

August 27, 2009

RECEIVED

AUG 28 2009

PUBLIC SERVICE
COMMISSION

Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, KY 40602

2009-00350

Gentlemen:

Enclosed please find the application of the Hickory Water District for approval of increased rates for water service. Also enclosed is an invoice from The Mayfield Messenger for the consecutive running dates of the legal ad. At the end of the publishing the Messenger will issue us an affidavit which we will forward to you.

If you have any concerns or questions, please feel free to contact me.

Sincerely,

HICKORY WATER DISTRICT



Sam Davis
Chairman
270/856-4300
115 Alvin Road
Boaz, KY 42027

THE MAYFIELD MESSENGER

P.O. BOX 709 - 201 NORTH 8TH ST.

MAYFIELD, KENTUCKY 42066

502-247-5223 or 1515

*w/1st
run
(to keep up)*

SOLD TO { Hickory Water District
c/o Mayfield Electric & Water
Mayfield, KY 42066 }

DATE August
2009

NO DISCOUNT

Hickory Water District Legal Ad Re/Rates

8/26/09: 2x19.75"= 39.5" @ \$8.30 = \$327.85

9/ 2/09: 2x19.75"= 39.5" @ \$8.30 = \$327.85

9/ 9/09: 2x19.75"= 39.5" @ \$8.30 = \$327.85

Cost Of Advertising Total = \$983.55

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF THE HICKORY)
WATER DISTRICT FOR APPROVAL OF) CASE NO. 2009-00350
INCREASED RATES FOR WATER SERVICE)

STATEMENT AND NOTICE

Hickory Water District ("Hickory"), by counsel, pursuant to KRS 278.180 and KRS 278.190, hereby petitions the Commission for approval of a proposed increase in its water rates and charges. In support of its application, Hickory respectfully states as follows:

1. Hickory is a non-profit water district that has been engaged in the distribution and sale of water. It currently provides water service to approximately 1,332 customers in Graves County, Kentucky. Hickory is organized under KRS Chapter 74. Hickory's principal office, place of business, and mailing address is P.O. Box 128, Hickory, Kentucky 42051.

2. The proposed increase in the rates and charges is necessary for Hickory to meet its operating expenses, to maintain financial viability, and to continue to provide adequate service.

3. As authorized by KRS 278.192 (1), and for the purpose of justifying the reasonableness of the proposed general increase in rates, Hickory has utilized an historical test period consisting of the twelve (12) consecutive calendar months ending December 31, 2008.

4. Hickory's annual reports are on file with the Public Service Commission as required by 807 KAR 5:006, Section 3(1).

5. Hickory hereby gives notice to the Public Service Commission of the adjustment of its rates to those rates set forth in Exhibit No. 1 in the filing requirements. The proposed rates will result in increased annual revenues of \$65,610, which is an increase of 20 percent over 2008 normalized revenues of \$328,051. Hickory believes the financial information attached to this application justifies a revenue increase of 31 percent; however, to reduce the burden upon its customers, Hickory is instead requesting a smaller revenue increase of 20 percent.

6. The proposed tariffs (Exhibit No. 1) are shown in comparative form on the same sheets, side by side, and those comparative sheets are identified as Exhibit No. 2 in the filing requirements.

7. Hickory has complied with 807 KAR 5:011, Section 9, (2) and 807 KAR 5:001, Section 10, (3) and (4), by delivering to newspapers of general circulation in its service area a copy of the Notice identified as Exhibit No. 8 in the filing requirements, for publishing once a week for 3 consecutive weeks in a prominent manner, the first of said publications to be made no later than 7 days after August 28, 2009.

8. A copy of this filing has been mailed to the Utility Intervention and Rate Division of the Attorney General's office of the Commonwealth of Kentucky.

9. As required by 807 KAR 5:001, Section 10, (4), (f), Hickory will post a copy of its Customer Notice (Exhibit No. 8) at its place of business on August 28, 2009 and it will remain posted until the Commission has determined Hickory's rates.

10. The list of the documents filed in support of Hickory's application for approval of the proposed adjustment of rates or the explanation for their absence is contained in the Filing Requirement Index.

11. Hickory has attempted in good faith to comply with the Commission's rate case filing requirements, and believes it has provided sufficient information to allow the processing of this case to begin. In addition, it has been several years since Hickory has had a general rate increase, and its unrestricted cash reserves are low. Therefore, and for these reasons, Hickory respectfully requests a waiver of any filing requirements deemed to be unmet, and requests Commission Staff assistance to the extent necessary to expedite the processing of this case.

WHEREFORE, the Applicant, Hickory Water District requests that the Public Service Commission of Kentucky grant to the Applicant its proposal to increase its rates and charges as set forth in this Petition.

Dated at Mayfield, Kentucky this 8/19/09.

HICKORY WATER DISTRICT

By Sam Davis
Chairman

LAW FIRM OR ATTORNEY

By S. Boyd Neely, Jr.
(Attorney's Name) S. Boyd Neely, Jr.
(Attorney's Address) P.O. Box 708
(Post Office Box)
Mayfield, Kentucky 4xxxx 42066
(270) xxx-xxxx
241-9333

COMMONWEALTH OF KENTUCKY)
)SS
COUNTY OF GRAVES)

The undersigned, Sam Davis, being duly sworn, deposes and states he is the Chairman of the Hickory Water District, Applicant, in the above proceedings; that he has read the foregoing Application and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are there in stated on information or belief, and as to those matters, he believes same to be true.


IN TESTIMONY WHEREOF, witness the signature of the undersigned on this 8/19/09.



Sam Davis, Chairman
Hickory Water District

Subscribed and sworn to before me by Sam Davis, Chairman of the Hickory Water District, on this 8/19/09, 2009.

My Commission Expires 8/15/2012



Notary Public
In and for said County and State

**Filing Requirement Index
Historical Test Period Rate Case**

| Filing Requirements | Filing Requirement Description | Location or Absence Reason |
|--|--|--|
| 807 KAR 5:001 Section 8(1) | Full name and P. O. address of applicant and reference to the particular provision of law requiring PSC approval. | Application – Page No. 1. |
| 807 KAR 5:001 Section 8(2) | The original and 10 copies of application plus copy for anyone named as interested party. | The correct number of applications has been filed. |
| 807 KAR 5:001 Section 10(1)(b)(1) | Reason adjustment is required. | Application – Page No. 1. |
| 807 KAR 5:001 Section 10(1)(b)(2) | Statement that utility's annual reports, including the most recent calendar year, are filed with PSC. 807 KAR 5:006, Section 3(1) | Application – Page No. 2. |
| 807 KAR 5:001 Section 10(1)(b)(3) & (5) | If utility is incorporated, certified copy of articles of incorporation and amendments or out of state documents of similar import. If they have already been filed with PSC refer to the style and case number of the prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed. | NA – Hickory is a Water District. |
| 807 KAR 5:001 Section 10(1)(b)(4) & (5) | If applicant is limited partnership, certified copy of limited partnership agreement. If agreement filed with PSC refer to style and case number of prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed. | N/A – Applicant is not a limited partnership. |
| 807 KAR 5:001 Section 10(1)(b)(6) | Certified copy of certificate of assumed name required by KRS 365.015 or statement that certificate not necessary. | N/A – Applicant has never used an assumed name. |
| 807 KAR 5:001 Section 10(1)(b)(7) | Proposed tariff in form complying with 807 KAR 5:011 effective not less than 30 days from date application filed. | Exhibit No. 1. |
| 807 KAR 5:001 Section 10(1)(b)(8) | Proposed tariff changes shown by present and proposed tariffs in comparative form or by indicating additions in italics or by underscoring and striking over deletions in current tariff. | Exhibit No. 2. |
| 807 KAR 5:001 | Statement that notice given, see subsections (3) and (4) of | Application – Page No. 2. |

Filing Requirement Index Historical Test Period Rate Case

| Filing Requirements | Filing Requirement Description | Location or Absence Reason |
|--|---|--|
| Section 10(1)(b)(9) | 807 KAR 5:001, Section 10 with copy. | Exhibit No. 8. |
| 807 KAR 5:001 Section 10(2) | If gross annual revenues exceed \$1,000,000, written notice of intent filed at least 4 weeks prior to application. Notice shall state whether application will be supported by historical or fully forecasted test period. | N/A – Applicant's gross revenues do not exceed \$1,000,000. |
| 807 KAR 5:001 Section 10 (6)(a) | Complete description and quantified explanation for proposed adjustments with support for changes in price or activity levels, and other factors affecting the adjustment. | Exhibit No. 4. |
| 807 KAR 5:001 Section 10 (6)(b) & (c) | If gross annual revenues exceed \$1,000,000, prepared testimony of each witness who will support the application. If less than \$1,000,000, prepared testimony of each witness who will support application or statement that utility does not plan to submit prepared testimony. | NA - Applicant does not intend to submit prepared testimony, and its revenues are under \$1 million. |
| 807 KAR 5:001 Section 10 (6)(d) | Estimate of effect that new rate(s) will have on revenues including, at minimum, total revenues resulting from increase or decrease and percentage of increase or decrease. | Application – Page No. 2. |
| 807 KAR 5:001 Section 10 (6)(e) | If electric, gas, water or sewer utility effect upon the average bill for each customer classification to which change will apply. | See Exhibit 8. Also, the application and exhibits reflect a 20% across-the-board increase. |
| 807 KAR 5:001 Section 10 (6)(f) | If local exchange company, effect upon the average bill for 807 each customer class for change in basic local service. | N/A – Applicant is a Water District. |
| 807 KAR 5:001 Section 10 (6)(g) | Analysis of customers' bills in such detail that revenues from present and proposed rates can be readily determined for each customer class. | Exhibit No 5. |
| 807 KAR 5:001 Section 10 (6)(h) | Summary of determination of revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules. | Exhibit No. 4. |

Filing Requirement Index Historical Test Period Rate Case

| Filing Requirements | Filing Requirement Description | Location or Absence Reason |
|-------------------------------------|---|---|
| 807 KAR 5:001 Section 10 (6)(i) | Reconciliation of rate base and capital used to determine revenue requirements. | N/A – Revenue Requirement reflects Debt Service Coverage. |
| 807 KAR 5:001 Section 10 (6)(j): | Current chart of accounts if more detailed than the Uniform System of Accounts. | Not applicable |
| 807 KAR 5:001 Section 10 (6)(k) | Independent auditor's annual opinion report, with any written communication from auditor, which indicates existence of material weakness in internal controls. | The 2008 Audit Report is attached as Exhibit 9. |
| 807 KAR 5:001 Section 10 (6)(l): | The most recent FERC or FCC audit reports. | N/A to a Water District |
| 807 KAR 5:001 Section 10 (6)m | The most recent FERC Form 1 (electric), FERC Form 2 (gas), or Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone). | N/A to a Water District |
| 807 KAR 5:001 Section 10 (6)(n) | Summary of latest depreciation study with schedules by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall provide schedule identifying current and test period depreciation rates used by major plant accounts. If filed in another PSC case refer to that case's number and style. | Exhibit No. 6. |
| 807 KAR 5:00 Section 10 (6)(o) | List of all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with the filing. Include each software, program, or model; what each was used for; its supplier; brief description and specifications for the computer hardware and the operating system required to run the program. | Word |
| 807 KAR 5:001 Section 10 (6)(p) | Prospectuses of most recent stock or bond offerings. | N/A to a Water District |
| 807 KAR 5:001 Section 10 (6)(q) | Annual report to shareholders, or members, and statistical supplements covering 2 years prior to application filing | N/A to a Water District |

**Filing Requirement Index
Historical Test Period Rate Case**

| Filing Requirements | Filing Requirement Description | Location or Absence Reason |
|------------------------------------|---|---|
| 807 KAR 5:001 Section 10 (6)(r) | date. Monthly managerial reports providing financial results for 12 months in test period. | NA - Applicant requests a waiver from this filing requirement as it does not produce monthly managerial reports on a routine basis, and their production at this time would result in additional expense. |
| 807 KAR 5:001 Section 10 (6)(s) | SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued within past 2 years, and Form 10-Qs issued during the past 6 quarters updated as current information becomes available. | N/A to a Water District |
| 807 KAR 5:001 Section 10 (6)(t) | If utility had any amounts charged or allocated to it by affiliate or general or home office, or paid any monies to affiliate or general or home office during test period or during previous 3 calendar years, file: <ol style="list-style-type: none"> 1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each charge allocation or payment; 2. Explanation of how allocator for the test period was determined; and 3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during test period was reasonable; | N/A – There are no affiliate allocations. |

Filing Requirement Index Historical Test Period Rate Case

| Filing Requirements | Filing Requirement Description | Location or Absence Reason |
|------------------------------------|--|--|
| 807 KAR 5:001 Section 10 (6)(u) | If gas, electric or water utility, whose annual gross revenues exceed \$5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from a single time period. | Not applicable. |
| 807 KAR 5:001 Section 10 (6)(v) | <p>Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC. Local exchange carriers with more than 50,000 access lines shall file:</p> <ol style="list-style-type: none"> 1. Jurisdictional separations study consistent with Part 36 of the FCC's rules and regulations; and 2. Service specific cost studies to support pricing of all services that generate annual revenue greater than \$1,000,000, except local exchange access: <ul style="list-style-type: none"> (a) Based on current and reliable data from a single time period; and (b) Using generally recognized fully allocated, embedded, or incremental cost principles. | N/A to a Water District |
| 807 KAR 5:001 Section 10 (7)(a) | Detailed income statement and balance sheet reflecting impact of all proposed adjustments | Exhibit No. 3. |
| 807 KAR 5:001 Section 10 (7)(b) | Most recent capital construction budget containing at least period of time as proposed for any pro forma adjustment for plant additions. | NA – There are no pro forma adjustments for plant additions. |

