



1002 MEDICAL DRIVE
P.O. BOX 588
MAYFIELD, KY 42066

270-247-7171
FAX: 270-251-6110

LETTER OF TRANSMITTAL

ATTENTION

Mr. Jeff DeRouen
Kentucky Public Service Commission
P.O. Box 165
211 Sower Blvd.
Frankfort, KY 40602-0615

DATE: June 14, 2010

RECEIVED

JUN 16 2010

PUBLIC SERVICE
COMMISSION
South 641 Water District
Application for CPCN

SUBJECT

WE ARE TRANSMITTING
 HEREWITH UNDER SEPARATE COVER
THESE ARE TRANSMITTED
 AS REQUESTED FOR YOUR USE
 FOR REVIEW AND COMMENT

2010-06240

COPIES

DESCRIPTION

Enclosed please find:
An original and ten copies of an Application for a Certificate of Public
Convenience and Necessity for a Sanitary Sewer Rehabilitation Project

REMARKS

COPIES TO

BY

IF ENCLOSURES ARE NOT AS
NOTED, PLEASE INFORM US
IMMEDIATELY

Kim DeRenard
Project Development Specialist

South 641 Water District
Application for a Certificate of Public Convenience and Necessity – Sewer
Sanitary Sewer Rehabilitation Project

Original copy of the application includes a description for the following filing requirements:

- Cover letter from Chairman Hillis Farris
- 807 KAR 5:001: Section 8 (1)
- 807 KAR 5:001: Section 8 (2)
- 807 KAR 5:001: Section 8 (3)
- 807 KAR 5:001: Section 9 (2) a through f
- 807 KAR 5:071: Section 3 (1) a through m
- Exhibits A through D with attachments:
 - A: Division of Water approval letter
 - B: Project Description/Activities
 - C: Financial Information –Annual Report, Balance Sheets, Audit, Annual Budget
 - D: Engineer’s Cost Estimate and Project Funding Breakdown
 - E: 11 x 17 Map of the existing collection system
- Three Color Copies of Two Maps (Sheet 2-gravity sewer rehab, Sheet 3-manhole rehabilitation) showing the proposed system improvements (807 KAR 5:001: Section (9) (2) d
- Three Color Copies of a Map showing the existing collection system (807 KAR 5:071: Section (3) (1) c

2010-00240
RECEIVED

JUN 16 2010

PUBLIC SERVICE
COMMISSION

For the 10 copies, the application includes a description for the following filing requirements:
(the copies of the maps are not included)

- Cover letter from Chairman Hillis Farris
- 807 KAR 5:001: Section 8 (1)
- 807 KAR 5:001: Section 8 (2)
- 807 KAR 5:001: Section 8 (3)
- 807 KAR 5:001: Section 9 (2) a through f
- 807 KAR 5:071: Section 3 (1) a through m
- Exhibits A through D with attachments:
 - A: Division of Water approval letter
 - B: Project Description/Activities
 - C: Financial Information –Annual Report, Balance Sheets, Audit, Annual Budget
 - D: Engineer’s Cost Estimate and Project Funding Breakdown
 - E. 11 x 17 Map of the existing collection system

The Project Engineer, Florence & Hutcheson, has submitted three copies of the plans and specs directly to the Public Service Commission.

South 641 Water District

P.O. Box 126
Hazel, KY 42049
(270) 492-8857

June 3, 2010

Jeff DeRouen
Executive Director
Kentucky Public Service Commission
P.O. Box 165
211 Sower Blvd.
Frankfort, KY 40602-0615

RE: South 641 Water District - Kentucky Public Service Commission
Application for a CPCN for a Sewer Improvements Construction Project:
Sanitary Sewer Rehabilitation

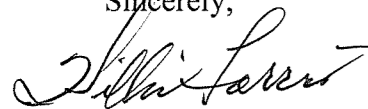
Dear Mr. DeRouen:

Enclosed please find an original and ten copies of the South 641 Water District's application for a Certificate of Public Convenience and Necessity to construct a sewer improvements project pursuant to KRS Chapter 278. Also enclosed with the application are the exhibits, three maps to suitable scale showing the gravity sewer rehab, three maps to suitable scale showing the manhole rehab, and three maps showing the existing collection system. The engineering firm, Florence & Hutcheson, has prepared the plans and specifications and sent three copies directly to the Public Service Commission.

The Water District has been working with Florence & Hutcheson and the Purchase Area Development District on this project. This project is a priority for the South 641 Water District. The sewer rehab improvements are necessary for the wastewater system to operate efficiently. The project needs to move forward in a timely manner because the project design has been approved, all funds are committed, and the project addresses Notice of Violations that the Water District has received from Kentucky Division of Water. The South 641 Water District should be advertising for bids in the coming month.

Thank you for your assistance with this matter. If you have questions or need additional information, please feel free to contact the wastewater operator, Hank Stanfield, at the Water District at (270) 492-8857 or the project administrator, Kim DeRenard at the Purchase Area Development District (270) 251-6188.

Sincerely,



Hillis Farris
Chairman

South 641 Water District
Application for a Certificate of Public Convenience and Necessity – Sewer
Collection System Rehab

1) 807 KAR 5:001: Section 8 (1)

South 641 Water District
P.O. Box 126
200 Main Street
Hazel, KY 42049
270-492-8857 phone
270-492-8562 fax

KRS 278.020 requires a utility beginning construction to obtain a Certificate of Public Convenience and Necessity.

2) 807 KAR 5:001: Section 8 (2)

10 copies of this application are attached.

3) 807 KAR 5:001: Section 8 (3)

In the prior proceeding, Case number 2009-00349 in Exhibit A is the documentation for the incorporation of the South 641 Water District.

