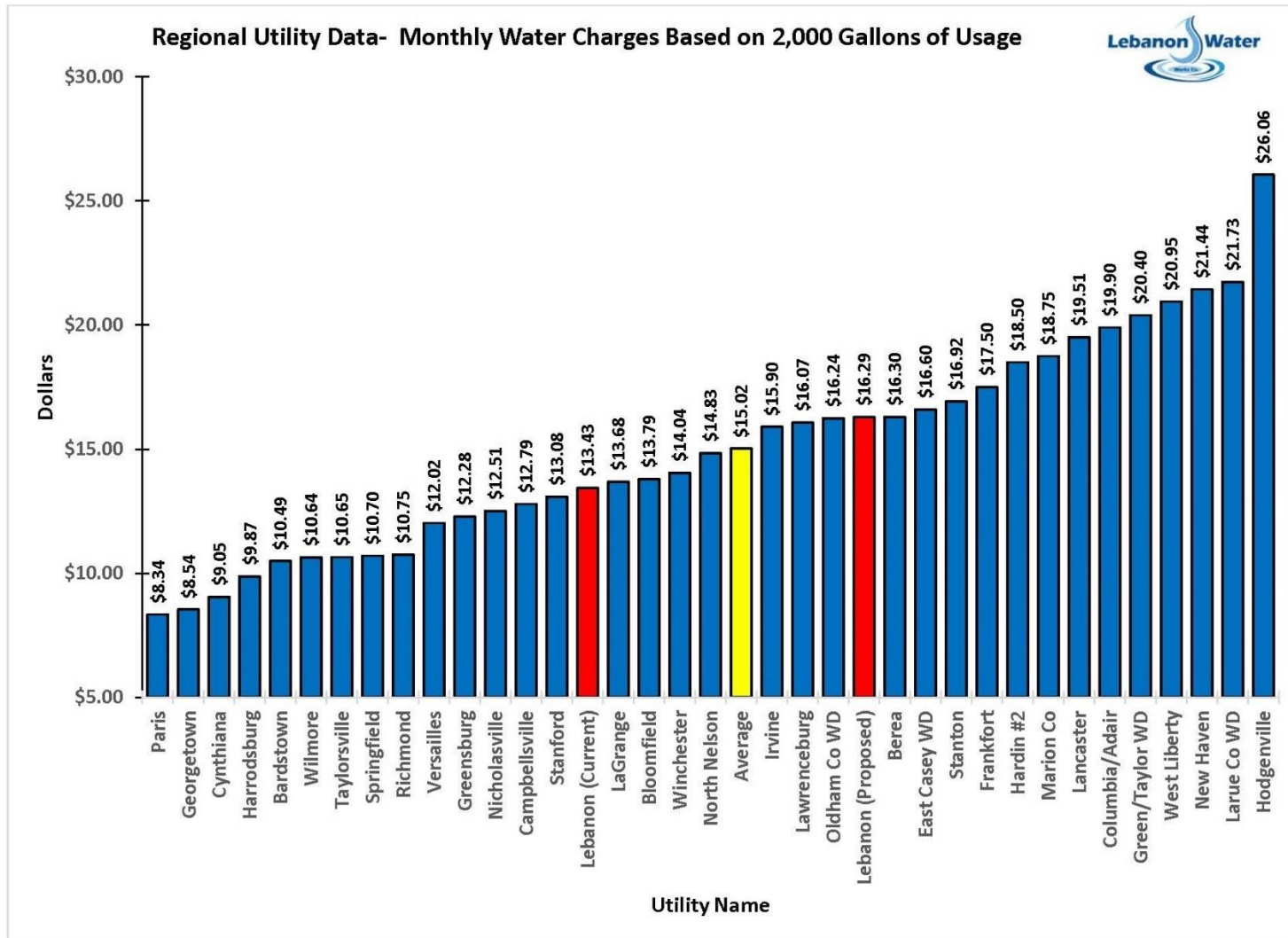
* Makers Mark

Rate Impacts for LWWC Customers

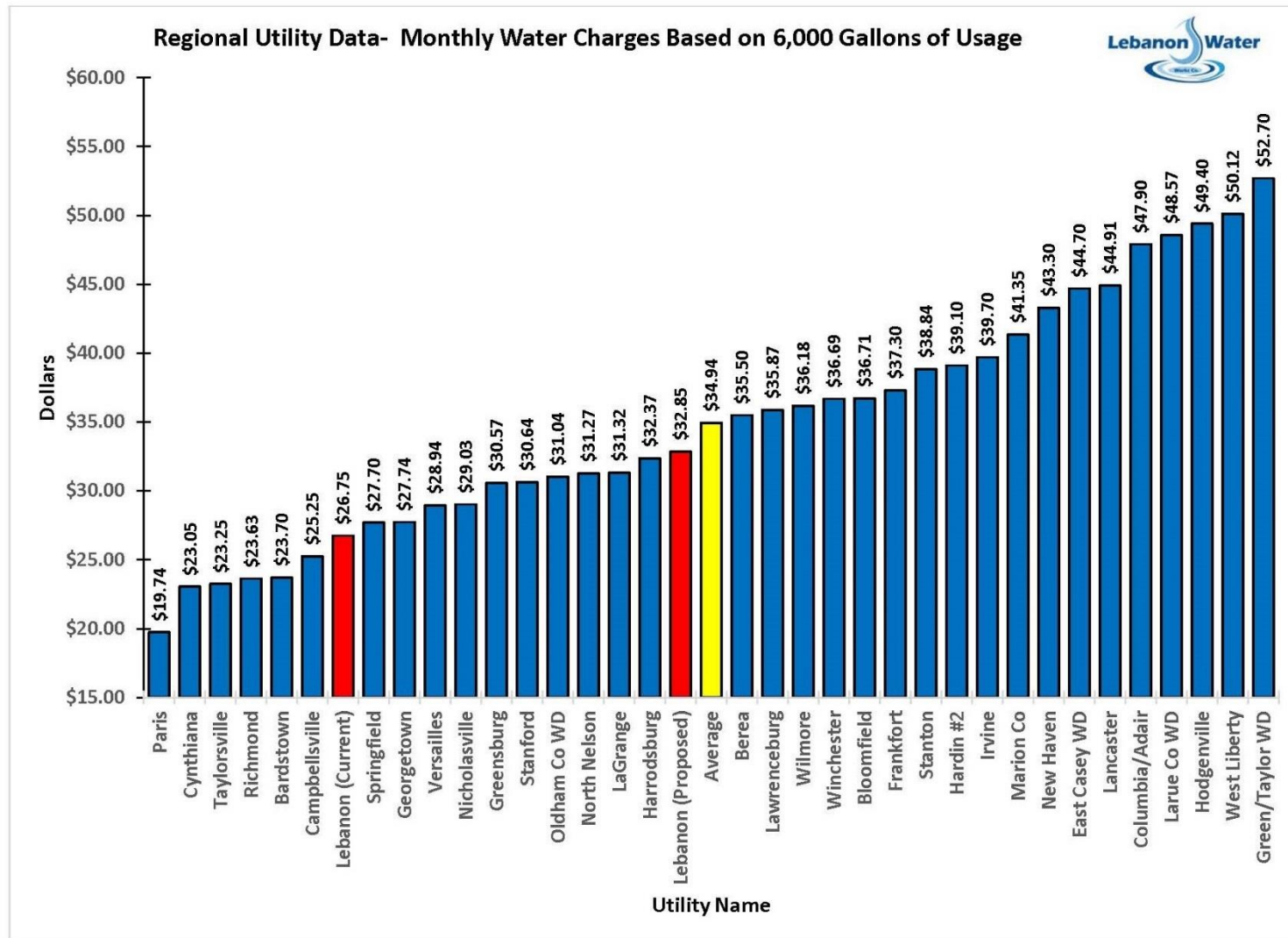
Example of Proposed Water Rate Increase on Select Customers

		Per Cu. Ft.	Effective _____	Per Cu. Ft.	
Effective 11-1-2013			Effective _____		
	Current City Rate	0.025	Proposed City Rate	0.0335	
	Current City Meter Charge	6.75	Proposed City Meter Charge	7.35	
	Current County Rate	0.0275	Proposed County Rate	0.0369	
	Current County Meter Charge	7.43	Proposed County Meter Charge	8.09	
Selected Customers	June 15, 2017 Usage (cubic feet)	Current Water Charge	Proposed Water Charge	\$ Increase Per Month	
Commercial	MCWD (12 meters)	5,335,360	133,390.75	178,822.76	45,432.01
	Lebanon Hsg Auth (8 meters)	96,780	2,473.50	3,300.93	827.43
	Marion County Jail	93,800	2,351.75	3,149.65	797.90
	Brookhaven Manor 2	34,650	873.00	1,168.13	295.13
	Brookhaven Manor 1	16,450	418.00	558.43	140.43
	N & S Invest (Blossom Ln Tr Park)	8,900	229.25	305.50	76.25
Cedars of Leb Nurs Home (2 meters)	15,600	403.50	537.30	133.80	
Industrial	TG-Kentucky Corp	386,810	9,677.00	12,965.49	3,288.49
	Kentucky Cooperage Inc (3 meters)	214,790	5,390.00	7,217.52	1,827.52
	Curtis-Maruyasu (5 meters)	505,958	12,682.70	16,986.34	4,303.64
	Angell Manufacturing (W Main St)	50,275	1,263.63	1,691.56	427.94
	Montebello Pkg (2 meters)	56,550	1,427.25	1,909.13	481.88
	US Chita	10,250	263.00	350.73	87.73
	Plastic Products Inc	10,350	265.50	354.08	88.58
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	Joy Mining Co.	3,600	96.75	127.95	31.20
	Central KY Tool & Eng	1,200	36.75	47.55	10.80
	Lebanon Power & Apparatus	900	29.25	37.50	8.25
Portland Forge (County Rate)	25,500	708.68	949.04	240.36	
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	Farmers National Bank (5 meters)	1,130	62.00	74.61	12.61
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	Citizens National Bank	795	26.63	33.98	7.36
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	Robert Smith	800	26.75	34.15	7.40
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	Jim Richardson	745	25.38	32.31	6.93
	Kate Palagi	975	31.13	40.01	8.89
	Jerry Abell	380	16.25	20.08	3.83
John O. Thomas	480	18.75	23.43	4.68	

Regional Billing Data- 2,000 Gallons Usage



Regional Billing Data- 6,000 Gallons Usage



QUESTIONS?