Filing Requirement Index Historical Test Period Rate Case

| Filing Requirements | Filing Requirement Description | Location or Absence Reason |
|------------------------------------|---|--|
| 807 KAR 5:001 Section 10 (7)(c) | <p>For each proposed pro forma adjustment reflecting plant additions the following information:</p> <ol style="list-style-type: none"> 1. Starting date of the construction of each major component of plant; 2. Proposed in-service date; 3. Total estimated cost of construction at completion; 4. Amount contained in construction work in progress at end of test period; 5. Complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement; 6. Original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions; 7. Explanation of any differences in amounts contained in the capital construction budget and amounts of capital construction cost contained in the pro forma adjustment period; and 8. Impact on depreciation expense of all proposed pro | NA – There are no pro forma adjustments for plant additions. |

**Filing Requirement Index
Historical Test Period Rate Case**

| Filing Requirements | Filing Requirement Description | Location or Absence Reason |
|------------------------------------|---|--|
| 807 KAR 5:001 Section 10 (7)(e) | forma adjustments for plant additions and retirements; Number of customers to be added to the test period – end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers. | Exhibit No. 4. No customers are proposed to be added to the 1,332 served at the end of 2008. |

Hickory Water District Exhibit Index

Exhibit Number and Title

1. Proposed Tariff
2. Comparison of Proposed & Current Tariff
3. Pro Forma Financial Statements
4. Pro Forma Adjustments/Revenue Requirements
5. Billing Analysis
6. Analysis of Depreciation
7. Cost of Service Study
8. Customer Notification
9. 2008 Audit Report

FOR HICKORY & LOWES, KENTUCKY
Community, Town or City

P.S.C. KY. NO. 4

SECOND SHEET NO. 1

CANCELLING P.S.C. KY. NO. 2

REVISED SHEET NO. 1

HICKORY WATER DISTRICT
(Name of Utility)

CONTENTS

¾ INCH WATER METER

CONSUMPTION

| | |
|--------------------------|------------------------|
| First 2,000 Gallons | \$10.26 Minimum Bill |
| Next 3,000 Gallons | 3.48 Per 1,000 Gallons |
| Next 5,000 Gallons | 3.24 Per 1,000 Gallons |
| Next 10,000 Gallons | 3.00 Per 1,000 Gallons |
| Next 30,000 Gallons | 2.16 Per 1,000 Gallons |
| Next 50,000 Gallons | 1.80 Per 1,000 Gallons |
| All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

1 INCH WATER METER

CONSUMPTION

| | |
|--------------------------|------------------------|
| First 6,000 Gallons | \$23.94 Minimum Bill |
| Next 4,000 Gallons | 3.24 Per 1,000 Gallons |
| Next 10,000 Gallons | 3.00 Per 1,000 Gallons |
| Next 30,000 Gallons | 2.16 Per 1,000 Gallons |
| Next 50,000 Gallons | 1.80 Per 1,000 Gallons |
| All over 100,000 Gallons | 1.50 Per 1,000 Gallons |


1 ½ INCH WATER METER

CONSUMPTION

| | |
|--------------------------|------------------------|
| First 7,500 Gallons | \$28.80 Minimum Bill |
| Next 2,500 Gallons | 3.24 Per 1,000 Gallons |
| Next 10,000 Gallons | 3.00 Per 1,000 Gallons |
| Next 30,000 Gallons | 2.16 Per 1,000 Gallons |
| Next 50,000 Gallons | 1.80 Per 1,000 Gallons |
| All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

DATE OF ISSUE AUGUST 28, 2009
Month / Date / Year

DATE EFFECTIVE SEPTEMBER 30, 2009
Month / Date / Year

ISSUED BY 
(Signature of Officer)

TITLE CHAIRMAN

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

FOR HICKORY & LOWES, KENTUCKY
Community, Town or City

P.S.C. KY. NO. 4

SECOND SHEET NO. 1

CANCELLING P.S.C. KY. NO. 2

REVISED SHEET NO. 1

HICKORY WATER DISTRICT
(Name of Utility)

CONTENTS

2 INCH WATER METER

CONSUMPTION

| | |
|--------------------------|------------------------|
| First 15,000 Gallons | \$51.90 Minimum Bill |
| Next 5,000 Gallons | 3.00 Per 1,000 Gallons |
| Next 30,000 Gallons | 2.16 Per 1,000 Gallons |
| Next 50,000 Gallons | 1.80 Per 1,000 Gallons |
| All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

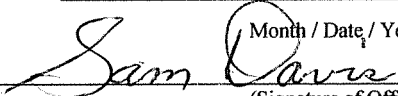
3 INCH AND 4 INCH WATER METERS

CONSUMPTION

| | |
|--------------------------|------------------------|
| First 100,000 Gallons | \$221.70 Minimum Bill |
| All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

DATE OF ISSUE AUGUST 28, 2009
Month / Date / Year

DATE EFFECTIVE SEPTEMBER 30, 2009

ISSUED BY 
Month / Date / Year
(Signature of Officer)

TITLE CHAIRMAN

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

FOR _____
Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

HICKORY WATER DISTRICT
(Name of Utility)

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

_____ SHEET NO. _____

CONTENTS

CONNECTION FEE:

3/4 INCH WATER METER

CONSUMPTION

~~First 2,000 Gallons — \$8.55 Minimum Bill~~
~~Next 3,000 Gallons — 2.90 Per 1,000 Gallons~~
~~Next 5,000 Gallons — 2.70 Per 1,000 Gallons~~
~~Next 10,000 Gallons — 2.50 Per 1,000 Gallons~~
~~Next 30,000 Gallons — 1.80 Per 1,000 Gallons~~
~~Next 50,000 Gallons — 1.50 Per 1,000 Gallons~~
~~All over 100,000 Gallons 1.25 Per 1,000 Gallons~~

3/4 INCH WATER METER

First 2,000 Gallons \$10.26 Minimum Bill
Next 3,000 Gallons 3.48 Per 1,000 Gallons
Next 5,000 Gallons 3.24 Per 1,000 Gallons
Next 10,000 Gallons 3.00 Per 1,000 Gallons
Next 30,000 Gallons 2.16 Per 1,000 Gallons
Next 50,000 Gallons 1.80 Per 1,000 Gallons
All over 100,000 Gallons 1.50 Per 1,000 Gallons

1 INCH WATER METER

CONSUMPTION

~~First 6,000 Gallons — \$19.95 Minimum Bill~~
~~Next 4,000 Gallons — 2.70 Per 1,000 Gallons~~
~~Next 10,000 Gallons — 2.50 Per 1,000 Gallons~~
~~Next 30,000 Gallons — 1.80 Per 1,000 Gallons~~
~~Next 50,000 Gallons — 1.50 Per 1,000 Gallons~~
~~All over 100,000 Gallons 1.25 Per 1,000 Gallons~~

1 INCH WATER METER

First 6,000 Gallons \$23.94 Minimum Bill
Next 4,000 Gallons 3.24 Per 1,000 Gallons
Next 10,000 Gallons 3.00 Per 1,000 Gallons
Next 30,000 Gallons 2.16 Per 1,000 Gallons
Next 50,000 Gallons 1.80 Per 1,000 Gallons
All over 100,000 Gallons 1.50 Per 1,000 Gallons

1 1/2 INCH WATER METER

CONSUMPTION

~~First 7,500 Gallons — \$24.00 Minimum Bill~~
~~Next 2,500 Gallons — 2.70 Per 1,000 Gallons~~
~~Next 10,000 Gallons — 2.50 Per 1,000 Gallons~~
~~Next 30,000 Gallons — 1.80 Per 1,000 Gallons~~
~~Next 50,000 Gallons — 1.50 Per 1,000 Gallons~~
~~All over 100,000 Gallons 1.25 Per 1,000 Gallons~~

1 1/2 INCH WATER METER

First 7,500 Gallons \$28.80 Minimum Bill
Next 2,500 Gallons 3.24 Per 1,000 Gallons
Next 10,000 Gallons 3.00 Per 1,000 Gallons
Next 30,000 Gallons 2.16 Per 1,000 Gallons
Next 50,000 Gallons 1.80 Per 1,000 Gallons
All over 100,000 Gallons 1.50 Per 1,000 Gallons

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE _____

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

FOR _____
Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

HICKORY WATER DISTRICT
(Name of Utility)

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

_____ SHEET NO. _____

CONTENTS

2 INCH WATER METER CONSUMPTION

~~First 15,000 Gallons — \$43.25 Minimum Bill~~
~~Next 5,000 Gallons — 2.50 Per 1,000 Gallons~~
~~Next 30,000 Gallons — 1.80 Per 1,000 Gallons~~
~~Next 50,000 Gallons — 1.50 Per 1,000 Gallons~~
~~All over 100,000 Gallons 1.25 Per 1,000 Gallons~~

2 INCH WATER METER

First 15,000 Gallons \$51.90 Minimum Bill
Next 5,000 Gallons 3.00 Per 1,000 Gallons
Next 30,000 Gallons 2.16 Per 1,000 Gallons
Next 50,000 Gallons 1.80 Per 1,000 Gallons
All over 100,000 Gallons 1.50 Per 1,000 Gallons

3 INCH AND 4 INCH WATER METERS CONSUMPTION

~~First 100,000 Gallons — \$184.75 Minimum Bill~~
~~Over 100,000 Gallons — 1.25 Per 1,000 Gallons~~

3 INCH AND 4 INCH WATER METERS

First 100,000 Gallons \$221.70 Minimum Bill
All over 100,000 Gallons 1.50 Per 1,000 Gallons

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE _____

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

Hickory Water District Exhibit 3
Income Statement Showing Impact of Proposed Increase

| | 2008 | Adjustments | Ref. | Adjusted |
|--------------------------------|-------------------|-----------------|----------|------------------|
| Water Sales Revenue | \$317,925 | \$67,719 | | \$385,644 |
| Other Op. Revenue | \$8,017 | 0 | | \$8,017 |
| Water Operating Revenue | \$325,942 | \$67,719 | A | \$393,661 |
| Purchased Water | \$10,475 | 0 | | \$10,475 |
| Purchased Power | \$31,862 | 0 | | \$31,862 |
| Chemicals | \$38,101 | 0 | | \$38,101 |
| Materials/Supplies | \$26,140 | 0 | | \$26,140 |
| Contract Services-Eng. | \$300 | 0 | | \$300 |
| Contract Services-Acct. | \$7,440 | 0 | | \$7,440 |
| Contract Serv.-Mgmt. Fees | \$22,608 | 0 | | \$22,608 |
| Contract Services-Testing | \$17,633 | 0 | | \$17,633 |
| Contract Services-Other | \$91,966 | 0 | | \$91,699 |
| Rental of Equipment | \$118 | 0 | | \$118 |
| Insurance-Genl. Liability | \$5,740 | 0 | | \$5,740 |
| Advertising Expenses | \$336 | 0 | | |
| Bad Debt | \$874 | 0 | | \$236 |
| Miscellaneous Exp. | \$5,810 | 0 | | \$4,092 |
| <i>Tot. Water Util. Exp.</i> | <i>\$259,403</i> | <i>0</i> | | <i>\$259,403</i> |
| Depreciation Expense | \$93,026 | \$32,606 | B | \$125,632 |
| Amortization Expense | 0 | \$667 | C | \$667 |
| Taxes OT Income | \$40 | 0 | | \$40 |
| Total Op. Expenses | \$352,469 | \$33,273 | | \$385,742 |
| <i>Total Operating Income</i> | <i>(\$26,527)</i> | <i>\$34,446</i> | | <i>\$7,919</i> |
| Interest Income | \$9,965 | (\$7,972) | D | \$1,993 |
| Interest Expense | (\$10,495) | 0 | | \$10,495 |
| Net Income | (\$27,057) | \$26,474 | | (\$583) |

Revenue Requirement Calculation

\$ 385,742 - Proforma Operating Expenses
 \$ 46,885 - Debt Service Coverage (1.2 x \$39,071 Debt Service)
\$ 432,627 - Revenue Requirement
 (\$328,051) - Less Normalized Revenues
 (\$ 1,993) - Less Unrestricted Interest Income
 \$ 102,583 - Justified Increase (31.27% increase over 2008 normalized revenues)
 \$ 65,610 - Proposed Increase (20% increase over 2008 normalized revenues)

Debt Service Calculation:

| Year | Revenue Bonds P&I | KIA Loan Payments | Annual Total |
|-------|-------------------|-----------------------|-----------------|
| 2009 | \$7,550 | \$31,554 | \$39,104 |
| 2010 | \$7,350 | \$31,554 | \$38,904 |
| 2011 | \$7,650 | \$31,554 | \$39,204 |
| Total | | | \$117,212 |
| | | 3-year average | \$39,071 |

Reference Notes:

A. Normalized Revenues as determined by the billing analysis, and including the proposed revenue increase of \$65,610.

B. Depreciation Expense was increased by \$32,606 to a pro forma expense of \$125,632. In the past, Hickory Water District has been depreciating its meters and meter installations over 40 years. Hickory is aware that the Public Service Commission has testing requirements for meters to be tested and/or changed out every 10 years. Therefore, Hickory is requesting in this case to now recognize 10-year depreciation for meters and installations, as follows:

| Plant Account | Original Cost | Deprec. Rate | Annual Expense | 2008 Expense | Proposed Adjustment |
|------------------------------|---------------|--------------|----------------|--------------|---------------------|
| 334-Meters & Installations | \$69,279 | 10 years | \$6,927.90 | \$1,731.98 | |
| 334.1-Meters & Installations | \$365,471 | 10 years | \$36,547.10 | \$9,136.78 | |
| | | | | | |
| Totals | \$434,750 | | \$43,475.00 | \$10,868.76 | \$32,606.24 |