The following list of items was included in Case Number 2009-00349 Exhibit A for the WWTP Improvements project:

- 1) South 641 Water District Rules and Regulation/Bylaws
- 2) Petition for Creation of South 641 Water District
- 3) Case No. 6874 – Petition of five residents for the establishment of a Water district
- 4) Order Establishing and Creating a Water District – South 641 Water District
- 5) Order Appointing Three Water District Commissioners
- 6) Opinion of Due Incorporation and Continued Existence of Water District
- 7) Acceptance of Franchise
- 8) Ordinance relating to Franchise
- 9) Deed and Bill of Sale

4) 807 KAR 5:001: Section 9 (2) (a)

The proposed project is necessary for the South 641 Water District to upgrade the collection system. The Water District has received Notice of Violations (NOV) and is under an Agreed Order with Kentucky Division of Water to correct problems associated with the Wastewater treatment plant and collection system. On 2/1/06 the Water District received a NOV for using an unapproved form of disinfection (tablet chlorination) and for not using an effluent flow meter. On 7/27/2007, the Water District received a Notice of Violation for Discharge Monitoring Report (DMR) Violations because of fecal coliform excursion reported on the reports. On 8/29/2008, the Water District received a notice of violation for Discharge Monitoring Report Violations due to fecal coliform, suspended solids removal, percent Biochemical oxygen demand (BOD), and total suspended solid excursions. The remedial measures required by Kentucky Division of Water are for the Water District to work with a professional engineer to upgrade the wastewater treatment plant and collection system as required. The engineer, Florence &

Hutcheson, has completed design for the Wastewater Treatment Plant Improvements, influent lift station construction, and Sanitary Sewer Rehabilitation. The WWTP Improvements and influent lift station project is currently in the construction stage with a projected completion date of August 15, 2010. The Sanitary Sewer Rehabilitation project design has been approved by Kentucky Division of Water by letter dated May 6, 2010. The Sanitary Sewer Rehabilitation project will be completed to reduce inflow and infiltration throughout the collection system. The sewer rehab project will include television inspection and cleaning of sewer lines, cured in place pipe repairs, point repairs, manhole cleaning and manhole rehabilitation. The construction project will consist of rehab of approximately 5,000 linear feet of 8-inch sanitary sewer.

The South 641 Water District did not have the financial means to take on this large project. The South 641 Water District has worked diligently with the City of Hazel to pursue and obtain grant funding for the project. The South 641 Water District will utilize grant funding from Community Development Block Grant, EPA Special Appropriation Grant, Kentucky Infrastructure Authority Budget line items from HB 380 and HB 608. This project is necessary for the Water District to continue to operate the wastewater system in an efficient manner and maintain compliance with its KPDES permit.

5) 807 KAR 5:001: Section 9(2)(b)

There are no franchises associated with the wastewater system for this proposed project.

Attached to this application as Exhibit A is information regarding permits for the project:

1) Letter from Energy and Environment Cabinet/Division of Water regarding Construction Plans and Specs Approval - No permit was needed since maintenance only.

6) 807 KAR 5:001: Section 9(2)(c)

Attached to this application as Exhibit B is an explanation of the project activities for the sanitary sewer rehabilitation project. The project engineer has compiled a description for the project.

The project engineer, Florence & Hutcheson has submitted three copies of the project plans and specs directly to the PSC for this project.

7) 807 KAR 5:001: Section 9(2)(d)

Attached to the original application, are two different maps, three copies of each showing the location of the proposed upgrades to the wastewater system. Sheet 2 is for the gravity sewer rehab and Sheet 3 is for the manhole rehab.

The project engineer, Florence & Hutcheson has submitted plans and specs directly to the PSC for this project.

8) 807 KAR 5:001: Section 9(2)(e)

The project will involve grant funding. All grant funds have been approved. There are two parts to the wastewater project. Part I (which is currently in construction) is for the WWTP Improvements and Lift Station Project.

Part II (which the Water District is currently applying for a Certificate of Public Convenience and Necessity) will include Sanitary Sewer Rehabilitation to reduce inflow and infiltration. The Sewer Rehab portion has been designed and approved by Kentucky Division of Water. The two parts have a total project cost of \$940,600.

The project funding involves the following:

Community Development Block Grant	\$440,000
EPA Special Appropriations grant	\$240,600
KIA grant funds from HB 380	\$200,000
KIA grant funds from HB 608	<u>\$60,000</u>
	\$940,600

9) 807 KAR 5:001: Section 9(2)(f)

Projected O&M Cost for Sewer System after Completion of Sanitary Sewer Rehabilitation Project: No increase in operation and maintenance expenses is anticipated with this project. The Sanitary Sewer Rehabilitation project is maintenance which will extend the useful life of the sanitary sewer lines.

The 2009 Total Sewer Operation and Maintenance Expenses were \$62,937 based on the Auditors February 2, 2010 letter and report. See Exhibit C for the Balance sheets and Statements of Revenues and Expenses for the Sewer Division as of December 31, 2009 and 2008. In 2009, there was an increase in costs due to the repairs and maintenance required at the influent lift station. In 2009, the Water District had to replace the pump at the lift station twice because of failures. The Phase I currently under construction will replace the influent lift station so maintenance costs attributed to the lift station should be decreased. The unforeseen costs of replacing the pumps should not be an issue once the new lift station is constructed.

The Water District will not borrow monies to complete the sanitary sewer rehabilitation project. The South 641 Water District will utilize grant funds to complete the project.

10) 807 KAR 5:071: Section 3(1)(a)

This project will be funded by grants therefore an increase in the sewer rates is not necessary. The Water District is committed to providing water and wastewater service to its customers. The improvements to the wastewater system will extend the useful life of the system and will insure continuity of sewer service.

11) 807 KAR 5:071: Section 3(1)(b)

Attached as Exhibit A is a copy of the Kentucky Division of Water approval letter for the Sanitary Sewer Rehabilitation plans and specs.

12) 807 KAR 5:071: Section 3(1)(c)

Three copies of a Detailed map of the sewage treatment facilities is attached with the original application.

An 11 x 17 Map of the existing collection system is included with each copy

13) 807 KAR 5:071: Section 3(1)(d)

Detailed cost of construction:

Attached as Exhibit D is an updated engineer's construction cost estimate. The opinion of probable cost is dated March 2010 for the Sanitary Sewer Rehabilitation project. Also attached as Exhibit D, is a breakdown of all costs associated with the \$940,600 project funding. The breakdown shows the budget noting the As-bid budget for the Wastewater Treatment Plant improvements project. There are sufficient grant funds in the budget for the Sanitary Sewer Rehabilitation project construction.

14) 807 KAR 5:071: Section 3(1)(e)

Financial exhibit as described in Section 6 of 807 KAR 5:001:

See Attached Exhibit C which includes:

- 1) Sewer Annual Report for Calendar Year ended December 31, 2009
- 2) Balance sheets and Statements of Revs and Expenses for Sewer Division as of December 31, 2009 and 2008
- 3) South 641 Water District Audit from December 31, 2007
- 4) Annual Budget 01-01-2010 to 12-31-2010

15) 807 KAR 5:071: Section 3(1)(f)

The upgrades to the wastewater system will be funded by grants from the following agencies: Community Development Block Grant \$440,000, EPA Special Appropriations Grant \$200,000, Kentucky Infrastructure Authority Budget Line Item HB 380 \$200,000 and HB 608 \$60,000. There will be no increase in the wastewater rates as a result of this project.