Questions??

EXHIBIT 20-3







LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 21

Responding Witness: Daren Thompson

Q-21. Please provide a copy of any and all drafts of documents that are responsive to Request No. 20 above.

A-21. Objection. The requested material is not relevant because no drafts were presented to any member of the City Council or any community group.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 22

Responding Witness: Daren Thompson

Q-22. Please provide a schedule of any and all expenditures or contributions made in the fiscal year ending on June 30, 2016 or the fiscal year ending on June 30, 2017 for any of the following:

- A. Private club membership fees or dues;
- B. Advertising;
- C. Sponsorships;
- D. Scholarships;
- E. Charitable donations or contributions; and
- F. Civic organizations.

A-22. The Company had no expenditures for (A) Private club membership fees or dues; (B) Advertising; (C) Sponsorships; (D) Scholarships; or (F) Civil organizations in the fiscal year ending on June 30, 2016 or the fiscal year ending on June 30, 2017.

In the fiscal year ending June 30, 2016, the Company contributed \$150 to the National Fire Safety Council. This contribution stays in the Marion County community; it is used for booklets that the local fire department distributes to elementary schools. In the fiscal year ending June 30, 2017, the Company again contributed \$150 to the National Fire Safety

Council and \$200 to the Marion County Rescue Squad. The ledgers showing the donations in both years are attached as **Exhibit 22-1** and **Exhibit 22-2**.

The Company recognizes that these contributions are not appropriate for recovery through its rates and will shortly update its Revenue Requirements to remove these charitable contributions from its Revenue Requirement calculations.

EXHIBIT 22-1

Lebanon Water Works Company, Inc.

Ledger Analysis

Fiscal Year 2016 Open
 Breakdown The Report By Funds
 Page Break Between Funds
 Transaction Date Range 07/01/15 To 06/30/16
 Account Range 00532-0000 To 00532-0000
 Include All Transaction Sources

Sort Order 1: Base Account
 Sort Order 2: Department
 Sort Order 3:
 Sort Order 4:

Trans Date	Description	Reference Number	Source	Posted Date	Posted By	Type	Debit Amount	Credit Amount	Reconc.
00532-0000 Donations									
	Beginning Balance							\$0.00	
10/13/15	116 12439 National Fire Safety Cou	CK# 102271	AP	11/05/15	LisaM	G	\$150.00	\$0.00	<input type="checkbox"/>
06/30/16	To record A/P for fye 16	AJE-7	GJETRX	07/16/16	LisaM	G	\$200.00	\$0.00	<input type="checkbox"/>
							\$350.00	\$0.00	
	Ending Balance						\$350.00		
		Transactions: 2							
		Total Transactions: 2							
						Report Totals	\$350.00	\$0.00	

EXHIBIT 22-2

Lebanon Water Works Company, Inc.

Ledger Analysis

Fiscal Year 2017 Open
 Breakdown The Report By Funds
 Page Break Between Funds
 Transaction Date Range 07/01/16 To 06/30/17
 Account Range 00532-0000 To 00532-0000
 Include All Transaction Sources

Sort Order 1: Base Account
 Sort Order 2: Department
 Sort Order 3:
 Sort Order 4:

Trans Date	Description	Reference Number	Source	Posted Date	Posted By	Type	Debit Amount	Credit Amount	Reconc.
00532-0000 Donations									
	Beginning Balance							\$0.00	
07/12/16	434 13235 Marion County Rescue S CK#	103357	AP	08/10/16	LisaM	G	\$200.00	\$0.00	<input type="checkbox"/>
10/18/16	116 13493 National Fire Safety Cou CK#	103757	AP	11/04/16	LisaM	G	\$150.00	\$0.00	<input type="checkbox"/>
06/30/17	To reverse prior year A/P	AJE-1	GJETRX	07/22/17	LisaM	G	\$0.00	\$200.00	<input type="checkbox"/>
							\$350.00	\$200.00	
	Ending Balance	Transactions: 3					\$150.00		
		Total Transactions: 3							
Report Totals							\$350.00	\$200.00	

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 23

Responding Witness: Daren Thompson

Q-23. Please provide a schedule setting forth the payments of any and all dividends or other forms or cash or cash equivalents from the Company to the City for the fiscal years ending on:

- A. June 30, 2017;
- B. June 30, 2016;
- C. June 30, 2015;
- D. June 30, 2014; and
- E. June 30, 2013.

A-23.

- A. None.
- B. None.
- C. None.
- D. None.
- E. None.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 24

Responding Witness: Daren Thompson

Q-24. Please provide a copy of any and all documents delivered to the Company by the City between July 1, 2015 and September 30, 2017 regarding the operation, rates, margins, profits, losses, expenses, revenues or ownership of the Company by the City.