C. Amortization Expense was adjusted by \$667 to include a three-year amortization of rate case expenses of \$2,000.

D. Interest Income was adjusted by \$7,972 to remove interest income on restricted cash investments, which were approximately 80% of total investments, as follows:

- \$ 62,717 – Cash and cash equivalents
- \$ 11,119 – Total restricted current assets
- \$ 238,876 – Restricted long-term investments
- \$ 312,712 – Total

$\$62,717 \text{ divided by } \$312,712 = 20.05\%$

HICKORY WATER DISTRICT
STATEMENTS OF NET ASSETS – REGULATORY BASIS
December 31, 2008 and 2007

| ASSETS | 2008 | 2007 |
|---|--------------------|--------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 62,717 | \$ 52,691 |
| Customer accounts receivable | 48,060 | 42,201 |
| Prepaid expenses | <u>326</u> | <u>326</u> |
| Total unrestricted current assets | <u>111,103</u> | <u>95,218</u> |
| Cash and cash equivalents- Restricted | 9,772 | 31,485 |
| Restricted interest receivable | <u>1,347</u> | <u>1,347</u> |
| Total restricted current assets | <u>11,119</u> | <u>32,832</u> |
| Total current assets | <u>122,222</u> | <u>128,050</u> |
| NONCURRENT ASSETS | | |
| Restricted long-term investments | <u>238,876</u> | <u>203,913</u> |
| CAPITAL ASSETS | | |
| Nondepreciable capital assets: | | |
| Land | <u>21,417</u> | <u>21,417</u> |
| Depreciable Capital assets: | | |
| Utility plant in service, at cost | 4,449,754 | 4,422,037 |
| Less accumulated provision for depreciation computed by the straight-line method | <u>(2,274,112)</u> | <u>(2,181,086)</u> |
| Total depreciable capital assets | <u>2,175,642</u> | <u>2,240,951</u> |
| Total capital assets | <u>2,197,059</u> | <u>2,262,368</u> |
| Total noncurrent assets | <u>2,435,935</u> | <u>2,466,281</u> |
| Total assets | <u>2,558,157</u> | <u>2,594,331</u> |

The Notes to Financial Statements are an integral part of these statements.

HICKORY WATER DISTRICT
STATEMENTS OF NET ASSETS – REGULATORY BASIS
December 31, 2008 and 2007
(Continued)

| | 2008 | 2007 |
|---|------------------|--------------------|
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 22,018 | \$ 10,508 |
| Customer deposits | 11,492 | 10,468 |
| Land condemnation escrow | 5,478 | 5,478 |
| Advances for construction | <u>55,381</u> | <u>55,381</u> |
| Total current liabilities | <u>94,369</u> | <u>81,835</u> |
| Liabilities payable from restricted assets | | |
| Interest payable | 2,353 | 2,583 |
| Current portion of long-term debt | <u>29,335</u> | <u>28,885</u> |
| Total payable from restricted assets | <u>31,688</u> | <u>31,468</u> |
| Long-term debt | <u>393,455</u> | <u>422,790</u> |
| Total liabilities | <u>519,512</u> | <u>536,093</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 1,774,269 | 1,810,693 |
| Restricted for debt service | 247,642 | 234,162 |
| Unrestricted | <u>16,734</u> | <u>13,383</u> |
| Total net assets | <u>2,038,645</u> | <u>\$2,058,238</u> |

The Notes to Financial Statements are an integral part of these statements.

Hickory Water District Exhibit 4

| | 2008 | Adjustments | Ref. | Adjusted |
|--------------------------------|-------------------|-------------------|----------|-------------------|
| Water Sales Revenue | \$317,925 | \$2,109 | | \$320,034 |
| Other Op. Revenue | \$8,017 | 0 | | \$8,017 |
| Water Operating Revenue | \$325,942 | \$2,109 | A | \$328,051 |
| Purchased Water | \$10,475 | 0 | | \$10,475 |
| Purchased Power | \$31,862 | 0 | | \$31,862 |
| Chemicals | \$38,101 | 0 | | \$38,101 |
| Materials/Supplies | \$26,140 | 0 | | \$26,140 |
| Contract Services-Eng. | \$300 | 0 | | \$300 |
| Contract Services-Acct. | \$7,440 | 0 | | \$7,440 |
| Contract Serv.-Mgmt. Fees | \$22,608 | 0 | | \$22,608 |
| Contract Services-Testing | \$17,633 | 0 | | \$17,633 |
| Contract Services-Other | \$91,966 | 0 | | \$91,699 |
| Rental of Equipment | \$118 | 0 | | \$118 |
| Insurance-Genl. Liability | \$5,740 | 0 | | \$5,740 |
| Advertising Expenses | \$336 | 0 | | |
| Bad Debt | \$874 | 0 | | \$236 |
| Miscellaneous Exp. | \$5,810 | 0 | | \$4,092 |
| <i>Tot. Water Util. Exp.</i> | <i>\$259,403</i> | <i>0</i> | | <i>\$259,403</i> |
| Depreciation Expense | \$93,026 | \$32,606 | B | \$125,632 |
| Amortization Expense | 0 | \$667 | C | \$667 |
| Taxes OT Income | \$40 | 0 | | \$40 |
| Total Op. Expenses | \$352,469 | \$33,273 | | \$385,742 |
| <i>Total Operating Income</i> | <i>(\$26,527)</i> | <i>(\$31,164)</i> | | <i>(\$57,691)</i> |
| Interest Income | \$9,965 | (\$7,972) | D | \$1,993 |
| Interest Expense | (\$10,495) | 0 | | \$10,495 |
| Net Income | (\$27,057) | (\$39,136) | | (\$66,193) |

Revenue Requirement Calculation

\$ 385,742 - Proforma Operating Expenses
 \$ 46,885 - Debt Service Coverage (1.2 x \$39,071 Debt Service)
\$ 432,627 - Revenue Requirement
 (\$328,051) - Less Normalized Revenues
 (\$ 1,993) - Less Unrestricted Interest Income
 \$ 102,583 - Justified Increase (31.27% increase over 2008 normalized revenues)
 \$ 65,610 - Proposed Increase (20% increase over 2008 normalized revenues)

Debt Service Calculation:

| Year | Revenue Bonds P&I | KIA Loan Payments | Annual Total |
|-------|-------------------|-----------------------|-----------------|
| 2009 | \$7,550 | \$31,554 | \$39,104 |
| 2010 | \$7,350 | \$31,554 | \$38,904 |
| 2011 | \$7,650 | \$31,554 | \$39,204 |
| Total | | | \$117,212 |
| | | 3-year average | \$39,071 |

Reference Notes:

A. Normalized Revenues as determined by the billing analysis.

B. Depreciation Expense was increased by \$32,606 to a pro forma expense of \$125,632. In the past, Hickory Water District has been depreciating its meters and meter installations over 40 years. Hickory is aware that the Public Service Commission has testing requirements for meters to be tested and/or changed out every 10 years. Therefore, Hickory is requesting in this case to now recognize 10-year depreciation for meters and installations, as follows:

| Plant Account | Original Cost | Deprec. Rate | Annual Expense | 2008 Expense | Proposed Adjustment |
|------------------------------|---------------|--------------|----------------|--------------|---------------------|
| 334-Meters & Installations | \$69,279 | 10 years | \$6,927.90 | \$1,731.98 | |
| 334.1-Meters & Installations | \$365,471 | 10 years | \$36,547.10 | \$9,136.78 | |
| | | | | | |
| Totals | \$434,750 | | \$43,475.00 | \$10,868.76 | \$32,606.24 |

C. Amortization Expense was adjusted by \$667 to include a three-year amortization of rate case expenses of \$2,000.

D. Interest Income was adjusted by \$7,972 to remove interest income on restricted cash investments, which were approximately 80% of total investments, as follows:

- \$ 62,717 – Cash and cash equivalents
- \$ 11,119 – Total restricted current assets
- \$ 238,876 – Restricted long-term investments
- \$ 312,712 – Total

$\$62,717 \text{ divided by } \$312,712 = 20.05\%$

Hickory WD Summary Billing Analysis

| Meter Size | 2008 Gallons Sold | Normalized Revenue | Proposed Revenue with 20% Increase |
|-------------------|--------------------------|---------------------------|---|
| 3/4 Inch | 79,482,557 | \$264,608.64 | \$317,530 |
| 1 Inch | 4,685,700 | 10,351.60 | 12,422 |
| 1 1/2 Inch | 3,449,200 | 7,354.32 | 8,825 |
| 2 Inch | 12,427,100 | 26,338.01 | 31,606 |
| 3 & 4 Inch | 8,531,800 | 11,381.75 | 13,658 |
| Totals | 108,576,357 | \$320,034.32 | \$384,041 |

Hickory WD Summary Usage Table

USAGE TABLE FOR ¾" METER

| Usage | BILLS | GALLONS | 2,000 | 3,000 | 5,000 | 10,000 | 30,000 | 50,000 | 100,000 |
|--------------|---------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|
| First 2,000 | 4,967 | 4,832,000 | 4,832,000 | | | | | | |
| Next 3,000 | 5,701 | 19,606,800 | 11,402,000 | 8,204,800 | | | | | |
| Next 5,000 | 3,361 | 23,206,200 | 6,722,000 | 10,083,000 | 6,401,200 | | | | |
| Next 10,000 | 939 | 12,418,200 | 1,878,000 | 2,817,000 | 4,695,000 | 3,028,200 | | | |
| Next 30,000 | 248 | 7,082,500 | 496,000 | 744,000 | 1,240,000 | 2,480,000 | 2,122,500 | | |
| Next 50,000 | 45 | 3,029,047 | 90,000 | 135,000 | 225,000 | 450,000 | 1,350,000 | 779,047 | |
| Over 100,000 | 42 | 9,307,810 | 84,000 | 126,000 | 210,000 | 420,000 | 1,260,000 | 2,100,000 | 5,107,810 |
| TOTAL | 15,303 | 79,482,557 | 25,504,000 | 22,109,800 | 12,771,200 | 6,378,200 | 4,732,500 | 2,879,047 | 5,107,810 |

| Usage | BILLS | GALLONS | RATE | REVENUE |
|--------------|---------------|-------------------|--------|---------------------|
| First 2,000 | 4,967 | 25,504,000 | \$8.55 | \$130,840.65 |
| Next 3,000 | 5,701 | 22,109,800 | 2.90 | 64,118.42 |
| Next 5,000 | 3,361 | 12,771,200 | 2.70 | 34,482.24 |
| Next 10,000 | 939 | 6,378,200 | 2.50 | 15,945.50 |
| Next 30,000 | 248 | 4,732,500 | 1.80 | 8,518.50 |
| Next 50,000 | 45 | 2,879,047 | 1.50 | 4,318.57 |
| Over 100,000 | 42 | 5,107,810 | 1.25 | 6,384.76 |
| TOTAL | 15,303 | 79,482,557 | | \$264,608.64 |

USAGE TABLE FOR 1" METER

| Usage | BILLS | GALLONS | 6,000 | 4,000 | 10,000 | 30,000 | 50,000 | 100,000 |
|--------------|-------|-----------|---------|---------|---------|---------|---------|-----------|
| First 6,000 | 155 | 336,700 | 336,700 | | | | | |
| Next 4,000 | 12 | 85,800 | 72,000 | 13,800 | | | | |
| Next 10,000 | 12 | 162,700 | 72,000 | 48,000 | 42,700 | | | |
| Next 30,000 | 9 | 283,800 | 54,000 | 36,000 | 90,000 | 103,800 | | |
| Next 50,000 | 5 | 387,900 | 30,000 | 20,000 | 50,000 | 150,000 | 137,900 | |
| Over 100,000 | 13 | 3,428,800 | 78,000 | 52,000 | 130,000 | 390,000 | 650,000 | 2,128,800 |
| TOTAL | 206 | 4,685,700 | 642,700 | 169,800 | 312,700 | 643,800 | 787,900 | 2,128,800 |

| Usage | BILLS | GALLONS | RATE | REVENUE |
|--------------|-------|-----------|---------|-------------|
| First 6,000 | 206 | 642,700 | \$19.95 | \$4,109.70 |
| Next 4,000 | | 169,800 | 2.70 | 458.46 |
| Next 10,000 | | 312,700 | 2.50 | 781.75 |
| Next 30,000 | | 643,800 | 1.80 | 1,158.84 |
| Next 50,000 | | 787,900 | 1.50 | 1,181.85 |
| Over 100,000 | | 2,128,800 | 1.25 | 2,661.00 |
| TOTAL | 206 | 4,685,700 | | \$10,351.60 |

USAGE TABLE FOR 1 1/2" METER

| Usage | BILLS | GALLONS | 7,500 | 2,500 | 10,000 | 30,000 | 50,000 | 100,000 |
|--------------|-------|-----------|---------|---------|---------|---------|---------|---------|
| First 7,500 | 28 | 109,300 | 109,300 | | | | | |
| Next 2,500 | 4 | 34,900 | 30,000 | 4,900 | | | | |
| Next 10,000 | 29 | 433,200 | 217,500 | 72,500 | 143,200 | | | |
| Next 30,000 | 13 | 384,200 | 97,500 | 32,500 | 130,000 | 124,200 | | |
| Next 50,000 | 11 | 904,100 | 82,500 | 27,500 | 110,000 | 330,000 | 354,100 | |
| Over 100,000 | 11 | 1,583,500 | 82,500 | 27,500 | 110,000 | 330,000 | 550,000 | 483,500 |
| TOTAL | 96 | 3,449,200 | 619,300 | 164,900 | 493,200 | 784,200 | 904,100 | 483,500 |

| Usage | BILLS | GALLONS | RATE | REVENUE |
|--------------|-------|-----------|---------|------------|
| First 7,500 | 96 | 619,300 | \$24.00 | \$2,304.00 |
| Next 2,500 | | 164,900 | 2.70 | 445.23 |
| Next 10,000 | | 493,200 | 2.50 | 1,233.00 |
| Next 30,000 | | 784,200 | 1.80 | 1,411.56 |
| Next 50,000 | | 904,100 | 1.50 | 1,356.15 |
| Over 100,000 | | 483,500 | 1.25 | 604.38 |
| TOTAL | | 3,449,200 | | \$7,354.32 |