16) 807 KAR 5:071: Section 3(1)(g)

Estimated Cost of Operation after the proposed facilities are completed, no increase in operations is anticipated with this project. The Water District will not borrow monies to complete the project. The South 641 Water District will utilize grant funds to complete the construction project.

17) 807 KAR 5:071: Section 3(1)(h)

The project will involve sanitary sewer rehabilitation. The project will involve rehab of approximately 5,000 lineal feet of lines and manhole improvements. The improvements will benefit the wastewater customers served by the South 641 Water District.

Customer Statistics:

<u>Sewer System</u>	
Residential	199
Commercial	<u>25</u>
Total:	224

Average Monthly Water Consumption

Residential & Commercial Average usage 3200 gallons

18) 807 KAR 5:071: Section 3(1) i, j, k

A change in the rates is not sought by the applicant so the section (3) (1) i, j, and k are not applicable to this project application.

19) 807 KAR 5:071: Section 3(1) l

The Purchase Area Development District provides administrative staff for the South 641 Water District for the purposes of administering the grant funds for this sewer project.

20) 807 KAR 5:071: Section 3(1) m

The project will not involve the increase in rates because the project will be funded with a number of grant funds.

Exhibit A

Letter from Energy and Environment Cabinet/Division of Water



07207

STEVEN L. BESHEAR
GOVERNOR

LEONARD K. PETERS
SECRETARY

ENERGY AND ENVIRONMENT CABINET
DEPARTMENT FOR ENVIRONMENTAL PROTECTION
DIVISION OF WATER
200 FAIR OAKS LANE, 4TH FLOOR
FRANKFORT KENTUCKY 40601
www.kentucky.gov

May 6, 2010

Mr. Hillis Farris
South 641 Water District
207 Main St
Hazel, KY 42049

Re: Sanitary Sewer Rehabilitation
Calloway County, Kentucky
Project ID: 10-0125
S 641 Water District WWTP -- 519
Activity ID: APE20100001

Dear Mr. Farris:

The Kentucky Division of Water has reviewed for completeness and adequacy the construction plans and specifications submitted for the above referenced contract. The Division of Water hereby accepts the plans and specifications. Since the project is maintenance only, the Division of Water has determined that the plans do not need a permit.

We are enclosing one (1) set of the accepted plans and specifications. An identical set should be made available at the project site at all times. If modifications are made to these plans and specifications before advertising for bids, four (4) complete sets of revised plans and specifications must be submitted to the Division of Water for approval. A second Division of Water construction approval must be issued by separate correspondence before proceeding with advertising for bids.

Please contact all other funding sources for their requirements. If we can be of further assistance, please contact me at 502/564-8158, extension 4823

Sincerely,

Harold L. Sparks, P.E.
Engineering Section
Water Infrastructure Branch
Division of Water

HLS

c: Dave Holroyd, EPA Region 4
Calloway County Health Department
Florence & Hutchenson, Inc.
Cabinet for Economic Development
Minority Economic Development Initiative
Construction DataFax Inc.

Enclosures

RECEIVED
MAY 10 2010

Exhibit B

Project Description/Activities

**SANITARY SEWER REHABILITATION PROJECT
For
SOUTH 641 WATER DISTRICT**

HAZEL, KENTUCKY

This rehabilitation project is being conducted on the South 641 Water District's sanitary sewer collection system in an effort to reduce inflow and infiltration (I&I) throughout the collection system. The South 641 Water District has previously entered into an Agreed Order with the Kentucky Division of Water to correct problems associated with the District's wastewater treatment plant and collection system that serves the City of Hazel. Florence & Hutcheson (F&H) worked with the District to develop a Regional Facility Plan to evaluate the wastewater collection system and make capital improvements to reduce excessive I&I. Investigations were conducted during the design phase in order to determine potential problem areas in the collection system which consisted of Manhole Inspections, Smoke Testing, Flow Monitoring and Closed-Circuit Television Inspection (CCTV). Based on the findings of these investigations, a project was provided for the budget provided by the District.

The proposed construction project consists of the rehabilitation of approximately 5000 lineal feet of 8-inch diameter sanitary sewers using cure-in-place pipe rehabilitation methods along with six gravity sewer point repairs. In addition, the project will include the rehabilitation of several manholes within the collection system by means of installing a cementitious lining on the manhole walls. Approximately seven service lateral connections to the main sewer line will be repaired with cure-in-place pipe methods. The work performed in this project is located in the City right-of-way or on existing sewer easements. Additional CCTV inspection and cleaning will be included in this project since only approximately one-third of the sewers were inspected during the design phase. The results of these CCTV inspections could provide information for the additional rehabilitation work.

Exhibit C

- 1) Sewer Annual Report for Calendar Year ended December 31, 2009
- 2) Balance sheets and Statements of Revs and Expenses for Sewer Division as of December 31, 2009 and 2008
- 3) South 641 Water District Audit from December 31, 2007
- 4) Annual Budget 01-01-2010 to 12-31-2010

Sewer

Annual Report

Of

South 641 Water District
Exact Legal Name of Reporting Utility

Highway 641 South

Hazel, KY 42049
(Address of Utility)

TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2009

PUBLIC SERVICE COMMISSION OF KENTUCKY
PRINCIPAL PAYMENT AND INTEREST INFORMATION
FOR THE YEAR ENDING DECEMBER 31, 20⁰⁹

1. Amount of Principal Payment during calendar year \$ 5,600.00
2. Is Principal Current? (Yes) X (No) _____
3. Is Interest Current? (Yes) X (No) _____
4. Has all long-term debt been approved by the Public Service Commission?
(Yes) X (No) _____ PSC Case No. _____

SERVICES PERFORMED BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

Are your financial statements examined by a Certified Public Accountant?

Yes X No _____

If yes, which service is performed?

Audit _____

Compilation X

Review _____

Please enclose a copy of the accountant's report with the annual report

Additional Requested Information

Utility Name South 641 Water District

FEIN # (Federal Employer Identification Number)

6	1	-	0	9	7	9	9	9	7
---	---	---	---	---	---	---	---	---	---

Contact Person Max Parks

Contact Person's E-Mail Address so641@apex.net

Utility's Web Address N/A

Please complete the above information, if it is available.

If there are multiple staff who may be contacts please include their names and e-mail addresses also.