A-24. No such documents exist.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 25

Responding Witness: Daren Thompson

Q-25. Please describe whether the City suggests or requests the payment of dividends or other forms of compensation.

A-25. Historically, the Company has not paid dividends or other forms of compensation to the City. The Company has identified no records and has no knowledge of any such payment to the City. Further, the Company is not aware of any legal requirement regarding the payment of a dividend or other forms of compensation by the Company to the City. Finally, the Company is not aware of any expectation by the City for the Company to pay a dividend.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 26

Responding Witness: Daren Thompson

Q-26. Please state whether any employees of the Company perform services on behalf of the City. If the answer to this question is affirmative, please provide a complete description of such activities.

A-26. Generally speaking, the Company does not perform services on behalf of the City. In isolated incidents involving a community emergency, the Company has provided temporary manpower for the benefit of the City during the emergency.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 27

Responding Witness: Daren Thompson

Q-27. Please state whether any assets of the Company are used to benefit the City for a purpose other than the provision of potable water service to residents of the City. If the answer to this question is affirmative, please provide a complete description of such activities.

A-27. Assets of the Company are not used to benefit the City except for short periods of time during a community emergency. For example, the City has borrowed small pumps and a portable generator for short periods of time during times of emergency.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 28

Responding Witness: Daren Thompson

Q-28. Please provide the following information regarding the average daily usage and peak demand for the Company's water system:

- A. Average daily usage for the Company's water system for the fiscal year ending on June 30, 2016;
- B. Average daily gallons of water sold to Marion District for the fiscal year ending on June 30, 2016;
- C. Peak daily demand for the Company's water system for the fiscal year ending on June 30, 2016; and
- D. Peak daily demand from Marion District for Company's water system for the fiscal year ending on June 30, 2016.

A-28.

- A. 2,255,182 gallons
- B. 1,233,836 gallons
- C. 2,997,000 gallons
- D. 1,709,025 gallons

Attached as **Exhibit 28-1** is a spreadsheet which contains more detailed information about the average and peak daily treated volumes.

EXHIBIT 28-1

Lebanon Water Works Company's Water Treatment Data

	Total Monthly Treated Volume (Gallons)	Average Daily Treated Volume (Gallons)	Maximum Daily Treated Volume (Gallons)
FY 2016			
Jul-15	67,548,000	2,178,968	2,574,000
Aug-15	66,612,000	2,148,774	2,418,000
Sep-15	67,392,000	2,246,400	2,496,000
Oct-15	68,154,000	2,198,516	2,340,000
Nov-15	61,854,000	2,061,800	2,262,000
Dec-15	65,754,000	2,121,097	2,340,000
Jan-16	67,470,000	2,176,452	2,496,000
Feb-16	66,893,000	2,306,655	2,511,000
Mar-16	70,134,000	2,262,387	2,511,000
Apr-16	67,230,000	2,241,000	2,673,000
May-16	75,891,000	2,448,097	2,916,000
Jun-16	80,161,000	2,672,033	2,997,000
FY 2017			
Jul-16	76,626,000	2,471,806	2,835,000
Aug-16	76,383,000	2,463,968	2,754,000
Sep-16	74,925,000	2,497,500	2,754,000
Oct-16	80,271,000	2,589,387	2,835,000
Nov-16	72,414,000	2,413,800	2,916,000
Dec-16	71,928,000	2,320,258	2,592,000
Jan-17	69,951,000	2,256,484	2,511,000
Feb-17	64,073,000	2,288,321	2,648,000
Mar-17	70,224,000	2,265,290	2,526,000
Apr-17	71,040,000	2,368,000	2,672,000
May-17	78,569,000	2,534,484	2,982,000
Jun-17	76,332,000	2,544,400	2,970,000
FY 2018			
Jul-17	83,273,000	2,686,226	3,058,000
Aug-17	78,135,000	2,520,484	2,893,000
Sep-17	72,622,000	2,420,733	2,661,000
Oct-17	75,235,000	2,426,935	2,746,000
Nov-17	68,250,000	2,275,000	2,545,000
Dec-17	67,974,000	2,192,710	3,145,000
Jan-18	77,148,000	2,488,645	3,127,000
Feb-18	59,292,000	2,117,571	2,348,000
Mar-18	53,987,000	1,741,516	2,167,000

	FY Average	FY Maximum
FY16	2,255,182	2,997,000
FY17	2,417,808	2,982,000
FY 18 (9 months)	2,318,869	3,145,000

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 29

Responding Witness: Holly Nicholas

Q-29. Refer to the testimony of Holly L. Nicholas, page 6. Why did the Company use the average principal and interest payments on long-term loans for the years 2017, 2018 and 2019 instead of three years of historical data?