USAGE TABLE FOR 2" METER

| Usage | BILLS | GALLONS | 15,000 | 5,000 | 30,000 | 50,000 | 100,000 |
|--------------|------------|-------------------|------------------|----------------|------------------|------------------|------------------|
| First 15,000 | 133 | 571,700 | 571,700 | | | | |
| Next 5,000 | 8 | 140,200 | 120,000 | 20,200 | | | |
| Next 30,000 | 38 | 1,252,700 | 570,000 | 190,000 | 492,700 | | |
| Next 50,000 | 37 | 2,561,100 | 555,000 | 185,000 | 210,000 | 1,611,100 | |
| Over 100,000 | 41 | 7,901,400 | 615,000 | 205,000 | 1,230,000 | 2,050,000 | 3,801,400 |
| TOTAL | 257 | 12,427,100 | 2,431,700 | 600,200 | 1,932,700 | 3,661,100 | 3,801,400 |

| Usage | BILLS | GALLONS | RATE | REVENUE |
|--------------|------------|-------------------|---------|--------------------|
| First 15,000 | 257 | 2,431,700 | \$43.25 | \$11,115.25 |
| Next 5,000 | | 600,200 | 2.50 | 1,500.50 |
| Next 30,000 | | 1,932,700 | 1.80 | 3,478.86 |
| Next 50,000 | | 3,661,100 | 1.50 | 5,491.65 |
| Over 100,000 | | 3,801,400 | 1.25 | 4,751.75 |
| TOTAL | 257 | 12,427,100 | | \$26,338.01 |

USAGE TABLE FOR 3" & 4" METER

| Usage | BILLS | GALLONS | First 100,000 | Over 100,000 |
|---------------|-------|-----------|---------------|--------------|
| First 100,000 | 0 | 0 | 0 | 0 |
| Over 100,000 | 12 | 8,531,800 | 1,200,000 | 7,331,800 |
| TOTAL | 12 | 8,531,800 | 1,200,000 | 7,331,800 |

| Usage | BILLS | GALLONS | RATE | REVENUE |
|---------------|-------|-----------|------------------|-------------|
| First 100,000 | 12 | 1,200,000 | \$184.75 Minimum | \$2,217.00 |
| Over 100,000 | | 7,331,800 | 1.25 per 1,000 | 9,164.75 |
| TOTAL | 12 | 8,531,800 | | \$11,381.75 |

**HICKORY WATER DISTRICT
DEPRECIATION REPORT**

| ACCT <u>NO.</u> | <u>PLANT ACCOUNT NAME</u> | Date <u>Acquired</u> | <u>Cost</u> | New ** | | 2007 | | 2008 | |
|--------------------|---|-------------------------|-------------------|--------------------|--------------------|----------------------|---------------------|----------------------|---------------------|
| | | | | <u>Deprec Rate</u> | <u>Deprec Rate</u> | <u>Deprec Amount</u> | <u>Accum Deprec</u> | <u>Deprec Amount</u> | <u>Accum Deprec</u> |
| 303.4 | Land & Rights | 1978-85 | 15,898.07 | | | | | | |
| 303.2 | Land & Rights-treatment plant | | 1,010.85 | | | | | | |
| 303.5 | Land-general plant | | <u>4,507.90</u> | | | | | | |
| | | | 21,416.82 | | | | | | |
| 304 | <u>STRUCTURES & IMPROVEMENTS</u> | | | | | | | | |
| | Office Building | 3/1/67 | 19,210.73 | | 5.00% | | 19,210.73 | | 19,210.73 |
| | Final Engineering | | 54.56 | | 5.00% | | 54.56 | | 54.56 |
| | Remodeling | 1977 | 11,531.13 | | 5.00% | 0.00 | 9,801.52 | 0.00 | 9,801.52 |
| | Water Treatment Plant | 11/94 | 65,619.51 | 3.33% | 5.00% | 855.84 | 40,774.39 | 855.84 | 41,630.23 |
| | Water Treatment Plant-addt'l | 1/95-5/95 | 9,712.05 | 3.33% | 5.00% | 129.36 | 5,956.58 | 129.36 | 6,085.95 |
| | New Roof-Office Bldg | 3/6/97 | 988.65 | | 5.00% | 49.43 | 535.52 | 49.43 | 584.95 |
| | Engineering | 1/10/97 | 6,969.00 | | 5.00% | 348.45 | 3,832.95 | 348.45 | 4,181.40 |
| | Garage Door | ##### | 875.00 | | 5.00% | 43.75 | 43.75 | 43.75 | 87.50 |
| | | | 114,960.63 | | | 1,426.84 | 80,210.00 | 1,426.84 | 81,636.84 |
| 307 | <u>WELLS & SPRINGS -per prior schedule</u> | | | | | | | | |
| | New pump | 3/1/67 | 39,642.47 | | 5.00% | | 39,642.47 | | 39,642.47 |
| | Well #3 | 3/85 | 6,984.00 | | 5.00% | | 6,984.00 | | 6,984.00 |
| | Well #3 | 1987 | 79,472.00 | | 5.00% | 0.48 | 79,472.00 | | 79,472.00 |
| | Repair-west well | 10/94 | 12,211.00 | | 5.00% | 610.55 | 8,089.79 | 610.55 | 8,700.34 |
| | Repair-Well #3 | 12/30/97 | 10,000.00 | | 5.00% | 500.00 | 5,000.00 | 500.00 | 5,500.00 |
| | Repair-Well #3 | 1/9/98 | 3,445.00 | | 5.00% | 172.25 | 1,722.50 | 172.25 | 1,894.75 |
| | Cleaning of Well #3-reclass from Water trmt equip | 12/30/97 | 2,886.00 | | 5.00% | 144.30 | 1,443.00 | 144.30 | 1,587.30 |
| | Repair/maintenance-Well #3 | 7/7/99 | 3,309.94 | | 5.00% | 165.50 | 1,406.73 | 165.50 | 1,572.22 |
| | Pump/west well repair | 2/21/2000 | 17935.84 | | 5.00% | 896.79 | 7,024.84 | 896.79 | 7,921.64 |
| | Replace motor in well | 6/02/02 | 1,410.00 | | 5.00% | 70.50 | 381.88 | 70.50 | 452.38 |
| | | | 177,296.25 | | | 2,560.37 | 151,167.21 | 2,559.89 | 153,727.10 |

** Met with Robert H Sullivan & Sam Davis in the fall of 2007 regarding deprec schedule. The new deprec rate column is due to the fact that the chairman reset the lives of 3 assets. He estimated the remaining life of the plant and the newest water tank to be 30 years from 2007.

**HICKORY WATER DISTRICT
DEPRECIATION REPORT**

| ACCT NO. | PLANT ACCOUNT NAME | Date Acquired | Cost | New ** | | 2007 | | 2008 | |
|-------------|--|------------------|------------------|----------------|----------------|------------------|------------------|------------------|------------------|
| | | | | Deprec Rate | Deprec Rate | Deprec Amount | Accum Deprec | Deprec Amount | Accum Deprec |
| 311 | PUMPING EQUIPMENT-per prior schedule | 11/9/89 | 6,673.00 | | 5.00% | 333.65 | 6,172.53 | 333.65 | 6,506.18 |
| | New pump | 1/31/90 | 2,000.00 | | 5.00% | 100.00 | 1,791.66 | 100.00 | 1,891.66 |
| | New pump-parts | 12/31/90 | 142.34 | | 5.00% | 7.12 | 120.94 | 7.12 | 128.05 |
| | Pump | 2/28/93 | 424.98 | | 5.00% | 21.25 | 315.14 | 21.25 | 336.39 |
| | Pump f/chlorination system | 4/30/93 | 1,888.29 | | 5.00% | 94.41 | 1,384.72 | 94.41 | 1,479.13 |
| | Pump-parts | 2/94 | 119.61 | | 5.00% | 5.98 | 83.22 | 5.98 | 89.20 |
| | Chemical pump | 4/96 | 764.25 | | 5.00% | 38.21 | 452.17 | 38.21 | 490.38 |
| | Pumping equipment | 5/1/97 | 604.45 | | 5.00% | 30.22 | 330.37 | 30.22 | 360.59 |
| | Pumping equipment | 3/4/98 | 1,747.00 | | 5.00% | 87.35 | 858.94 | 87.35 | 946.29 |
| | Pump repair | 5/7/02 | 3,242.24 | | 5.00% | 162.11 | 864.60 | 162.11 | 1,026.71 |
| | Pump repair - well #3 | 8/6/02 | 14,967.00 | | 5.00% | 748.35 | 4,178.29 | 748.35 | 4,926.64 |
| | | | 32,573.16 | | | 1,628.66 | 16,552.58 | 1,628.66 | 18,181.24 |
| 320 | <u>WATER TREATMENT EQUIPMENT-per prior schedule</u> | 3/1/67 | 6,070.67 | | 5.00% | | 6,070.67 | | 6,070.67 |
| | Water Treatment Equipment | 9/11/81 | 1,800.00 | | 5.00% | | 1,800.00 | | 1,800.00 |
| | #60 Well Pump | 8/88 | 3,952.04 | | 5.00% | 197.60 | 3,853.23 | 98.81 | 3,952.04 |
| | Chlorination system | 6/1/93 | 5,098.26 | | 5.00% | 254.91 | 3,717.45 | 254.91 | 3,972.37 |
| | Lime feeder & motor | 12/1/93 | 5,391.79 | | 5.00% | 269.59 | 3,796.67 | 269.59 | 4,066.26 |
| | Damages | 12/30/93 | (200.00) | | 5.00% | (10.00) | (140.00) | (10.00) | (150.00) |
| | Scales, pump, solenoid, strainer, etc. | 8/94 | 3,941.53 | | 5.00% | 197.08 | 2,644.09 | 197.08 | 2,841.17 |
| | Electrical materials f/chlorination system | 9/94 | 11,554.20 | | 5.00% | 577.71 | 7,702.80 | 577.71 | 8,280.51 |
| | Air Pallet Truck | 10/94 | 602.63 | | 5.00% | 30.13 | 399.23 | 30.13 | 429.36 |
| | 2 lime feeders | 2/21/95 | 550.00 | | 5.00% | 27.50 | 357.50 | 27.50 | 385.00 |
| | Pump-parts | 3/14/95 | 1,611.49 | | 5.00% | 80.57 | 1,047.45 | 80.57 | 1,128.02 |
| | Timer | 9/11/95 | 204.13 | | 5.00% | 10.21 | 132.70 | 10.21 | 142.91 |
| | Equipment | 1/1/96 | 78.00 | | 5.00% | 3.90 | 46.95 | 3.90 | 50.85 |
| | Aquaking colorimeter | 1/3/2000 | 758.57 | | 5.00% | 37.93 | 303.43 | 37.93 | 341.36 |
| | Equipment | 12/31/02 | 526.62 | | 5.00% | 26.33 | 131.66 | 26.33 | 157.99 |
| | Equipment | 05/02/03 | 411.50 | | 5.00% | 20.58 | 102.88 | 20.58 | 123.45 |
| | Equipment | 12/31/200 | 1,554.61 | | 5.00% | 77.73 | 233.19 | 77.73 | 310.92 |
| | | | 43,906.04 | | | 1,801.77 | 32,199.89 | 1,702.98 | 33,902.86 |

**HICKORY WATER DISTRICT
DEPRECIATION REPORT**

| ACCT NO. | PLANT ACCOUNT NAME | Date Acquired | Cost | New ** | | 2007 | | 2008 | |
|-------------|---|------------------|--------------|----------------|----------------|------------------|-----------------|------------------|-----------------|
| | | | | Deprec Rate | Deprec Rate | Deprec Amount | Accum Deprec | Deprec Amount | Accum Deprec |
| 330 | DISTRIBUTION RESERVOIRS (TANKS)-prior sched | 3/1/67 | 127,157.89 | | 5.00% | | 127,157.89 | | 127,157.89 |
| | Final engineering | | 268.63 | | 5.00% | | 268.63 | | 268.63 |
| | 2 electric heaters & installation | 1979 | 1,304.91 | | 5.00% | | 1,304.91 | | 1,304.91 |
| | Painting & cleaning 2 towers | 1979 | 21,544.00 | | 5.00% | | 21,544.00 | | 21,544.00 |
| | Lightning damage | 1984 | (1,389.35) | | 5.00% | | (1,389.35) | | (1,389.35) |
| | New tower, engineering, legal | 1984 | 145,645.29 | | 5.00% | | 145,645.29 | | 145,645.29 |
| | Painting-Lowes water tank | 12/1/97 | 53,075.00 | | 5.00% | 2,653.75 | 26,758.65 | 2,653.75 | 29,412.40 |
| | Engineering services-repairs-painting | 10/14/97 | 4,460.00 | | 5.00% | 223.00 | 2,276.46 | 223.00 | 2,499.46 |
| | Water Tank - Industrial Park | 9/1/2001 | 979,627.88 | 3.33% | 5.00% | 23,922.51 | 285,156.61 | 23,922.51 | 309,079.13 |
| | New transducer on tank in Lowes | 8/6/02 | 1,554.29 | | 5.00% | 77.71 | 433.90 | 77.71 | 511.62 |
| | Tank - Painting & Inspection, etc. | 2004 | 65,000.00 | | 5.00% | 3,250.00 | 13,000.00 | 3,250.00 | 16,250.00 |
| | Tank - Pressure Washing | 2008 | 4,550.00 | | 5.00% | | | 227.50 | 227.50 |
| | | | 1,402,798.54 | | | 30,126.98 | 622,156.99 | 30,354.48 | 652,511.47 |