**AUDIT OF THE ANNUAL REPORT
SEWER UTILITIES**
To Be Completed and Returned With The Annual Report

Page No.	Line No.	Page No.	Line No	Yes	No	If No, Explain Why
2	4	4	12	✓		
2	6	4	15	✓		
2	7	4	17	✓		
4	2	5	40	✓		
4	23	4	15	✓		
3	4 & 5	6	Capital Stock			N/A
3	10	7	Balance End of Year Statement of Retained Earnings	✓		
3	19	6	Long-Term Debt Total (d)	✓		
3	23	6	Notes Payable Total (e)			N/A
3	29	6	Interest Accrued, Balance End of Year, Total	✓		
3	30	7	21	✓		
4	3	8	25	✓		
6	Interest Accrued During Year – LTD	8	40	✓		
6	Interest Accrued During Year – Other	8	43			N/A

**AUDIT OF THE ANNUAL REPORT
SEWER UTILITIES**
To Be Completed and Returned With The Annual Report

Page No.	Line No.		Page No.	Line No.	Yes	No	If No, Explain Why
8	24	agrees with	9	51 51	✓		
8	27	agrees with	10	Acct. 408.1	✓		
8	28	agrees with	10	Total Income Taxes Utility Operating Income			N/A
8	26	agrees with	10	Amortization Expense			N/A
8	44	agrees with	10	Account 408.2			N/A
8	45	agrees with	10	Total Income Taxes Nonutility Operating Income			N/A
Pages 11 and 12 have been completed					✓		
The Oath Page has been completed					✓		

Additional Information Required By Commission Orders

Provide any special information required by prior Commission orders, as well as any narrative explanations necessary to fully explain the data. Examples of the types of special information that may be required by Commission orders include surcharge amounts collected, refunds issued, and unusual debt repayments.

Case #	Date Of Order	Item/Explanation

Attach additional sheets if more room is required

General Information

1. Exact name of utility making this report. (Use the words "The", "Company" or "Incorporated" only when a part of the corporate name.) South 641 Water District

2. Give the location including street, zip code and telephone number of the principal office in Kentucky. Highway 641, Hazel, KY 42049
(270) 492-8857

3. Give name, title, address and TELEPHONE NUMBER of the officer to whom correspondence concerning this report should be addressed. Max Parks, Commissioner
864 Pleasant Grove Road, Hazel, KY 42049 (270) 492-8616

4. Name of State under the laws of which respondent is incorporated and the date of incorporation. Kentucky 1956

5. Date sewer utility began operations. 1956

6. Name of City, Town, Community, Sub-Division and County in which respondent furnishes sewer service. Town of Hazel, KY and Calloway County, KY

7. Number of employees: Full time 1, Part time 2

BALANCE SHEET

Line No.	ASSETS AND OTHER DEBITS	Balance First Of Year	Balance Last Of Year
1			
2	UTILITY PLANT		
3			
4	Utility Plant (101-109).....	\$ 410,657	\$ 451,451
5	Less: Accumulated Prov. For Depreciation		
6	And Amortization of Utility Plant (110).....	\$ 240,694	\$ 253,416
7	Net Utility Plant.....	\$ 169,963	\$ 198,035
8			
9	OTHER PROPERTY AND INVESTMENTS		
10			
11	Nonutility Property (121).....	\$ _____	\$ _____
12	Less: Accum. Prov. For Depr. And Amort.		
13	Of Non-utility property (122).....	\$ _____	\$ _____
14	Net Nonutility Property.....	\$ _____	\$ _____
15	Other Investment (124).....	\$ 30,283	\$ 39,963
16	Special Funds (125).....	\$ _____	\$ _____
17			
18			
19	Total Other Property & Investments.....	\$ 30,283	\$ 39,963
20			
21	CURRENT AND ACCRUED ASSETS		
22			
23	Cash and Working Funds (131).....	\$ _____	\$ _____
24	Temporary Cash Investments (132).....	\$ 2,034	\$ 957
25	Notes Receivable (141).....	\$ _____	\$ _____
26	Customer Accounts Receivable (142).....	\$ 5,881	\$ 5,751
27	Other Accounts Receivable (143).....	\$ _____	\$ _____
28	Accum. Prov. For Uncollectible Accts.-Cr.(144)	\$ _____	\$ _____
29	Notes Receivable From Assoc. Companies (145)..	\$ _____	\$ _____
30	Accounts Receivable From Assoc. Companies(146)	\$ _____	\$ _____
31	Materials and Supplies (150).....	\$ _____	\$ _____
32	Prepayments (166).....	\$ _____	\$ _____
33	Other Current and Accrued Assets (170).....	\$ _____	\$ _____
34			
35			
36			
37	Total Current and Accrued Assets.....	\$ 7,915	\$ 6,708
38			
39	DEFERRED DEBITS		
40			
41	Unamortized Debt Discount and Expense (181)...	\$ _____	\$ _____
42	Extraordinary Property Losses (182).....	\$ _____	\$ _____
43	Other Deferred Debits (183).....	\$ _____	\$ _____
44			
45			
46			
47	Total Deferred Debits.....	\$ _____	\$ _____
48			
49			
50	TOTAL ASSETS AND OTHER DEBITS	\$ 208,161	\$ 244,706

SUMMARY OF UTILITY PLANT

Line No.	Acct. No.	Item	Amount
		UTILITY PLANT	
1		In Service:	
2	101	Plant in Service Classified (from Page 5, Line 40)	451,451
3	102	Completed Construction Not Classified	
4	103	Utility Plant in Process of Reclassification	
5	106	Utility Plant Purchased or Sold	
6		Total - In Service	451,451
7	104	Utility Plant Leased To Others	
8	105	Property Held For Future Use	
9	107	Construction Work in Progress	
10	108	Utility Plant Acquisition Adjustment	
11	109	Other Utility Plant Adjustments	
12		Total Utility Plant (to Page 2, Line 4)	451,451
13		Less:	
14	110	Accumulated Provision for Depreciation and	
15		Amortization Of Utility Plant (to Page 2, Line 6)	253,416
16			
17		NET UTILITY PLANT (to Page 2, Line 7)	198,035

ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION
OF UTILITY PLANT

Line No.	Item	Amount
1	Balance Beginning of Year	240,694
2	Accruals for Year:	
3	Depreciation	12,722
4	Amortization	
5	Other Accounts (details):	
6		
7		
8	Total Accruals for Year	12,722
9	Credit Adjustments (describe)	
10		
11		
12	Total Credits for year	
13		
14	Net Charges for Plant Retired:	
15	Book Cost of Plt. Ret. (same as Pg 5, Line 40)	XXXXXXXXXXXXXXXXXX
16	Add: Cost of Removal	XXXXXXXXXXXXXXXXXX
17	Less: Salvage	XXXXXXXXXXXXXXXXXX
18	Net Charges for Plant Retired	
198	Debit Adjustments (describe)	
20		
21		
22	Total Debit Adjustments for Year	
23	Balance End of Year	253,416