A-29. The use of the current and future years reflect known and measurable changes to the Company's operations. The Commission has historically used a three-year average of a utility's principal and interest payments to calculate the average debt service.¹ These three years have represented the current year and the two years following the rate case of principal and interest payments to accurately reflect the debt service cost the utility incurs during the life of the new rates.² In Marion District's last rate case, the Commission similarly did not base debt service on historic periods, but instead on the amount of average future debt payments.³

¹ See, e.g., *Electronic Application of Monroe County Water District for Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2017-00070, Commission Staff Report at 31-33 (Ky. PSC June 30, 2017) (The Commission accepted the Staff's calculation of debt payments in its Order dated Jan. 12, 2018).

² *Id.*

³ *Alternative Rate Adjustment Filing of Marion County Water District*, Case No. 2016-00163, Order at 21-22 (Ky. PSC Nov. 10, 2016).

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 30

Responding Witness: Daren Thompson

Q-30. Please provide a copy of the Company's bylaws and Board policies.

A-30. A copy of the Company's bylaws is attached as **Exhibit 30-1**. The Board has adopted the Capitalization Policy, which was attached to the Company's response to Question No. 2B of the Commission Staff's First Request for Information filed on March 7, 2018. A copy of the Capitalization Policy is also attached as **Exhibit 30-2**. There is no document that contains a compilation of written policies that the Board has adopted over the years in Board minutes or otherwise.

Over the years, the Board has adopted numerous policies including, but not limited to, the following: employee handbook, Cross Connection policy, fire hydrant location and spacing policy, and leak adjustment policy. The Company does not believe any of these policies are relevant to the issues presented in this proceeding. Therefore, it is not providing a copy of these various policies at this time. In the event Marion District requests the Company to provide a copy of a specific policy, the Company will do so.

EXHIBIT 30-1

By-Laws and Rules of
The Board of Directors,
The Lebanon Water Works Company

The following By-Laws and Rules were re-adopted by the Board of Directors, of the Lebanon Water Works Company at a regular meeting on March 13, 1944, for the government of said Board.

Meetings.

Sec. 1 The annual meeting of the Board shall be held at the office on the first Monday after the first Tuesday in January of each year. The regular meetings shall be held on the first Monday of each month, *after the 10* at 7:30 P. M. Called meetings shall be held, when deemed necessary by the President, or at the written request of two members of the Board. Three members of the Board shall constitute a quorum, and no business shall be transacted unless a quorum be present.

Election of Officers and Employees.

Sec. 2 At the annual meeting, the Board shall elect one of its members President and another Vice-President, and shall also elect a Treasurer, Secretary, Superintendent, Engineer, and such other officers and employees as may by said Board be deemed necessary, and shall fix the compensation of all officers and employees.

Bonding of Officers and Employees.

Sec. 3 The Treasurer and Superintendent shall, before entering on the duties of their office, give bonds with approved security by the Board, and in such sum as may be fixed, conditional for the faithful performance of all the duties pertaining to their respective offices.

Term of Office.

Sec. 4 The officers and employees elected in accordance with Article 2 shall hold their offices for one year, or until their successors have been elected and qualified, but may for good cause shown be removed by the Board at any time. All other officers or employees shall hold their offices or employment for such time as may be fixed by the Board, and subject to the pleasure of the Board.

Duties of the President.

Sec. 5 The President shall, in addition to the duties pertaining to his office, exercise all rights and privileges which belong to a member of the Board, and he shall be ex-officio a member of all committees. He shall preside at all meetings, and shall attend generally to the executive business of the company, under the direction of the Board. He shall superintend the official conduct and duties of all officers and employees of the Board, and exercise general supervision over all its affairs. He shall sign all bonds, notes, or other official papers issued by the company, and execute all contracts and see that same are executed in legal form. In the absence of the President, or when he shall for any reason be disqualified, or fail to act, the duties pertaining to the office shall be discharged by the Vice-President.

Duties of the Secretary

Sec. 6 The Secretary shall attend all meetings of the Board, and keep a correct record of all its proceedings, and shall cause notice to be given to the members of the Board, of all stated and called meetings, and shall perform such other duties as may be designated by the President of the Board.

Duties of the Engineer.

Sec. 7 The Engineer shall have in charge and be responsible for the pumping machinery, and all other parts of the system from the crib to the reservoirs, inclusive. He may employ such help as may be needed for the proper and economical conduct of the plant, always with the approval of the Board. He shall make requisitions in the office for such material and supplies as may be needed, check up all shipments received and promptly report same to the office. In case of emergency repairs North of the reservoir, he shall come with his employees to the assistance of the City force if needed. He shall render a daily detailed report to the office of the number of revolutions of the pump counter, and reading of steam and water pressure gauges and general conditions in his department.

Compensation of Officers and Employees.

Sec. 8 The salaries or wages of all officers or employees shall be fixed by the Board, and paid at such times as may be determined.

Office Hours.

Sec. 9 The office of the Company shall be open for the transaction of business with the public, every day except Sundays and legal holidays, from 8:30 A. M. to 5:00 P. M. from April 1, to October 1, and from 8:30 A. M. to 5:00 P. M. from October 1 to April 1. The working hours of all officers and employees shall be fixed by the Board.

Order of Business.