**HICKORY WATER DISTRICT
DEPRECIATION REPORT**

| ACCT NO. | PLANT ACCOUNT NAME | Date Acquired | Cost | New ** | | 2007 | | 2008 | |
|-------------|---|------------------|------------|----------------|----------------|------------------|-----------------|------------------|-----------------|
| | | | | Deprec Rate | Deprec Rate | Deprec Amount | Accum Deprec | Deprec Amount | Accum Deprec |
| 331 | <u>TRANSMISSIONS & DISTRIBUTION MAINS-prior sch</u> | 1967 | 635,991.67 | | 2.00% | 12,719.83 | 519,370.93 | 12,719.83 | 532,090.76 |
| | trans. & distrib. mains added to system | 1968-84 | 203,436.84 | | 2.00% | 4,068.74 | 123,493.76 | 4,068.74 | 127,562.50 |
| | Lowes construction | 1984 | 383,364.51 | | 2.00% | 7,667.29 | 183,982.61 | 7,667.29 | 191,649.90 |
| | Graves Co High School construction | 1985 | 16,958.94 | | 2.00% | 339.18 | 7,680.00 | 339.18 | 8,019.18 |
| | additional trans & distrib mains | 1990-92 | 2,243.00 | | 2.00% | 44.86 | 807.60 | 44.86 | 852.46 |
| | 8" main relocation-Hwy 408 | 9/30/93 | 14,167.44 | | 2.00% | 283.35 | 4,037.67 | 283.35 | 4,321.02 |
| | Whispering Oaks Subdivision-construction | 1/94 | 24,953.00 | | 2.00% | 499.06 | 7,052.64 | 499.06 | 7,551.70 |
| | Whispering Oaks Subdivision-construction | 4/94 | 2,620.00 | | 2.00% | 52.40 | 720.50 | 52.40 | 772.90 |
| | Whispering Oaks Subdivision-construction | 6/94 | 458.00 | | 2.00% | 9.16 | 123.66 | 9.16 | 132.82 |
| | Damages | 10/95 | (723.00) | | 2.00% | (14.46) | (209.67) | (14.46) | (224.13) |
| | 8" main-GC Middle School | 3/29/96 | 5,080.00 | | 2.00% | 101.60 | 1,193.80 | 101.60 | 1,295.40 |
| | 8" main-Keystone Park | 4/11/96 | 18,990.00 | | 2.00% | 379.80 | 4,446.83 | 379.80 | 4,826.63 |
| | Engineering services for Keystone Park | 5/11/96 | 2,100.00 | | 2.00% | 42.00 | 488.25 | 42.00 | 530.25 |
| | 8" main-Crouch Business Park | 5/1/96 | 6,100.00 | | 2.00% | 122.00 | 1,423.33 | 122.00 | 1,545.33 |
| | Engineering services for Crouch Business Park | 5/11/96 | 1,500.00 | | 2.00% | 30.00 | 348.75 | 30.00 | 378.75 |
| | Engineering services for Whispering Oaks Subdiv. | 5/10/96 | 112.50 | | 2.00% | 2.25 | 26.16 | 2.25 | 28.41 |
| | Main Extension-Graves Co Industrial Park | 7/30/96 | 107,397.50 | | 2.00% | 2,147.95 | 24,522.43 | 2,147.95 | 26,670.38 |
| | Main Extension -Graves Co Industrial Park | 9/12/96 | 16,298.42 | | 2.00% | 325.97 | 3,680.73 | 325.97 | 4,006.70 |
| | Main extension-Graves Co. Industrial Park No. 3 | 2/12/97 | 6,459.08 | | 2.00% | 129.18 | 1,410.28 | 129.18 | 1,539.46 |
| | Damages-main extension- GC Indust. Pk No. 3 | 7/97 | (1,475.80) | | 2.00% | (29.52) | (324.69) | (29.52) | (354.20) |
| | Engineering services-Hwy 121 Truck Route | 11/98 | 5,500.00 | | 2.00% | 110.00 | 1,003.75 | 110.00 | 1,113.75 |
| | Relocation of mains-Hwy 121 Truck Route | 11/98 | 25,064.00 | | 2.00% | 501.28 | 4,595.07 | 501.28 | 5,096.35 |
| | Engineering services-TVA Project | 12/24/98 | 1,598.50 | | 2.00% | 31.97 | 287.73 | 31.97 | 319.70 |
| | KY DOT Project Engineering & Constr-121 trk rt, rel | 12/31/98 | 31,425.95 | | 2.00% | 628.52 | 5,656.67 | 628.52 | 6,285.19 |
| | Relocation of Hickory-Folsomdale Rd-Engineer | 3/12/99 | 4,080.60 | | 2.00% | 81.61 | 717.51 | 81.61 | 799.12 |
| | Lost Trail Subdivision-const & engineer | 4/12/99 | 18,100.00 | | 2.00% | 362.00 | 3,152.42 | 362.00 | 3,514.42 |
| | N. Sholar subdivision-990' line | 12/1/99 | 1,832.50 | | 2.00% | 36.65 | 296.25 | 36.65 | 332.90 |
| | replace main | 6/5/2000 | 729.50 | | 2.00% | 14.59 | 110.67 | 14.59 | 125.26 |
| | replace main | 8/1/2000 | 547.50 | | 2.00% | 10.95 | 81.20 | 10.95 | 92.15 |
| | Ky DOT truck route Hwy 121 | 3/30/2001 | 82,547.75 | | 2.00% | 1,650.96 | 11,143.95 | 1,650.96 | 12,794.90 |
| | KY DOT Hwy 121 | 4/25/02 | 5,044.00 | | 2.00% | 100.88 | 529.62 | 100.88 | 630.50 |
| | Sholar subdivision | 3/7/07 | 35,150.00 | | 2.00% | 703.00 | 703.00 | 703.00 | 1,406.00 |
| | Dale Harris Subdivision | 4/11/07 | 29,244.50 | | 2.00% | 584.89 | 584.89 | 584.89 | 1,169.78 |
| | KY DOT Jimtown Rd project | 11/20/07 | 327,650.00 | | 2.00% | 6,553.00 | 6,553.00 | 6,553.00 | 13,106.00 |

HICKORY WATER DISTRICT
DEPRECIATION REPORT

| ACCT NO. | PLANT ACCOUNT NAME | Date Acquired | Cost | New ** Deprec Rate | Deprec Rate | 2007 | | 2008 | |
|-------------|---------------------|------------------|--------------|--------------------------|----------------|------------------|-----------------|------------------|-----------------|
| | | | | | | Deprec Amount | Accum Deprec | Deprec Amount | Accum Deprec |
| | Other projects | 8/24/07 | 12,765.78 | | 2.00% | 255.32 | 255.32 | 255.32 | 510.63 |
| | 4" water main | 9/1/2008 | 4,839.42 | | 2.00% | | | 96.79 | 96.79 |
| | 2" meter | 9/1/2008 | 480.00 | | 2.00% | | | 9.60 | 9.60 |
| | water pressure pipe | ##### | 1,632.00 | | 2.00% | | | 32.64 | 32.64 |
| | | | 2,034,264.10 | | | 40,546.25 | 919,946.62 | 40,685.28 | 960,631.90 |

**HICKORY WATER DISTRICT
DEPRECIATION REPORT**

| ACCT NO. | PLANT ACCOUNT NAME | Date Acquired | Cost | New ** | 2007 | | 2008 | | |
|-------------|---|------------------|-------------------|----------------|----------------|------------------|-------------------|------------------|-------------------|
| | | | | Deprec Rate | Deprec Rate | Deprec Amount | Accum Deprec | Deprec Amount | Accum Deprec |
| 333 | SERVICE LINES | 1967-1996 | 92,336.07 | | 5.00% | | 92,336.07 | | 92,336.07 |
| | replace lines | 01/03/200 | 142.76 | | 5.00% | 7.14 | 57.10 | 7.14 | 64.24 |
| | replace lines | 08/01/200 | 760.00 | | 5.00% | 38.00 | 281.85 | 38.00 | 319.85 |
| | replace lines | 09/01/200 | 437.50 | | 5.00% | 21.88 | 160.41 | 21.88 | 182.28 |
| | replace lines | 10/01/200 | 760.00 | | 5.00% | 38.00 | 275.51 | 38.00 | 313.51 |
| | replace lines (truck route) | 4/2/2001 | 3,187.50 | | 5.00% | 159.38 | 1,075.78 | 159.38 | 1,235.16 |
| | Replace lines | 11/8/02 | 586.00 | | 5.00% | 29.30 | 170.92 | 29.30 | 200.22 |
| | | | 98,209.83 | | | 293.69 | 94,357.64 | 293.69 | 94,651.33 |
| 334 | METERS & INSTALLATIONS-prior acct. no.-prior sch | 1967-1988 | 69,279.18 | | 2.50% | 1,731.98 | 48,273.62 | 1,731.98 | 50,005.60 |
| | | | 69,279.18 | | | 1,731.98 | 48,273.62 | 1,731.98 | 50,005.60 |
| 334.1 | METERS & INSTALLATIONS-current acct-prior sch | 1967-1997 | 223,199.81 | | 2.50% | 5,580.00 | 122,230.92 | 5,580.00 | 127,810.92 |
| | meters & installations | 1998 | 16,596.90 | | 2.50% | 414.92 | 4,130.77 | 414.92 | 4,545.69 |
| | meters & installations-changed cost amt after depre | 1999 | 26,732.08 | | 2.50% | 668.30 | 5,703.49 | 668.30 | 6,371.79 |
| | deduct 22.92 from 2000 deprec amt | | | | | | | | |
| | meters & installations | 2000 | 15,812.62 | | 2.50% | 395.32 | 2,767.21 | 395.32 | 3,162.52 |
| | meters & installations | 2001 | 10,205.06 | | 2.50% | 255.13 | 1,785.89 | 255.13 | 2,041.01 |
| | meters & installations | 12/31/200 | 2,601.20 | | 2.50% | 65.03 | 390.18 | 65.03 | 455.21 |
| | meters & installations | 2002 | 8,233.66 | | 2.50% | 205.84 | 1,235.05 | 205.84 | 1,440.89 |
| | meters & installations | 2003 | 9,245.90 | | 2.50% | 231.15 | 1,155.74 | 231.15 | 1,386.89 |
| | meters & installations | 2004 | 8,547.91 | | 2.50% | 213.70 | 854.79 | 213.70 | 1,068.49 |
| | meters & installations | 2005 | 16,221.49 | | 2.50% | 405.54 | 1,216.61 | 405.54 | 1,622.15 |
| | meters & installations | 2006 | 4,375.90 | | 2.50% | 109.40 | 218.80 | 109.40 | 328.19 |
| | meters & installations | 2007 | 10,384.41 | | 2.50% | 259.61 | 259.61 | 259.61 | 519.22 |
| | meters & installations | 2008 | 13,314.25 | | 2.50% | | | 332.86 | 332.86 |
| | | | 365,471.19 | | | 8,544.31 | 141,949.05 | 9,136.78 | 151,085.83 |
| 335 | FIRE MAINS (hydrants)-per prior sched | 1967-97 | 64,375.46 | | 3.00% | | 64,375.46 | | 64,375.46 |
| | fire hydrant | 9/7/99 | 749.60 | | 3.00% | 22.49 | 187.40 | 22.49 | 209.89 |
| | fire hydrants (2) | 3/5/99 | 1,415.00 | | 3.00% | 42.45 | 371.44 | 42.45 | 413.89 |
| | fire hydrant installations (2) | 3/5/99 | 950.00 | | 3.00% | 28.50 | 249.38 | 28.50 | 277.88 |
| | fire hydrant | 1/1/2000 | 475.00 | | 3.00% | 14.25 | 114.00 | 14.25 | 128.25 |
| | fire hydrant | 11/1/2000 | 70.00 | | 3.00% | 2.10 | 16.80 | 2.10 | 18.90 |