CAPITAL STOCK

Class and Series of Stock (a)	No. Of Shares Auth. (b)	Par Value Per Share Of Par Value Stk. (c)	Stated Val. Per Share Of Nonpar Stock (d)	Outstanding Per Balance Sheet	
				Shares (e)	Amount (f)
N/A					

LONG-TERM DEBT

List Each Original Issue Amt. Class & Series of Obligation (a)	Date Of Issue (b)	Date Of Maturity (c)	Outstanding Per Balance Sheet (d)	Interest For The Year	
				Shares (e)	Amount (f)
Farmers Home Admin.	1980	2021	75,600	5%	4,340
Total			75,600		4,340

NOTES PAYABLE

(Include Notes Payable to Associated Companies Under this Heading)

Name of Payee (a)	Date of Note (b)	Date of Maturity (c)	Interest Rate (d)	Balance End of year (e)
N/A				
Total				

INTEREST ACCRUED

Description of Obligation (a)	Int. Accr., Balance First of Yr. (b)	Int. Accr. During Year (c)	Int. Paid During Year (d)	Int. Accrued Balance End of year (e)
FHA Bonds	0	4,340	4,340	0
Total	0	4,340	4,340	0

STATEMENT OF INCOME FOR THE YEAR

Line No.	Account (a)	Number of Customers (b)	Amount (c)
1	OPERATING REVENUES		
2	Flat Rate Revenues - General Customers:		
3	Residential Revenues (521.1)		
4	Commercial Revenues (521.2)		
5	Industrial Revenues (521.3)		
6	Revenues From Public Authorities (521.4)		
7	Total (521)		
8	Measured Revenues - General Customers:		
9	Residential Revenues (522.1)	235	35,896
10	Commercial Revenues (522.2)	39	5,957
11	Industrial revenues (522.3)		
12	Revenues From Public Authorities (522.4)		
13	Total (522)	274	41,853
14	Revenues From Public Authorities (523)		
15	Revenues From Other Systems (524)		
16	Miscellaneous Sewage Revenues (526)		
17	Total Sewage Service Revenues (521-526)	274	41,853
18	OTHER OPERATING REVENUES		
19	Customer Forfeited Discounts (532)		996
20	Miscellaneous Operating Revenues (536)		
21	Total Other Operating Revenues		996
22	Total Operating Revenues		42,849
23	OPERATING EXPENSES		
24	Total Sewer Operation & Maint. Exp. (from pg 9, Line 52) & c		48,537
25	Depreciation Expense (403)		12,722
26	Amortization Expense (404-407, from Page 10)		
27	Taxes Other Than Income Taxes (408.1, from Page 10)		1,678
28	Total Income Taxes - Utility Operating Income (from Page 10)		
29	Total Sewage Operating Expenses		62,937
30	Net Operating Income		(20,088)
31	OTHER INCOME		
32	Income From Nonutility Operations (417)		
33	Interest and Dividend Income (419)		597
34	Miscellaneous Nonoperating Income (421)		1,248
35	Other Accounts (Specify Account No. and Title):		
36			
37			
38	Total Other Income		1,845
39	OTHER DEDUCTIONS		
40	Interest on Long Term Debt (427)		4,340
41	Amortization of Debt Discount and Expense (428)		
42	Interest on Debt to Associated Companies (430)		
43	Other Interest Expense (431)		
44	Taxes Other Than Income Taxes (408.2, from Page 10)		
45	Total Income taxes - Nonutil. Operat. Income (from Page 10)		
46	Other Accounts (Specify Account No. and Title):		
47			
48			
49	Total Other Deductions		4,340
50	NET INCOME		(22,583)

TAXES OTHER THAN INCOME TAXES (408)

Show hereunder the various tax items which make up the amounts listed under Account Numbers 408.1 and 408.2 appearing on page 8, lines 27 and 44.

Line No.	Item (a)	Amount (b)
1	Payroll Taxes	1,678
2	Property Taxes	
3	Utility Regulatory Commission Assessment	
4	Other:	
5		
6		
7		
8		
9		
10		
11		
12	TOTAL (Same as Page 8, Line 27 plus 44)	1,678

OPERATING AND NON-OPERATING INCOME TAXES

Acct. No.	Account (a)	N/A	Amount (b)
409.1	Income Taxes - federal		
409.1	Income Taxes - State		
409.1	Income Taxes - Other		
410.1	Provisions for Deferred Income Taxes		
411.1	Income Taxes Deferred in Prior Years - Credit		
412.0	Investment Tax Credits - Net		
	Total Income Taxes - Utility Operating Income - (to Page 8, Line 28)		
409.2	Income Taxes - Federal		
409.2	Income Taxes - State		
409.2	Income Taxes - Other		
410.2	Provisions for Deferred Income Taxes		
411.2	Income Taxes Deferred in Prior Years - Credit		
412.4	Investment Tax Credits - Net		
	Total Income Taxes - Non-Utility Operating Income - (to Page 8, Line 45)		

AMORTIZATION EXPENSE

Acct. No.	Account (a)	N/A	Amount (b)
404	Amortization of Limited-Term Utility Plant		
405	Amortization of Other Utility Plant		
406	Amortization of Utility Plant Acquisition Adjustments		
407	Amortization of Property Losses		
-	Amortization of Rate Case Expense		
	Total Amortization Expense (to Page 8, Line 26)		

SEWER PLANT STATISTICS

CUSTOMER STATISTICS - END OF YEAR			
Type	Number of Customer	Bi-Monthly Or Monthly Billing?	Number of Bill Pertaining to Each Type of Customer
Residential:			
Single Family	235	Monthly	1 bill per month
Apartments/Condominiums			
Commercial	39	Monthly	1 bill per month
Industrial			
Other (specify):			
Total	274		

INDUSTRIAL CUSTOMERS SERVED		
Name and Type of Industry	Metered or Estimated Gals.	Pretreatment of Wastes
N/A		

PUMPING STATIONS			
Location	Size of Motor	Type of Motor	Capacity Gals. Per Day
Third Street, Hazel, KY 42049	3 h.p.	Electric	100,000
Calloway St, Hazel, KY 42049	7.5 h.p.	Electric	240,000

MAINS (FEET)					
Kind of Pipe (Cast Iron, Vit. Clay, concrete)	Diameter of Pipe	No. of Feet 1st of Year	Additions	Removed or Abandoned	No. of Feet End of Year
Clay	8 inch	31,680			31,680

SERVICE LATERALS AND STUBS

Number of service laterals owned by the utility, end of year 235

Number of stubs as of end of year 6

Number of service laterals owned by others None

OATH

Commonwealth of Kentucky)
County of Calloway) ss:

I, Hillis Farris, having appeared before the undersigned officer duly authorized to administer oaths and being duly sworn, state under oath that I am Chairperson of South 641 Water District ("Respondent"); that I have supervision over the books of account and other financial records of the Respondent and have control over the manner in which they are kept; that such books and records have, during the period covered by the foregoing report, been maintained in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky; that I have carefully examined the foregoing report and to the best of my knowledge and belief the information contained in this report is, so far as it relates to matters of accounts, in accordance with the said books of account; that all other statements of fact contained in the foregoing report are true; and that the foregoing report is a correct and complete statement of the business and affairs of the Respondent in every respect and manner during the period of time from and including January 1, 2009, to and including December 31, 2009

Hillis Farris
(Signature of Officer)

Subscribed and sworn to before me, a Notary, in and for the State and County named in the above this 26th day of Feb, 2010

(Apply Seal Here)

My Commission Expires June 25, 2011
Julie Carson
(Signature of officer authorized to administer oath)

[Persons making willful false statements in this report may be punished by fine or imprisonment under KRS 523.040 and 523.100.]

KENTUCKY PUBLIC SERVICE COMMISSION
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
BUSINESS FOR THE YEAR ENDING DECEMBER 31, 20____

South 641 Water District, PO Box 126, Hazel, KY 42049
(Utility Reporting) (Address)

FEIN # (Federal Employer Identification Number)

6 | 1 | - | 0 | 9 | 7 | 9 | 9 | 7

(DO NOT INCLUDE TAXES COLLECTED)

- (1) Gross Revenues of Electric Utility.....\$ _____
 - (2) Gross Revenues of Gas Utility.....\$ _____
 - (3) Gross Revenues of Water Utility.....\$ 138,626
 - (4) Gross Revenues of Sewer Utility.....\$ _____
 - (5) Other Operating Revenues.....\$ _____
- *** TOTAL GROSS REVENUES.....\$ 138,626

OATH

State of Kentucky.....)
County of Calloway.....) ss.

Hillis Farris being duly sworn, states that he/she is
(Officer)
Commissioner of the South 641 Water District that the above
(Official Title) (Utility Reporting)
report of gross revenues is in exact accordance with South 641 Water District, and that such
(Utility Reporting)
books accurately show the gross revenues of: South 641 Water District, derived from
(Utility Reporting)
Intra-Kentucky business for the calendar year ending December 31, 20 09.

Hillis Farris
(Officer) (Title)

This the 26th day of Feb., 20 10
Juni Carson Calloway June 25, 2011
(Notary Public) (County) (Commission Expires)

NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS REVENUES SHOWN IN THE ANNUAL REPORT AND THE AMOUNT APPEARING ON THIS STATEMENT MUST BE RECONCILED ON THE REVERSE OF THIS REPORT.

KENTUCKY PUBLIC SERVICE COMMISSION
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
BUSINESS FOR THE YEAR ENDING DECEMBER 31, 20__

South 641 Water District, PO Box 126, Hazel, KY 42049
(Utility Reporting) (Address)

FEIN # (Federal Employer Identification Number)

6 | 1 | - | 0 | 9 | 7 | 9 | 9 | 9 | 7

(DO NOT INCLUDE TAXES COLLECTED)

- (1) Gross Revenues of Electric Utility.....\$ _____
- (2) Gross Revenues of Gas Utility.....\$ _____
- (3) Gross Revenues of Water Utility.....\$ _____
- (4) Gross Revenues of Sewer Utility.....\$ 41,853
- (5) Other Operating Revenues.....\$ _____
- *** TOTAL GROSS REVENUES.....\$ 41,853

OATH

State of... Kentucky)
County of... Calloway) ss.

Hillis Farris being duly sworn, states that he/she is
(Officer)
Commissioner of the South 641 Water District that the above
(Official Title) (Utility Reporting)

report of gross revenues is in exact accordance with South 641 Water District, and that such
(Utility Reporting)

books accurately show the gross revenues of: South 641 Water District, derived from
(Utility Reporting)

Intra-Kentucky business for the calendar year ending December 31, 20 09.

Hillis Farris
(Officer) (Title)

This the 26th day of Feb., 20 10.
Quinn Carson Calloway June 25 2011
(Notary Public) (County) (Commission Expires)

NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS REVENUES SHOWN IN THE ANNUAL REPORT AND THE AMOUNT APPEARING ON THIS STATEMENT MUST BE RECONCILED ON THE REVERSE OF THIS REPORT.

MARTIN, COLSON, HALE & HENDERSON

Certified Public Accountants

Robert K. Martin, CPA
Ronald C. Colson, CPA
Matthew H. Hale, CPA, PFS
Rhonda M. Henderson, CPA

502 Maple Street
Murray, Kentucky 42071

TELEPHONE (270) 753-5411
FAX (270) 753-1732
E-MAIL mch@mchcpas.com

February 2, 2010

To the Commissioners of
South 641 Water District-Sewer Division
(a non-profit organization)
PO Box 126
Hazel, KY 42049

We have compiled the accompanying balance sheets of the South 641 Water District-Sewer Division (a non-profit organization) as of December 31, 2009 and 2008 and the related statements of revenues, expenses and changes in equity capital and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the organization's financial positions, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to this client.

Martin, Colson, Hale & Henderson

Martin, Colson, Hale and Henderson CPAs
Murray, KY 42071

SOUTH 641 WATER DISTRICT - SEWER DIVISION

BALANCE SHEETS

December 31, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
<u>FIXED ASSETS - AT DEPRECIATED COST</u>		
System in Service	\$ 451,451	\$ 410,657
Less: Accumulated Depreciation	<u>(253,416)</u>	<u>(240,694)</u>
	<u>198,035</u>	<u>169,963</u>
<u>CASH FOR GENERAL USE</u>		
Unrestricted:		
Certificate of Deposit	23,603	14,339
Restricted:		
Cash for Debt Service	957	2,034
Cash for EPA Grant	100	0
CD - Bond Reserve Amount	<u>16,260</u>	<u>15,944</u>
Total Cash and Investments	<u>40,920</u>	<u>32,317</u>
<u>RECEIVABLES</u>		
Accounts Receivable	4,623	4,753
Accounts Receivable - unbilled	<u>1,128</u>	<u>1,128</u>
Total Receivables	<u>5,751</u>	<u>5,881</u>
Total Current Assets	<u>46,671</u>	<u>38,198</u>
TOTAL ASSETS	<u>\$ 244,706</u>	<u>\$ 208,161</u>