Sec. 10 At all meetings of the Board, the order of business shall be as follows:

1. Board called to order by the President.
2. Reading of minutes of preceding meeting.
3. Submission of statement of water rents collected.
4. Reports of officers.
5. Reports of committees.
6. Communication.
7. Unfinished business.
8. New business.

Amending By-Laws and Rules.

Sec. 11 These By-Laws and Rules may be amended or repealed at any regular meeting of the Board by a vote of a majority of all the members.

EXHIBIT 30-2

Capitalization Policy

The policy of the Lebanon Water Works Company, Inc. is to capitalize assets when the useful life is greater than one year and the acquisition cost is at least \$2,000.

Purchased or constructed capital assets and infrastructure are reported at acquisition or construction cost when placed in service.

Contributed assets, such as Developer Contributions or other system components contributed by a developer, are to be recorded at the fair market value at the date when placed in service.

Capital assets are capitalized and depreciated on the straight-line basis over their estimated useful lives as indicated below.

Asset	Useful Life (expressed in years)
Land	No depr
Land - Improvements (fencing, blacktop, sidewalks)	20
Buildings	40
Buildings - Improvements	20
Distribution - mains	40
Distribution - hydrants, tanks	40
Distribution - meters	15
WTP Equipment (lab, other)	7
Grounds Equipment (mowers, tractors, attachments)	7
Vehicles	5
Heavy Construction Equipment	7
Furniture, Office Equipment	10
Computer Hardware/Software	5
Communications Equipment (radio/telephone)	7

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 31

Responding Witness: Daren Thompson

Q-31. Please provide a copy of any documents describing the authority conferred upon the Company by its owner(s).

A-31. The Company is a stand-alone business corporation created by an act of Kentucky's General Assembly. The City is the sole owner of the corporate shares of the Company and thus acts in the capacity of a shareholder. In this capacity, the Mayor appoints board members of the Company and the City Council ratifies and confirms these appointments. Beyond that, the City does not confer any authority upon the Company, as the Company's authority is derived from its Articles of Incorporation, as well as statutory and common law authority applicable to business corporations generally. The Company has the full authority to manage and operate the Company's system.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 32

Responding Witness: Daren Thompson

Q-32. Refer to the testimony of Mr. Daren Thompson, p. 6. Please identify the Company's pipes, pump stations and water storage tanks that are exclusively dedicated to serving Marion District.

A-32. None of the Company's pipes, pump stations, or water storage tanks are used exclusively to serve Marion District. The majority of the Company's water transmission lines are gridded and looped. Therefore, almost all of the Company's water transmission lines are jointly used to serve its retail customers and Marion District. All of the Company's pump stations and water storage tanks are jointly used to provide water service to Marion District and the Company's retail customers.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 33

Responding Witness: Daren Thompson

Q-33. Refer to the testimony of Mr. Thompson, pp. 7-8. Please confirm that the Master Agreement, dated December 23, 1988, has been amended on subsequent occasions.

A-33. The Master Agreement has been amended by Addendum on eight occasions.

See, for example, Exhibits 2 through 8 of the Thompson Testimony filed in support of the Company's Motion for an Order Establishing Procedural Schedule and Assigning Burden of Proof on January 31, 2018.

Seven of the eight Addendums were at the request and for the benefit of Marion District. The other Addendum was jointly requested by the Company and Marion District.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 34

Responding Witness: Daren Thompson

Q-34. Please confirm that the water sold to Marion District by the Company is a sale of water for resale to Marion District's customers.

A-34. Confirm.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 35

Responding Witness: Daren Thompson

Q-35. Please provide a forecast of water purchases from Campbellsville for 2018, 2019, 2020, 2021 and 2022.

A-35. The Company will evaluate its need each year, but currently forecasts that it will continue to purchase 400,000 GPD from Campbellsville for the next five (5) years. The Company has multiple capital projects planned for the water treatment plant over the next five (5) years (as shown in the CIP attached as **Exhibit 14-1**). Continuing to purchase 400,000 GPD for the foreseeable future will likely be necessary to complete this deferred maintenance.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 36

Responding Witness: Daren Thompson

Q-36. Refer to the testimony of Mr. Thompson, pp. 16-17. Please provide a copy of any and all documents received from Campbellsville identifying, describing or explaining the recalculated water purchase price.

A-36. The document detailing the recalculated water purchase price is attached as

Exhibit 36-1.