**HICKORY WATER DISTRICT
DEPRECIATION REPORT**

| ACCT NO. | PLANT ACCOUNT NAME | Date Acquired | Cost | New ** Deprec Rate | Deprec Rate | 2007 | | 2008 | |
|-------------|--|------------------|---------------------|--------------------------|----------------|------------------|---------------------|------------------|---------------------|
| | | | | | | Deprec Amount | Accum Deprec | Deprec Amount | Accum Deprec |
| | fire hydrants | 7/1/2001 | 4042.5 | | 3.00% | 121.28 | 788.29 | 121.28 | 909.56 |
| | fire hydrants (most of cost was reimbursed by K&E) | 12/3/02 | 6.00 | | 3.00% | 0.18 | 1.07 | 0.18 | 1.25 |
| | fire hydrant | 8/8/2008 | 2,105.95 | | 3.00% | | | 63.18 | 63.18 |
| | | | 74,189.51 | | | 231.24 | 66,103.84 | 294.42 | 66,398.26 |
| 339 | OTHER PLANT & MISCELLANEOUS EQUIPMENT | | | | | | | | |
| | RADIO EQUIPMENT | 12/31/200 | 15,385.76 | | 5.00% | 769.29 | 2,307.86 | 769.29 | 3,077.15 |
| | RADIO EQUIPMENT | 8/7/07 | 4,724.35 | | 5.00% | 236.22 | 236.22 | 236.22 | 472.44 |
| | | | 20,110.11 | | | 1,005.51 | 2,544.08 | 1,005.51 | 3,549.59 |
| 340 | FURNITURE/FIXTURES-prior sched | | | | | | | | |
| | Carpeting | 1970-82 | 3,283.88 | | 10.00% | | 3,283.88 | | 3,283.88 |
| | Victor Calculator | 1/96 | 1313.13 | | 10.00% | | 1,313.13 | | 1,313.13 |
| | Filing Cabinet | 10/6/99 | 169.00 | | 10.00% | 16.90 | 139.43 | 16.90 | 156.33 |
| | Filing Cabinet | 8/3/2000 | 105.27 | | 10.00% | 10.53 | 84.22 | 10.53 | 94.74 |
| | Filing Cabinet | 6/6/01 | 89.95 | | 10.00% | 9.00 | 59.22 | 9.00 | 68.21 |
| | A/C unit for Office | 10/3/02 | 1,750.00 | | 10.00% | 175.00 | 1,006.25 | 175.00 | 1,181.25 |
| | Handheld units for meter reading | 1/1/2008 | 3,495.00 | | 33.33% | | | 1,164.88 | 1,164.88 |
| | Software for new billing system | 1/1/08 | 5,694.00 | | 10.00% | | | 569.40 | 569.40 |
| | Copier | ##### | 795.00 | | | | | | |
| | | | 16,695.23 | | | 211.42 | 5,886.12 | 1,945.71 | 7,831.83 |
| | TOTAL PROPERTY, PLANT & EQUIPMENT | | 4,471,170.59 | | | 90,109.02 | 2,181,347.63 | 92,766.20 | 2,274,113.83 |
| | Total Utility Plant | | 4,471,170.59 | | | | | | |

Exhibit 7 - Hickory Cost of Service Study

-807 KAR 5:001 Section 10 (6)(u) requires a cost of service study for gas, electric or water utilities whose annual gross revenues exceed \$5,000,000. Hickory Water District's gross annual revenues do not exceed this threshold. In addition, Hickory is proposing an across-the-board 20% increase. **Therefore, Hickory believes this requirement is not applicable in this instance.**

-In addition, Hickory is aware that Commission Staff often performs cost-of-service studies. To the extent that such a study is required in this case, Hickory requests a waiver to allow the processing of this case to proceed expeditiously due to our limited cash reserves, and requests Commission Staff assistance if a cost of service study is required to be done in this case.

NOTICE

Hickory Water District has filed an application with the Public Service Commission to increase its rates for water service. Hickory has not requested a rate increase since 1999. Hickory believes it can justify a rate increase of 31%. However, to reduce the burden upon its customers, Hickory is instead requesting a smaller rate increase of 20%. The proposed effective date of the change is September 30,2009.

Monthly Rates For 3/4" Meter:

| <u>Current:</u> | | <u>Proposed</u> | |
|--------------------------|------------------------|--------------------------|------------------------|
| First 2,000 Gallons | \$8.55 Minimum Bill | First 2,000 Gallons | \$10.26 Minimum Bill |
| Next 3,000 Gallons | 2.90 Per 1,000 Gallons | Next 3,000 Gallons | 3.48 Per 1,000 Gallons |
| Next 5,000 Gallons | 2.70 Per 1,000 Gallons | Next 5,000 Gallons | 3.24 Per 1,000 Gallons |
| Next 10,000 Gallons | 2.50 Per 1,000 Gallons | Next 10,000 Gallons | 3.00 Per 1,000 Gallons |
| Next 30,000 Gallons | 1.80 Per 1,000 Gallons | Next 30,000 Gallons | 2.16 Per 1,000 Gallons |
| Next 50,000 Gallons | 1.50 Per 1,000 Gallons | Next 50,000 Gallons | 1.80 Per 1,000 Gallons |
| All over 100,000 Gallons | 1.25 Per 1,000 Gallons | All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

| <u>MONTHLY USAGE</u> | <u>MONTHLY BILL AT CURRENT RATE</u> | <u>MONTHLY BILL AT PROPOSED RATE</u> | <u>PERCENT INCREASE OVER CURRENT</u> |
|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| 2,000 | \$8.55 | \$10.26 | 20.0% |
| 5,000 | \$17.25 | \$20.70 | 20.0% |
| 10,000 | \$30.75 | \$36.90 | 20.0% |
| 20,000 | \$55.75 | \$66.90 | 20.0% |
| 30,000 | \$73.75 | \$88.50 | 20.0% |
| 50,000 | \$109.75 | \$131.70 | 20.0% |
| 75,000 | \$147.25 | \$176.70 | 20.0% |
| 100,000 | \$184.75 | \$221.70 | 20.0% |
| 150,000 | \$247.25 | \$296.70 | 20.0% |

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

Any corporation, association, body politic, or person may request leave to intervene, by motion within thirty (30) days after notice of the proposed rate change is given. A motion to intervene shall be in writing, shall be submitted to the Executive Director, Public Service Commission, Post Office Box 615, Frankfort, KY 40602, and shall set forth the grounds for the motion, including the status and interest of the party movant. Copies of the application may be obtained at no charge from the utility office at Hickory Water District, P.O. Box 128, Hickory, KY 42051. Upon request from an intervenor, the utility shall furnish to the intervenor a copy of the application and supporting documents.

Hickory Water District

NOTICE

Hickory Water District has filed an application with the Public Service Commission to increase its rates for water service. Hickory has not requested a rate increase since 1999. Hickory believes it can justify a rate increase of 31%. However, to reduce the burden upon its customers, Hickory is instead requesting a smaller rate increase of 20%. The proposed effective date of the change is September 30, 2009.

Monthly Rates for 1 Inch Meter

| <u>Current</u> | | <u>Proposed</u> | |
|--------------------------|------------------------|--------------------------|------------------------|
| First 6,000 Gallons | \$19.95 Minimum Bill | First 6,000 Gallons | \$23.94 Minimum Bill |
| Next 4,000 Gallons | 2.70 Per 1,000 Gallons | Next 4,000 Gallons | 3.24 Per 1,000 Gallons |
| Next 10,000 Gallons | 2.50 Per 1,000 Gallons | Next 10,000 Gallons | 3.00 Per 1,000 Gallons |
| Next 30,000 Gallons | 1.80 Per 1,000 Gallons | Next 30,000 Gallons | 2.16 Per 1,000 Gallons |
| Next 50,000 Gallons | 1.50 Per 1,000 Gallons | Next 50,000 Gallons | 1.80 Per 1,000 Gallons |
| All over 100,000 Gallons | 1.25 Per 1,000 Gallons | All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

| <u>MONTHLY USAGE</u> | <u>MONTHLY BILL AT CURRENT RATE</u> | <u>MONTHLY BILL AT PROPOSED RATE</u> | <u>PERCENT INCREASE OVER CURRENT</u> |
|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| 6,000 | \$19.95 | \$23.94 | 20.0% |
| 10,000 | \$30.75 | \$36.90 | 20.0% |
| 20,000 | \$55.75 | \$66.90 | 20.0% |
| 30,000 | \$73.75 | \$88.50 | 20.0% |
| 50,000 | \$109.75 | \$131.70 | 20.0% |
| 75,000 | \$147.25 | \$176.70 | 20.0% |
| 100,000 | \$184.75 | \$221.70 | 20.0% |
| 150,000 | \$247.25 | \$296.70 | 20.0% |

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Monthly Rates for 1 1/2 Inch Meter

| <u>Current</u> | | <u>Proposed</u> | |
|--------------------------|------------------------|--------------------------|------------------------|
| First 7,500 Gallons | \$24.00 Minimum Bill | First 7,500 Gallons | \$28.80 Minimum Bill |
| Next 2,500 Gallons | 2.70 Per 1,000 Gallons | Next 2,500 Gallons | 3.24 Per 1,000 Gallons |
| Next 10,000 Gallons | 2.50 Per 1,000 Gallons | Next 10,000 Gallons | 3.00 Per 1,000 Gallons |
| Next 30,000 Gallons | 1.80 Per 1,000 Gallons | Next 30,000 Gallons | 2.16 Per 1,000 Gallons |
| Next 50,000 Gallons | 1.50 Per 1,000 Gallons | Next 50,000 Gallons | 1.80 Per 1,000 Gallons |
| All over 100,000 Gallons | 1.25 Per 1,000 Gallons | All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

| <u>MONTHLY USAGE</u> | <u>MONTHLY BILL AT CURRENT RATE</u> | <u>MONTHLY BILL AT PROPOSED RATE</u> | <u>PERCENT INCREASE OVER CURRENT</u> |
|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| 7,500 | \$24.00 | \$28.80 | 20.0% |
| 10,000 | \$32.10 | \$38.52 | 20.0% |
| 20,000 | \$57.10 | \$68.52 | 20.0% |
| 30,000 | \$75.10 | \$90.12 | 20.0% |
| 50,000 | \$111.10 | \$133.32 | 20.0% |
| 75,000 | \$148.60 | \$178.72 | 20.0% |
| 100,000 | \$186.10 | \$223.32 | 20.0% |

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Hickory Water District

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Monthly Rates for 2 Inch Meter

| <u>Current</u> | | <u>Proposed</u> | |
|--------------------------|------------------------|--------------------------|------------------------|
| First 15,000 Gallons | \$43.25 Minimum Bill | First 15,000 Gallons | \$51.90 Minimum Bill |
| Next 5,000 Gallons | 2.50 Per 1,000 Gallons | Next 5,000 Gallons | 3.00 Per 1,000 Gallons |
| Next 30,000 Gallons | 1.80 Per 1,000 Gallons | Next 30,000 Gallons | 2.16 Per 1,000 Gallons |
| Next 50,000 Gallons | 1.50 Per 1,000 Gallons | Next 50,000 Gallons | 1.80 Per 1,000 Gallons |
| All over 100,000 Gallons | 1.25 Per 1,000 Gallons | All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

| <u>MONTHLY USAGE</u> | <u>MONTHLY BILL AT CURRENT RATE</u> | <u>MONTHLY BILL AT PROPOSED RATE</u> | <u>PERCENT INCREASE OVER CURRENT</u> |
|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| 15,000 | \$43.25 | \$51.90 | 20.0% |
| 20,000 | \$55.75 | \$66.90 | 20.0% |
| 30,000 | \$73.75 | \$88.50 | 20.0% |
| 50,000 | \$109.75 | \$131.70 | 20.0% |
| 100,000 | \$184.75 | \$221.70 | 20.0% |

Monthly Rates for 3 And 4 Inch Meters

| <u>Current</u> | | <u>Proposed</u> | |
|-----------------------|------------------------|--------------------------|------------------------|
| First 100,000 Gallons | \$184.75 Minimum Bill | First 100,000 Gallons | \$221.70 Minimum Bill |
| Over 100,000 Gallons | 1.25 Per 1,000 Gallons | All over 100,000 Gallons | 1.50 Per 1,000 Gallons |

| <u>MONTHLY USAGE</u> | <u>MONTHLY BILL AT CURRENT RATE</u> | <u>MONTHLY BILL AT PROPOSED RATE</u> | <u>PERCENT INCREASE OVER CURRENT</u> |
|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| 100,000 | \$184.75 | \$221.70 | 20.0% |
| 200,000 | \$309.75 | \$371.70 | 20.0% |
| 300,000 | \$434.75 | \$521.70 | 20.0% |

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

Any corporation, association, body politic, or person may request leave to intervene, by motion within thirty (30) days after notice of the proposed rate change is given. A motion to intervene shall be in writing, shall be submitted to the Executive Director, Public Service Commission, Post Office Box 615, Frankfort, KY 40602, and shall set forth the grounds for the motion, including the status and interest of the party movant. Copies of the application may be obtained at no charge from the utility office at Hickory Water District, P.O. Box 128, Hickory, KY 42051. Upon request from an intervenor, the utility shall furnish to the intervenor a copy of the application and supporting documents.

Hickory Water District

HICKORY WATER DISTRICT

FINANCIAL REPORT

DECEMBER 31, 2008

**T A B L E O F
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Hickory Water District
Hickory, Kentucky

We have audited the accompanying financial statements of Hickory Water District as of and for the year ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1, Hickory Water District has prepared these financial statements using accounting practices prescribed or permitted by the Public Service Commission, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Hickory Water District as of December 31, 2008 and 2007, the changes in its financial position, or its cash flows for the years then ended. Further, the District has not presented the required supplementary management's discussion and analysis that accounting principles generally accepted in the United States and regulatory agreement

To the Board of Commissioners
Hickory Water District
Page Two

has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Hickory Water District as of December 31, 2008 and 2007, the revenues it earned and expenses it incurred, and its cash flows for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 21, 2009 on our consideration of Hickory Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hickory Water District's basic financial statements. The Supplemental data and the Public Service Commission of Kentucky Annual Report are also presented for purposes of additional analysis and are not a required part of the basic financial statements of Hickory Water District. Such information, except for the portion(s) marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Mayfield, Kentucky
May 21, 2009

HICKORY WATER DISTRICT
STATEMENTS OF NET ASSETS – REGULATORY BASIS
December 31, 2008 and 2007

| ASSETS | 2008 | 2007 |
|---|--------------------|--------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 62,717 | \$ 52,691 |
| Customer accounts receivable | 48,060 | 42,201 |
| Prepaid expenses | <u>326</u> | <u>326</u> |
| Total unrestricted current assets | <u>111,103</u> | <u>95,218</u> |
| Cash and cash equivalents- Restricted | 9,772 | 31,485 |
| Restricted interest receivable | <u>1,347</u> | <u>1,347</u> |
| Total restricted current assets | <u>11,119</u> | <u>32,832</u> |
| Total current assets | <u>122,222</u> | <u>128,050</u> |
| NONCURRENT ASSETS | | |
| Restricted long-term investments | <u>238,876</u> | <u>203,913</u> |
| CAPITAL ASSETS | | |
| Nondepreciable capital assets: | | |
| Land | <u>21,417</u> | <u>21,417</u> |
| Depreciable Capital assets: | | |
| Utility plant in service, at cost | 4,449,754 | 4,422,037 |
| Less accumulated provision for depreciation computed by the straight-line method | <u>(2,274,112)</u> | <u>(2,181,086)</u> |
| Total depreciable capital assets | <u>2,175,642</u> | <u>2,240,951</u> |
| Total capital assets | <u>2,197,059</u> | <u>2,262,368</u> |
| Total noncurrent assets | <u>2,435,935</u> | <u>2,466,281</u> |
| Total assets | <u>2,558,157</u> | <u>2,594,331</u> |

The Notes to Financial Statements are an integral part of these statements.