LIABILITIES AND EQUITY CAPITAL

<u>EQUITY CAPITAL</u>		
Donated Capital	\$ 274,909	\$ 267,744
Retained Earnings	<u>(310,254)</u>	<u>(287,671)</u>
Total Equity Capital	<u>(35,345)</u>	<u>(19,927)</u>
<u>LONG-TERM DEBT</u>		
Waterworks System Revenue Bonds (Net of Current Portion)	<u>75,600</u>	<u>81,200</u>
<u>CURRENT LIABILITIES</u>		
Cash in Bank (Deficit)	197,729	140,240
Accrued Expenses	1,122	1,048
Current Portion of Long-Term Debt	<u>5,600</u>	<u>5,600</u>
Total Current Liabilities	<u>204,451</u>	<u>146,888</u>
Total Liabilities	<u>280,051</u>	<u>228,088</u>
TOTAL LIABILITIES AND EQUITY CAPITAL	<u>\$ 244,706</u>	<u>\$ 208,161</u>

See Accompanying Accountants' Compilation Report

SOUTH 641 WATER DISTRICT - SEWER DIVISION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY CAPITAL
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>OPERATING REVENUE</u>		
Sewer Revenues	\$ 41,853	\$ 44,112
Customer Penalties Collected	996	977
Reconnection Charges and Miscellaneous	<u>1,248</u>	<u>361</u>
Total Revenue	<u>44,097</u>	<u>45,450</u>
<u>OPERATING EXPENSES</u>		
Auto Expense	3,341	2,780
Operating Supplies	301	588
Salaries	20,530	18,517
Repairs and Maintenance	9,100	5,521
Utilities and Phone	4,128	3,687
Payroll Tax Expense	1,678	1,766
Supplies and Postage	2,884	1,777
Insurance	3,693	901
Contractual Services	3,607	5,097
Depreciation	12,722	8,697
Employee Benefits	194	183
Miscellaneous	<u>759</u>	<u>878</u>
Total Operating Expenses	<u>62,937</u>	<u>50,392</u>
OPERATING LOSS	(18,840)	(4,942)
<u>OTHER INCOME (EXPENSE)</u>		
Revenue Bond Interest Expense	(4,340)	(4,603)
Interest Income	597	1,289
Proceeds from Capital Contributions	<u>7,165</u>	<u>96,629</u>
Other Income (Expense)	<u>3,422</u>	<u>93,315</u>
NET INCOME (LOSS)	(15,418)	88,373
Equity Capital - Beginning	(<u>19,927</u>)	(<u>108,300</u>)
Equity Capital - Ending	\$(<u>35,345</u>)	\$(<u>19,927</u>)

See Accompanying Accountants' Compilation Report

SOUTH 641 WATER DISTRICT - SEWER DIVISION
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2009 and 2008

<u>Cash Flows From Operating Activities</u>	<u>2009</u>	<u>2008</u>
Net Income (Loss)	\$(15,418)	88,373
Adjustment to Reconcile Net Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation	12,722	8,697
Change in Accounts Receivable	130	(1,857)
Change in Accrued Expenses	<u>74</u>	<u>362</u>
Net Cash Provided (Used) By Operating Activities	(2,492)	95,575
 <u>Cash Flows From Investing Activities</u>		
Purchase of Equipment	(40,794)	(93,812)
Net Cash Provided (Used) by Investing Activities	(40,794)	(93,812)
 <u>Cash Flows From Financing Activities</u>		
Bond Payments	(5,600)	(5,250)
Net Cash Provided (Used) by Financing Activities	(5,600)	(5,250)
 <u>Net Decrease In Cash</u>	(48,886)	(3,487)
 <u>Cash At Beginning Of Year</u>	(107,923)	(104,436)
 <u>Cash At End Of Year</u>	<u>\$(156,809)</u>	<u>\$(107,923)</u>

Supplemental Disclosures

Cash Paid During the Year for:		
Interest	\$ 4,340	\$ 4,603
Income Taxes	-0-	-0-

See Accompanying Accountants' Compilation Report

South 641 Water District
FINANCIAL STATEMENTS
DECEMBER 31, 2007

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INTRODUCTION

The South 641 Water District is a de jure Water District, situated wholly in Calloway County, Kentucky, and exists by virtue of a Judgement and Order of the Calloway County Court entered on May 7, 1979.

On May 10, 1979, the Commission of the South 641 Water District adopted a resolution providing for the construction and installation of a water-works system in and for the said District, and authorizing the issuance of Waterworks System Revenue Bonds to provide for the costs thereof. On May 21, 1981, bonds in the amount of \$472,000 were sold.

PIERCE & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

MICHAEL D. PIERCE, CPA
KARAMANEH WINCHESTER, CPA
JULIE A. HOFFMAN, CPA

310 Main Street, P.O. Box 527, Murray, KY 42071 Telephone (270) 753-0274 FAX (270) 753-0275 info@piercecpa.com

To the Commissioners
South 641 Water District
Hazel, KY 42049

We have audited the accompanying balance sheet of South 641 Water District as of December 31, 2007, and the related statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the management of the South 641 Water District. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Governmental 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South 641 Water District as of December 31, 2007, and the results of its operations and changes in retained earnings and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2008 on our consideration of the South 641 Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

Pierce & Associates, PLLC

Pierce & Associates, PLLC
Certified Public Accountants

March 21, 2008

SOUTH 641 WATER DISTRICT
BALANCE SHEET
December 31, 2007

ASSETS

	Water	Sewer	Combined
<u>Fixed Assets</u>			
Waterworks System in Service	\$ 1,147,974	\$ 316,845	\$ 1,464,819
Less: Accumulated Depreciation	(766,011)	(231,997)	(998,008)
Net Fixed Assets	381,963	84,848	466,811
 <u>Cash and Investments</u>			
Unrestricted:			
Cash in Bank-Operations	11,320	9,262	20,582
Certificates of Deposit	35,438	28,995	64,433
Restricted:			
Cash for Debt Service	2,623	1,412	4,035
Cash for Meter Fund	10,126	-	10,126
Total Cash and Investments	59,507	39,669	99,176
 <u>Receivables</u>			
Accounts Receivable	9,693	2,896	12,589
Total Receivables	9,693	2,896	12,589
 Total Current Assets	69,200	42,565	111,765
 TOTAL ASSETS	\$ 451,163	\$ 127,413	\$ 578,576