EXHIBIT 36-1

**Wholesale Rate Determination
Lebanon Portion**

Minimum Usage Per Day (Gal)	Water Treatment	Debt Service	Pumping Costs	Service Fee	Wholesale Per Per 1,000 Gallons
300,000	\$1.22	\$1.59	\$0.34	\$0.32	\$3.47
400,000	\$1.22	\$1.19	\$0.31	\$0.27	\$2.99
500,000	\$1.22	\$0.95	\$0.29	\$0.25	\$2.71
600,000	\$1.22	\$0.80	\$0.28	\$0.23	\$2.53
700,000	\$1.22	\$0.68	\$0.27	\$0.22	\$2.39
800,000	\$1.22	\$0.60	\$0.26	\$0.21	\$2.29
900,000	\$1.22	\$0.53	\$0.26	\$0.20	\$2.21
1,000,000	\$1.22	\$0.48	\$0.25	\$0.20	\$2.15

**Water Treatment Plant Production
Fiscal Year Ending June 30, 2016**

Month	Gallons Per Month	Gallons Per Day	
July 2015	106,161,000	3,424,548	
August 2015	101,443,000	3,272,355	
September 2015	100,203,000	3,340,100	
October 2015	100,017,000	3,226,355	
November 2015	104,668,000	3,488,933	
December 2015	107,751,000	3,475,839	
January 2016	122,008,000	3,935,742	
February 2016	117,993,000	4,214,036	
March 2016	120,386,000	3,883,419	
April 2016	114,998,000	3,833,267	
May 2016	119,241,000	3,846,484	
June 2016	117,989,000	3,932,967	
Total	1,332,858,000		
Average Per Day		3,651,666	<small>Equals Total Gallons for Year Divided by 365</small>

Water Treatment Plant Expenses
Fiscal Year Ending June 30, 2016

Salaries	\$291,176.81
Health Insurance	\$63,195.12
Employee Benefits	-\$1,016.47
KY Retirement	\$142,163.59
Alabama Life	\$2,016.74
Employee Training/Safety	\$5,856.14
Power-Intake	\$165,891.85
Power-Treatment Plant	\$130,066.95
Telephone	\$3,211.30
Chemicals	\$301,419.85
Materials & Supplies	\$48,943.44
Office Supplies	\$277.22
Lab Supplies	\$7,424.66
Postage	\$0.00
Accounting	\$500.00
Legal	\$980.00
Testing	\$14,437.00
Maintenance	\$58,271.97
Equipment Rental	\$529.40
Transportation	\$2,252.98
Insurance	\$45,574.08
Federal Payroll Tax	\$19,611.75
Depreciation	\$325,601.47
Total WTP Expenses	\$1,628,385.85

Cost to treat water for FYE 6/30/16 \$1.22

$\$1,628,385.85 / (1,332,858,000 \text{ gallons} / 1000) \text{ per thousand gallons} = \1.22

Interest Rate Calculation Campbellsville Portion

Equation: $(i(1+i)^n)/(1+i)^n-1$

i=interest rate

n=term in years

1	Loan Amount	\$745,000
2	Interest Rate	0.0075
3	Term Years	20
4	(1 + i)	1.0075
5	Exponential Calculation $(1+i)^n$	1.1611841
6	$i(1+i)^n$	0.0087089
7	$(1+i)^n-1$	0.1611841
8	Annual Factor - $(i(1+i)^n)/(1+i)^n-1$ (Line 6 Divided Line 7)	0.0540306
	Annual Debt Service (Equation X Loan Amount) (Line 8 X Line 1)	\$40,253

Interest Rate Calculation Lebanon Portion

Equation: $(i(1+i)^n)/(1+i)^n-1)$

i=interest rate

n=term in years

1	Loan Amount	\$3,079,820
2	Interest Rate	0.0075
3	Term Years	20
4	$(1 + i)$	1.0075
5	Exponential Calculation $(1+i)^n$	1.16118
6	$i(1+i)^n$	0.00871
7	$(1+i)^n-1$	0.16118
8	Annual Factor - $(i(1+i)^n)/(1+i)^n-1)$ (Line 6 Divided Line 7)	0.05403
	Annual Debt Service (Equation X Loan Amount) (Line 8 X Line 1)	\$166,405

**KIA Debt Service
Campbellsville-Lebanon Connector**

Construction Loan Total Project	\$5,133,987.00
Less: Principal Forgiveness (25.5%)	<u>\$1,309,166.69</u>
Amortized Loan Amount	\$3,824,820.32

Campbellsville Cost Share

Spurlington Water Tank	\$1,000,000
Construction Loan - Campbellsville (less principal forgiveness)	\$745,000
Interest Rate	0.75%
Loan Term (Years)	20
Estimated Annual Debt Service	\$40,253
Administrative Fee (0.25%)	\$1,863
Total Estimated Annual Debt Service	\$42,116

Loan Amount Lebanon Portion

Construction Loan Lebanon Portion	\$3,079,820
Interest Rate	0.75%
Loan Term (Years)	20
Estimated Annual Debt Service	\$166,405
Administrative Fee (0.25%)	\$7,700
Total Estimated Annual Debt Service	\$174,105

**Debt Service Portion of Rate Determination
Campbellsville-Lebanon Connector**

Annual Debt Service		\$174,105
Daily Debt Service		\$477
Wholesale Rate for Debt Service	300,000	\$1.59
	400,000	\$1.19
	500,000	\$0.95
	600,000	\$0.80
	700,000	\$0.68
	800,000	\$0.60
	900,000	\$0.53
	1,000,000	\$0.48