HICKORY WATER DISTRICT
STATEMENTS OF NET ASSETS – REGULATORY BASIS
December 31, 2008 and 2007
(Continued)

| | 2008 | 2007 |
|---|------------------|--------------------|
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 22,018 | \$ 10,508 |
| Customer deposits | 11,492 | 10,468 |
| Land condemnation escrow | 5,478 | 5,478 |
| Advances for construction | <u>55,381</u> | <u>55,381</u> |
| Total current liabilities | <u>94,369</u> | <u>81,835</u> |
| Liabilities payable from restricted assets | | |
| Interest payable | 2,353 | 2,583 |
| Current portion of long-term debt | <u>29,335</u> | <u>28,885</u> |
| Total payable from restricted assets | <u>31,688</u> | <u>31,468</u> |
| Long-term debt | <u>393,455</u> | <u>422,790</u> |
| Total liabilities | <u>519,512</u> | <u>536,093</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 1,774,269 | 1,810,693 |
| Restricted for debt service | 247,642 | 234,162 |
| Unrestricted | <u>16,734</u> | <u>13,383</u> |
| Total net assets | <u>2,038,645</u> | <u>\$2,058,238</u> |

The Notes to Financial Statements are an integral part of these statements.

**HICKORY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS – REGULATORY BASIS
Years Ended December 31, 2008 and 2007**

| | 2008 | 2007 |
|--|--------------------|--------------------|
| OPERATING REVENUE | <u>\$ 325,942</u> | <u>\$ 334,229</u> |
| OPERATING EXPENSE | | |
| Purchased water | 10,475 | 3,666 |
| Purchased power | 31,862 | 27,942 |
| Chemicals | 38,101 | 43,846 |
| Materials and supplies | 26,140 | 31,801 |
| Contractual services | 139,946 | 144,855 |
| Insurance | 5,740 | 5,044 |
| Miscellaneous | 6,264 | 4,092 |
| Bad debt | 874 | 236 |
| Depreciation and amortization | 93,026 | 90,167 |
| Tax & license | 40 | 580 |
| Total operating expenses | <u>352,468</u> | <u>352,229</u> |
| Operating income (loss) | <u>(26,526)</u> | <u>(18,000)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest expense | (10,495) | (11,261) |
| Investment income | 9,964 | 7,267 |
| Nonoperating revenues (expenses) | <u>(531)</u> | <u>(3,994)</u> |
| Income before capital contributions | <u>(27,057)</u> | <u>(21,994)</u> |
| Capital contributions | 7,465 | 341,650 |
| Increase (Decrease) in net assets | <u>(19,592)</u> | <u>319,656</u> |
| NET ASSETS | | |
| Beginning of year | <u>2,058,238</u> | <u>1,738,582</u> |
| End of year | <u>\$2,038,645</u> | <u>\$2,058,238</u> |

The Notes to Financial Statements are an integral part of these statements.

HICKORY WATER DISTRICT
STATEMENTS OF CASH FLOWS – REGULATORY BASIS
Years Ended December 31, 2008 and 2007

| | 2008 | 2007 |
|--|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 320,083 | \$ 336,327 |
| Cash payments to suppliers for goods and services | (247,932) | (259,060) |
| Customer deposits received | 2,104 | 2,240 |
| Customer deposits returned | (1,080) | (960) |
| Net cash provided by operating activities | <u>73,175</u> | <u>78,547</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Debt reduction: | | |
| Short-term | (28,885) | (27,943) |
| Utility plant additions and improvements | (27,717) | (429,810) |
| Advances for construction | -0- | 55,381 |
| Contributions in aid of construction | 7,465 | 341,650 |
| Interest paid on long-term debt | (10,725) | (11,261) |
| Net cash provided by (used for) capital and related financing activities | <u>(59,862)</u> | <u>(71,983)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | (25,000) | -0- |
| Net cash provided by (used for) investing activities | <u>(25,000)</u> | <u>-0-</u> |
| Net increase in cash and cash equivalents | (11,687) | 6,564 |
| CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR | <u>84,176</u> | <u>77,612</u> |
| CASH AND CASH EQUIVALENTS – END OF THE YEAR | <u>\$ 72,489</u> | <u>\$ 84,176</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating income (loss) | (26,526) | (18,000) |
| Adjustments to reconcile operating income (loss) to cash provided by operating activities: | | |
| Depreciation and amortization | 93,026 | 90,167 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (5,860) | 2,098 |
| Interest receivable | -0- | -0- |
| Accounts payable and accrued expenses | 11,510 | 3,002 |
| Customer deposits | <u>1,025</u> | <u>1,280</u> |
| Net cash provided by operating activities | <u>73,175</u> | <u>78,547</u> |

The Notes to Financial Statements are an integral part of these statements.

**HICKORY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

Note 1. Description of Entity & Significant Accounting Policies

Hickory Water District is engaged in providing water supply to approximately 1,330 customers who live in the Northern Graves County, Kentucky area and the northernmost city limits of Mayfield, Kentucky. The water district was created in 1964 under Chapter 14 of the Kentucky Revised Statutes.

In evaluating how to define Hickory Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

Basis of Presentation and Accounting:

As stated in Kentucky Revised Statutes (KRS) 278.012, "any water association formed for the purpose of furnishing water services to the general public pursuant to KRS Chapter 273 is deemed to be and shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. This uniform system of accounts is presented on the accrual basis in accordance with practices prescribed by the Public Service Commission. In accordance with the Public Service Commission's regulations, costs associated with hook-up fees are capitalized as meters, installations and services. This practice differs from generally accepted accounting principles under which these costs and the related fees are recorded as operating expenses and revenues. Except for this regulatory difference, the Public Service Commission prescribes the use of Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has not adopted the provisions of FASB No. 71, *Accounting for the Effects of Certain Types of Regulations*.

The District's 2004 financial statements (including the related notes) reflected the District's initial financial implementation and statement presentation in accordance with GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments and related standards, except as noted herein. This standard provided significant required changes in terminology; recognition of contributions in the statement of revenues, expenses and changes in net assets; inclusion of a management discussion and analysis as supplementary information; and other changes.

The Hickory Water District is operated as a proprietary and/or enterprise fund. Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets regulatory basis. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted, constraints imposed by creditors/grantors/laws/or contributions; and unrestricted components, all other. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, unrestricted resources are used first.

Revenue and Expenses:

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities.

Property and Equipment:

Property and equipment purchased or constructed are stated at cost. The cost of meters, including installation, is capitalized. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Expenses for maintenance and repairs that do not increase the useful life of the asset are charged to operations as they are incurred. The District does not have a particular dollar amount threshold for capitalization purposes.

Income Taxes:

The Hickory Water District is not subject to income taxes.

Contributed Capital:

The District has adopted Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires governments to recognize capital contributions to proprietary funds as revenues, instead of contributed capital. Prior to implementing GASB No. 33, the fair market value of donated property received by the District, impact fees, tap on fees and grants which were restricted for the acquisition or construction of capital assets, were recorded as contributed capital. Tap on fees of \$7,465 were received during the year ended December 31, 2008, and \$14,000 during the year ended December 31, 2007. No grants were received by the District for the year ended December 31, 2008 or December 31, 2007.

Statement of Cash Flows:

For purposes of reporting cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Reclassifications:

For clarification purposes, reclassifications have been made to certain previously reported amounts.

Note 2. Cash and Investments

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Hickory Water District's policies regarding deposits of cash are discussed above. The table presented below designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2008, and December 31, 2007. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

December 31, 2008

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Custody Credit Risk Category</u> | | |
|-------------------------|---------------------------|-------------------------------------|---------------|---------------|
| | | <u>1</u> | <u>2</u> | <u>3</u> |
| Demand Deposits | \$ 72,263 | \$ 72,263 | \$ -0- | \$ -0- |
| Time Deposits - FNB | 135,699 | 135,699 | -0- | -0- |
| Time Deposits - Regions | <u>103,177</u> | <u>103,177</u> | <u>-0-</u> | <u>-0-</u> |
| Total Deposits | <u>\$ 311,139</u> | <u>\$ 311,139</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |

December 21, 2007

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Custody Credit Risk Category</u> | | |
|-------------------------|---------------------------|-------------------------------------|-------------------|---------------|
| | | <u>1</u> | <u>2</u> | <u>3</u> |
| Demand Deposits | \$ 84,071 | \$ 84,071 | \$ -0- | \$ -0- |
| Time Deposits | <u>203,913</u> | <u>15,929</u> | <u>187,984</u> | <u>-0-</u> |
| Total Deposits | <u>\$ 287,984</u> | <u>\$ 100,000</u> | <u>\$ 187,984</u> | <u>\$ -0-</u> |

Reconciliation to Statement of Net Assets:

| | <u>December 31, 2008</u> | <u>December 31, 2007</u> |
|--|--------------------------|--------------------------|
| Cash on Hand | \$ 226 | \$ 105 |
| Unrestricted Cash, Including Time Deposits | 62,491 | 52,586 |
| Restricted Cash, Including Time Deposits | <u>248,648</u> | <u>235,398</u> |
| | <u>\$ 311,365</u> | <u>\$ 288,089</u> |

Note 3. Restricted Assets

Restricted cash and investments consist of the following:

| | 2008 | 2007 |
|---------------------------|-------------------------|--------------------------|
| Bond and Interest Account | \$ 6,813 | \$ 6,858 |
| Sinking Account | 190,120 | 181,168 |
| Depreciation Account | <u>51,715</u> | <u>47,372</u> |
| Total | <u>\$248,648</u> | <u>\$ 235,398</u> |

Restricted receivables consist of the following:

| | 2008 | 2007 |
|---------------------|-----------------|-----------------|
| Interest receivable | <u>\$ 1,347</u> | <u>\$ 1,347</u> |

Note 4. Long-Term Debt

At December 31, 2008 and 2007, long-term debt consisted of a note payable to the Kentucky Infrastructure Authority bearing interest of 1.8% and two revenue bonds bearing interest rates of 3.75% and 5.0%, respectively. Principal & interest are payable semi-annually on the note payable. Principal on the two revenue bonds is payable in accordance with the following schedule with interest payable semi-annually:

1982 ISSUE:

| <u>MATURITY</u> | <u>INTEREST 2008</u> | <u>INTEREST 2007</u> | <u>INTEREST RATE</u> | <u>PRINCIPAL 2008</u> | <u>PRINCIPAL 2007</u> |
|-----------------|--------------------------|--------------------------|--------------------------|---------------------------|---------------------------|
| 2008 | \$ -0- | \$ 3,750 | 5.0% | \$ -0- | \$ 4,000 |
| 2009 | 3,550 | 3,550 | 5.0% | 4,000 | 4,000 |
| 2010 | 3,350 | 3,350 | 5.0% | 4,000 | 4,000 |
| 2011 | 3,150 | 3,150 | 5.0% | 4,500 | 4,500 |
| 2012 | 2,925 | 2,925 | 5.0% | 4,500 | 4,500 |
| 2013-2017 | 10,925 | 10,925 | 5.0% | 27,000 | 27,000 |
| 2018-2021 | 3,425 | 3,425 | 5.0% | 27,000 | 27,000 |
| | <u>\$ 27,325</u> | <u>\$ 31,075</u> | | <u>\$ 71,000</u> | <u>\$ 75,000</u> |

KIA Note Payable

| <u>MATURITY DATE</u> | <u>INTEREST 2008</u> | <u>INTEREST 2007</u> | <u>INTEREST RATE</u> | <u>PRINCIPAL 2008</u> | <u>PRINCIPAL 2007</u> |
|----------------------|--------------------------|--------------------------|--------------------------|---------------------------|---------------------------|
| 2008 | \$ -0- | 6,669 | 1.8% | \$ -0- | 24,885 |
| 2009 | 6,219 | 6,219 | 1.8% | 25,335 | 25,335 |
| 2010 | 5,761 | 5,761 | 1.8% | 25,793 | 25,793 |
| 2011 | 5,294 | 5,294 | 1.8% | 26,260 | 26,260 |
| 2012 | 4,819 | 4,819 | 1.8% | 26,734 | 26,734 |
| 2013-2017 | 16,669 | 16,669 | 1.8% | 141,100 | 141,100 |
| 2018-2021 | 3,871 | 3,871 | 1.8% | 106,568 | 106,568 |
| | <u>\$ 42,633</u> | <u>\$ 49,302</u> | | <u>351,790</u> | <u>376,675</u> |

Current Maturities

(29,335) (28,885)

Long-Term Debt

\$ 393,455 \$ 422,790

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for debt of the same remaining maturities. The carrying amounts of long-term debt approximates fair value.