Power Cost for Pump Station Campbellsville-Lebanon Connector

Gal Minimum Usage Per Day	Run Time Hours	KW Hour Charge	Basic Service	Total Pumping Power Cost	Cost Per 1000 Gallons
300,000	7.14	\$65.50	\$35.00	\$100.50	\$0.34
400,000	9.52	\$87.33	\$35.00	\$122.33	\$0.31
500,000	11.9	\$109.17	\$35.00	\$144.17	\$0.29
600,000	14.29	\$131.00	\$35.00	\$166.00	\$0.28
700,000	16.67	\$152.83	\$35.00	\$187.83	\$0.27
800,000	19.05	\$174.67	\$35.00	\$209.67	\$0.26
900,000	21.43	\$196.50	\$35.00	\$231.50	\$0.26
1,000,000	23.81	\$218.33	\$35.00	\$253.33	\$0.25

Based on Pump Rate of 700 GPM

$HP \times 0.7457 = KW$

$(100 HP \times 0.7457) / 0.75\% \text{ Efficiency} = 99.4 KW$

KW Hour Charge: $99.4 KW \times \$0.09225 / kWh \times \text{Run Time in Hours}$

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 37

Responding Witness: Daren Thompson

Q-37. Refer to the testimony of Mr. Thompson, p. 21.

- A. Please state the total number of hours the WTP was shut down during the test year for maintenance; and
- B. Please identify the total amount of maintenance expense incurred by the Company in relation to the shut down of the WTP during the test year.

A-37.

- A. To the best of the Company's knowledge after diligent research, the WTP was not shut down for maintenance during the test year.
- B. Zero.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 38

Responding Witness: Daren Thompson

Q-38. Refer to the testimony of Mr. Thompson, pp. 23-24. Please describe the process the Company undertook to select and retain each of the contractors listed in the testimony.

A-38.

- **Filter Cleaning:** The Water Treatment Plant Filter Rehab Project consisted of replacing the media in four (4) filters and chemically cleaning the media in the remaining four (4) filters. The Company bid out this Project and selected S4 Water Company as the low bidder.

The Company also advertised for bids under KRS Chapter 424 for providing chemicals for use at the Water Treatment Plant. The S4 Water Company submitted the lowest bid and was awarded the contract for providing chemicals. Therefore, the Company then solicited a proposal from S4 Water Company to perform the annual preventative maintenance work (inspecting, taking core samples, etc.) on the filters and to provide the needed chemicals on a quarterly basis for the Company's staff to perform the cleaning services. The Company accepted the proposal from S4 Water Company and is utilizing its services.

- **Clearwell Cleaning:** Because S4 Water Company already had the chemical bid for providing chemicals for use at the Water Treatment Plant, the Company selected S4 Water Company to provide the labor necessary to professionally clean the Clearwell. The amount was under \$20,000 per year. Therefore, it was not necessary to advertise for competitive bids under KRS Chapter 424.
- **Electrical Inspections and Testing:** The Company selected C.E. Power Solutions because Daren Thompson had experience with the contractor from his prior work experience at MSD and is confident in their work quality. No local electrician was able to perform the work necessary for the service.
- **Megger Testing:** The Company selected Lebanon Power & Apparatus as it is the only local company able to perform the necessary service. The expense was minimal (\$1,500 annually).
- **Sludge Hauling:** In recent years, the Company has used its own truck and employees to haul the sludge from the Water Treatment Plant to the City's wastewater treatment plant. Typically, about 10,000 gallons of sludge must be hauled per week. Recently, the sludge hauling has become burdensome as it takes significant employee time to haul the sludge with the Company's old truck. The Company's truck only holds 1,000 gallons so many trips must be made. One employee was spending at least one day per week solely

hauling sludge. Further, the truck is nearly broken down and if the Company continues to haul its own sludge, it will need to purchase a new truck.

The Company became aware of the sludge hauling services provided by Smith Grains after operators at the City sewer plant informed the Company that Smith Grains was hauling waste to the plant for industrial customers in the area. Smith Grains offered the Company a price for sludge hauling of \$225 per load. Smith Grains has a 5,000 gallon tanker truck and thus is much more efficient at hauling sludge. The Company originally hired Smith Grains on a trial basis to see if it would be beneficial for the Company to contract out its sludge hauling. The Company has since concluded that contracting out the sludge hauling has been very beneficial and cost-effective to the Company. The Company plans to bid out the sludge hauling in June 2018.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Request for Information

Question No. 39

Responding Witness: Daren Thompson

Q-39. Refer to the testimony of Mr. Thompson, pp. 23-24. Please identify whether the Company incurred any expense in the test year for any of the following services:

- A. Clearwell cleaning;
- B. Filter cleaning;
- C. Electrical inspections and testing;
- D. Megger testing; and
- E. Sludge hauling.

A-39. The Company did not incur any expense in the test year for Clearwell cleaning, filter cleaning, electrical inspections and testing, or sludge hauling.

The Company incurred \$3,880 of megger testing expense in the test year.

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that Lebanon Water Works Company's April 12, 2018 electronic filing of this Response is a true and accurate copy of the same document being filed in paper medium; that the electronic filing has been transmitted to the Commission on April 12, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original and one copy in paper medium of this Response will be delivered to the Commission on or before April 16, 2018.


Damon R. Talley