Note 5. Short-Term Debt

| | <u>Balance at Jan. 1, 2007</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at Dec. 31, 2007</u> |
|-----------------|------------------------------------|------------------|------------------|-------------------------------------|
| Short-Term Debt | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| | <u>Balance at Jan. 1, 2008</u> | | | <u>Balance at Dec. 31, 2008</u> |
| Short-Term Debt | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |

Note 6. Litigation

The Kentucky Department of Highways has condemned and taken certain property owned by Hickory Water District. The Department of Highways deposited the purchase price of \$12,978 with the County Clerk and immediately filed suit against the District to have the purchase price of the property reduced. The District has invested the funds in money market certificates. This was settled out of court for \$7,500; therefore, the District is to repay \$5,478 to the Kentucky Department of Highways. At report time, the state's attorney had not requested this money and it is being held by the District until such time as it is requested.

Note 7. Bond Ordinance

The Bond and Interest Sinking Fund is required to receive 1/12 of annual principal and interest payments per month. At December 31, 2008, the balance in the Bond and Interest Sinking Fund was \$6,813 which was sufficient to cover January 2009 interest payments. Monthly deposits continue to be made to provide for the next principal and interest payments.

The Reserve Fund (called Sinking Fund on the District's books) is required to receive 20% of the revenues after transfers to the Bond and Interest Fund each month until the required balance is on deposit. At this time the required balance is on hand so no additional deposits are being made. The required balance of the Fund per the bond ordinance is \$7,800. The actual balance in this account at December 31, 2008 was \$190,120 consisting of certificates of deposit of \$189,857 and cash of \$263. This resulted in an excess of \$182,320 at December 31, 2008. The actual balance in this account at December 31, 2007 is \$181,168 consisting of certificates of deposit of \$181,080 and cash of \$88. This resulted in an excess of \$173,368 at December 31, 2007.

The Depreciation Fund is required to receive 10% of the remaining Revenue Fund balance after the Bond and Interest Fund and the Reserve Fund required deposits have been met each month. The required balance per the bond ordinance is \$40,000. The KIA loan also requires an annual deposit equal to 10% of the annual installment until the account is funded, \$26,400. The actual balance in this account at December 31, 2008, was \$51,714, consisting of \$2,695 in cash and \$49,019 in certificates of deposit. The actual balance in this account at December 31, 2007 was \$47,372, consisting of \$24,540 in cash and \$22,832 in certificates of deposit. This account is currently under funded by \$13,108. The District is only making the deposit to meet the KIA installment. Since the sinking fund is over funded by \$182,320 no ordinance has been broken.

Note 8. Capital Assets

A summary of Hickory Water District's change in capital assets during 2008 and 2007 is as follows:

| | <u>Balance at January 1, 2008</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at December 31, 2008</u> |
|---------------------------------------|---------------------------------------|----------------------------|----------------------|---|
| Land & Land Rights | \$ 21,417 | \$ -0- | \$ -0- | \$ 21,417 |
| Structures & improvements | 114,960 | -0- | -0- | 114,960 |
| Distribution System | 4,194,587 | 26,922 | -0- | 4,221,509 |
| Machinery & Equipment | <u>112,490</u> | <u>795</u> | <u>-0-</u> | <u>113,285</u> |
| Total at Historical Cost | <u>\$4,443,454</u> | <u>\$ 27,717</u> | <u>\$ -0-</u> | <u>\$4,471,171</u> |
| Less: Accumulated Depreciation | | | | |
| Structures & Improvements | (\$ 80,210) | (\$ 1,427) | \$ -0- | (\$ 81,637) |
| Distribution System | (2,043,695) | (85,315) | -0- | (2,129,010) |
| Machinery & Equipment | (57,181) | (6,284) | -0- | (63,465) |
| Total Accumulated Depreciation | (\$2,181,086) | (\$ 93,027) | -0- | (\$2,274,112) |
| Capital Assets, Net | <u>\$2,262,368</u> | <u>(\$ 65,310)</u> | <u>\$ -0-</u> | <u>\$2,197,059</u> |

| | <u>Balance at January 1, 2007</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at December 31, 2007</u> |
|---------------------------------------|---------------------------------------|--------------------------|----------------------|---|
| Land & Land Rights | \$ 21,417 | \$ -0- | \$ -0- | \$ 21,417 |
| Structures & Improvements | 114,085 | 875 | -0- | 114,960 |
| Distribution System | 3,779,567 | 415,020 | -0- | 4,194,587 |
| Machinery & Equipment | <u>98,576</u> | <u>13,914</u> | <u>-0-</u> | <u>112,490</u> |
| Total at Historical Cost | <u>\$4,013,645</u> | <u>\$ 429,809</u> | <u>\$ -0-</u> | <u>\$4,443,454</u> |
| Less: Accumulated Depreciation | | | | |
| Structure & Improvements | (\$ 78,783) | (\$ 1,427) | \$ -0- | (\$ 80,210) |
| Distribution System | (1,959,660) | (84,035) | -0- | (2,043,695) |
| Machinery & Equipment | (52,534) | (4,647) | -0- | (57,181) |
| Total Accumulated Depreciation | (\$2,090,977) | (\$ 90,109) | \$ -0- | (\$2,181,086) |
| Capital Assets, Net | <u>\$1,922,668</u> | <u>\$ 339,700</u> | <u>\$ -0-</u> | <u>\$ 2,262,368</u> |

Note 9. Related Parties

There was related party (district customer's) contract labor of \$36,136 in 2008 and \$35,680 in 2007.

Note 10. Customer Dependence

The District's largest customer represents less than 10% of the (gross) operating revenue.

Note 11. Use of 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.

Note 12. Grant(s)/Loans

In the normal course of operations, the District receives grant/loan funds from various Federal and/or State agencies. The grant/loan program(s) are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting/loaning of funds. Any liability for reimbursement which may arise as the result of an audit(s) is not believed to be material.

Note 13. Budget

The budget for the proprietary fund operation is prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable expenditure is expected to be made. Budgeted appropriations lapse at year-end.

Note 14. Customer Accounts Receivable

During the year, customer water meters are read and bills rendered throughout monthly period(s). Because not every meter is read on the same date, revenue for water distributed but not yet billed is accrued at year-end to match revenues with related expenses. Estimated unbilled water service revenue of \$12,000 is included in accounts receivable at December 31, 2008 and December 31, 2007.

The District provides an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal contracts receivable are due 30 days after billing. Receivables past due are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. No provision for doubtful accounts has been made at December 31, 2008 and 2007, as management considers all amounts fully collectible.

Note 15. Fund Equity – Restricted Net Assets

| | 2008 | 2007 |
|---|---------------------|---------------------|
| Restricted for Debt Service: | | |
| KIA loan and 1 revenue bond | | |
| Cash | \$ 248,648 | \$ 235,398 |
| Add: Accrued interest receivable | 1,347 | 1,347 |
| Less: Accrued interest payable | <u>(2,353)</u> | <u>(2,583)</u> |
| | <u>\$ 247,642</u> | <u>\$ 234,162</u> |
| Invested in Capital Assets, Net of Related Debt: | | |
| Non depreciable capital assets-land | \$ 21,417 | \$ 21,417 |
| Depreciable capital assets- | | |
| Utility plant in service | 4,449,754 | 4,422,037 |
| Accumulated depreciation | <u>(2,274,112)</u> | <u>(2,181,086)</u> |
| Current portion of long-term debt | <u>(29,335)</u> | <u>(28,885)</u> |
| Long-term debt-non current | <u>(393,455)</u> | <u>(422,790)</u> |
| | <u>\$ 1,774,269</u> | <u>\$1,810,693</u> |

Note 16. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The District carries commercial insurance for risk of loss. The District did not have settled claims that exceeded the District's commercial insurance coverage in any of the past three years. The District's coverage is included in the supplemental data.

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Hickory Water District
Hickory, Kentucky

We have audited the financial statements of Hickory Water District, Hickory, Kentucky, as of and for the year ended December 31, 2008 and 2007 and have issued our report thereon dated May 21, 2009. The report on Hickory Water District was qualified because, as described in the third paragraph, the financial statements are prepared on a prescribed basis of accounting that demonstrates compliance with the regulatory basis of accounting and practices prescribed by the Public Service Commission. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hickory Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hickory Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hickory Water District's internal control over financial reporting.

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

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

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

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

Hickory Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Hickory Water District's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, GMAC Commercial Mortgage Corporation, the Public Service Commission of Kentucky, and lending institutions and is not intended to be and should not be used by anyone other than these specified parties.

Mayfield, Kentucky
May 21, 2009

**HICKORY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008**

**FINDINGS RELATIVE TO THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

SIGNIFICANT DEFICIENCY

BILLING SYSTEM CONDITION: The outside meter reading and billing service organizations which read meters and process the water billing transactions and reports fail to have efficient controls over transaction processing. Meters are sometimes misread or logged incorrectly or the data is not input correctly during processing. This was also a prior year significant deficiency.

CRITERIA: Internal controls should be put in place to have efficient controls over transaction processing and appropriate reviews of the billing output.

EFFECT: Customer bills are incorrect and have to be adjusted by the District.

RECOMMENDATION: Procedures should be implemented to timely monitor, review, and approve billing transactions and reports.

INSTITUTION'S RESPONSE: The institution agrees with the finding. The institution is continually working with the outside organizations to correct processing errors and reports as they occur. The district is in the process of changing vendors for these services.

CASH COLLECTIONS CONDITION: The District is lacking appropriate controls within the office regarding the area of cash collections. The office has only one person who must receive payments and make daily deposits. This was also a prior year significant deficiency.

CRITERIA: Internal controls should be put in place to have efficient controls over cash. Management should monitor adjustments and bank accounts.

EFFECT: Conditions in the District's small office allow the possibility of mishandling of cash receipts.

RECOMMENDATION: Procedures should be implemented to timely monitor and review the District's receipts and deposits.

INSTITUTION'S RESPONSE: Management is aware of this matter and is continually monitoring procedures within the operation in order to detect any problems that could occur. The district is currently in the process of contracting with a vendor who services several water districts to perform the duties of cash collections.

SUPPLIES CONDITION: The District is lacking appropriate controls within the office regarding the usage and payment for materials and supplies. There is no monitoring to ensure the materials and supplies are being used for the district's customers and invoices are paid without assurance the district received the items listed on the invoice. This was also a prior year significant deficiency.

CRITERIA: Internal controls should be put in place to have efficient controls over the usage and payment for materials and supplies.

EFFECT: Conditions in the District allow the possibility of mishandling materials and supplies.

RECOMMENDATION: Procedures should be implemented to timely monitor, review, and approve payment for and use of materials and supplies.

INSTITUTION'S RESPONSE: Management will have contractors match supplies received to invoice and have invoice forwarded to clerk to match with statement. Management will monitor supplies for appropriate use. The District is currently contracting with a vendor to handle all areas dealing with materials & supplies.

PREPARATION OF FINANCIAL STATEMENTS CONDITION: The auditor prepares the financial statements and notes for the District.

CRITERIA: Internal controls should be put in place for the chairman to review and approve the financial statements and notes. The District is to accept full responsibility for the accuracy of the financial statements and notes.

EFFECT: Financial statements including notes are currently being prepared by client's auditor.

RECOMMENDATION: Procedures should be implemented to allow the District to prepare their own financial statements and notes.

INSTITUTION'S RESPONSE: Management is aware of the new situation regarding the preparation of financial statements and is currently looking into the best way to handle the situation.

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL DATA
HICKORY WATER DISTRICT
CERTIFICATE OF INSURANCE - "UNAUDITED"

Property Insurance:

| <u>Property Description</u> | <u>Policy #</u> | <u>Insurance Co. & Address</u> | <u>Amount of Coverage</u> | <u>Expiration Date</u> |
|-----------------------------|-----------------|---|---------------------------|------------------------|
| Property, tanks, & Office | CAP 5160799 | Cincinnati Ins. Co. c/o Peel & Holland, Inc. Mayfield, Kentucky | \$1,326,500 | 10/26/11 |

Liability Insurance:

| <u>Policy #</u> | <u>Insurance Co. & Address</u> | <u>Amount of Coverage</u> | <u>Expiration Date</u> |
|--------------------------|---|---------------------------|------------------------|
| CAP 5160799 Liability | Cincinnati, Ins., Co. c/o Peel & Holland, Inc. Mayfield, Kentucky | \$1,000,000 | 10/26/11 |

Fidelity Bond Coverage:

| <u>Position Bonded</u> | <u>Policy #</u> | <u>Insurance Co. & Address</u> | <u>Amount of Coverage</u> | <u>Expiration Date</u> |
|---|-----------------|--|---------------------------|------------------------|
| Employee dishonesty Blanket Position | 69566588 | CNA c/o McClain, Baugh & Sims Mayfield, Kentucky | \$ 45,000 ea. person | 9/1/09 |
| Access Permit | 69543117 | CNA c/o McClain, Baugh & Sims Mayfield, Kentucky | \$ 20,000 | 6/2/09 |

I certify that the insurance and bond coverage shown above is currently effective and copies of the insurance policies are on file with our office.

Chairman

SUPPLEMENTAL DATA
HICKORY WATER DISTRICT
CUSTOMER ACCOUNTS RECEIVABLE
DECEMBER 31, 2008

| <u>0-30 days</u> | <u>31-60 days</u> | <u>61-90 days</u> | <u>over 90 days</u> | <u>Total Receivables</u> |
|------------------|-------------------|-------------------|---------------------|------------------------------|
| <u>\$ 36,203</u> | <u>\$ 6,910</u> | <u>\$ 3,937</u> | <u>\$ 1,010</u> | <u>\$ 48,060</u> |