LIABILITIES & EQUITY CAPITAL

<u>Capital</u>			
Donated Capital	\$ 582,328	\$ 171,115	\$ 753,443
Retained Earnings	(313,079)	(136,438)	(449,517)
Total Capital	269,249	34,677	303,926
 <u>Long-Term Debt</u>			
Waterworks System Revenue Bonds (Net of Current Portion)	161,200	86,800	248,000
 <u>Current Liabilities</u>			
Accrued Expenses	838	686	1,524
Customers Deposits	10,126	-	10,126
Current Portion of Long-Term Debt	9,750	5,250	15,000
Total Current Liabilities	20,714	5,936	26,650
 Total Liabilities	181,914	92,736	274,650
 TOTAL LIABILITIES AND EQUITY CAPITAL	\$ 451,163	\$ 127,413	\$ 578,576

SOUTH 641 WATER DISTRICT
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2007

	Water	Sewer	Total
<u>Operating Revenue</u>			
Water & Sewer Revenues	\$ 108,871	\$ 27,583	136,454
Customer Penalties Collected	2,811	747	3,558
Reconnection Charges & Miscellaneous	1,465	390	1,855
Total Revenues	<u>113,147</u>	<u>28,720</u>	<u>141,867</u>
<u>Operating Expenses</u>			
Water Purchases	36,499	-	36,499
Operating Supplies	1,252	1,024	2,276
Salaries	20,161	16,495	36,656
Auto Expense	2,277	1,863	4,140
Repairs and Maintenance	7,124	5,829	12,953
Utilities & Phone	3,772	3,087	6,859
Payroll Tax Expense	1,599	1,308	2,907
Supplies & Postage	3,186	2,607	5,793
Insurance	3,627	2,968	6,595
Contractual Services	4,093	3,349	7,442
Depreciation	31,427	5,953	37,380
Employee Benefits	219	179	398
Miscellaneous	1,356	1,109	2,465
Total Operating Expenses	<u>116,592</u>	<u>45,771</u>	<u>162,363</u>
<u>Operating Income</u>	(3,445)	(17,051)	(20,496)
<u>Other Income (Expense)</u>			
Interest Income	2,141	1,686	3,827
Revenue Bond Interest Expense	(9,003)	(4,847)	(13,850)
Proceeds from Capital Contributions	2,850	700	3,550
Total Other Income (Expense)	<u>(4,012)</u>	<u>(2,461)</u>	<u>(6,473)</u>
Net Income (Loss)	<u>\$ (7,457)</u>	<u>\$ (19,512)</u>	<u>\$ (26,969)</u>

SOUTH 641 WATER DISTRICT
STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Unrestricted Retained Earnings	Donated Capital	Total Retained Earnings & Donated Capital
RETAINED EARNINGS, January 1, 2007	\$ (418,998)	\$ 749,893	\$ 330,895
Net Loss	(30,519)		(30,519)
Contributed Capital		3,550	3,550
RETAINED EARNINGS, December 31, 2007	\$ (449,517)	\$ 753,443	\$ 303,926

See Accountants' Audit Report and Notes to the Financial Statements

SOUTH 641 WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (20,496)	
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	37,380	
Decrease (Increase) in Accounts Receivable	479	
Decrease (Increase) in Unbilled Receivables	5,109	
Increase (Decrease) in Accrued Expenses	569	
Increase (Decrease) in Customer Deposits	<u>1,037</u>	
Net Cash Provided By Operating Activities		\$ 24,078
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Plant in Service	(11,570)	
Principle Paid on Revenue Bonds	(14,000)	
Proceeds from Capital Contributions	3,550	
Interest Paid on Revenue Bonds	<u>(13,850)</u>	
Net Cash Used By Financing Activities		(35,870)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income Earned on Bank Accounts	<u>3,827</u>	
Net Cash Provided By Investing Activities		<u>3,827</u>
 NET INCREASE (DECREASE) IN CASH		
		(7,965)
CASH - January 1, 2007		<u>107,141</u>
CASH - December 31, 2007		<u>\$ 99,176</u>

Cash Flow Disclosures:

Interest Paid:	<u>\$ 13,850</u>
----------------	------------------

SOUTH 641 WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

**SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of South 641 Water District are prepared on the accrual basis of accounting. Therefore, income is recognized as it is earned rather than when cash is received, and expenditures are recognized as incurred rather than when paid in accordance with generally accepted accounting principles.

Cash

For the purposes of the statement of cash flows, all cash investments with an original maturity of three months or less are considered to be cash equivalents. Kentucky Revised Statute controls the type of investment which is allowable for the District to utilize. Certificates of deposit are an authorized type.

Accounts Receivable

The District does not have an allowance for doubtful accounts, instead, the direct write-off method is used and accounts are written-off as they become uncollectible. This method is not expected to differ materially from the allowance method.

Asset Capitalization and Depreciation Expense

The assets purchased by the District are capitalized at cost. Depreciation for these assets is provided using the straight-line method over their estimated useful lives. The estimated useful lives of the assets are as follows:

Waterworks System & Improvements	50 Years
Building	33 Years
Equipment	10 Years
Office Furniture & Equipment	10 Years
Vehicles	10 Years

Income Taxes

As a special taxing district of local government the District is exempt from Federal income tax. Therefore, no provision is made for income tax expense.

Accruals

The District does not compensate for days not worked, therefore no accrual has been made for compensated absences.

Advertising costs are expensed as incurred.

SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reporting Entity

The South 641 Water District operates as a proprietary fund, and is considered to be a separate reporting entity, and not a component unit subject to inclusion in the financial statements of any other entity. Criteria considered in determining the reporting entity included evaluating oversight responsibility, financial interdependency, selection of board members and management personnel, influence over operations, and accountability for fiscal matters.

Fund Accounting

The accounts of the South 641 Water District are organized using governmental fund accounting, which uses the basis of funds or account groups, each of which is considered a separate reporting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues, and expenditures.

The District is considered to be a proprietary fund type, or enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water services to the general public on a continuing basis are financed through user charges.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT

Fixed assets at December 31, 2007, are stated at cost less depreciation as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
<u>Water System:</u>			
Waterworks System in Service	\$1,085,950	\$ 727,596	\$ 358,354
Land	20,000	0	20,000
Equipment	32,291	30,860	1,431
Office Furniture & Equipment	9,733	7,555	2,178
<u>Sewer System:</u>			
Sewer System in Service	311,735	226,912	84,823
Office Furniture & Equipment	<u>5,110</u>	<u>5,085</u>	<u>25</u>
 TOTALS:	 <u>\$1,464,819</u>	 <u>\$ 998,008</u>	 <u>\$ 466,811</u>

The charge of \$37,380 represents depreciation for the current year ended December 31, 2007.

SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 – CASH

Cash balances in bank at December 31, 2007 consisted of the following:

Demand Deposits:

BB&T Bank, Operations—unrestricted Earning .20% A.P.R.	\$ 17,321
BB&T Bank, Debt Service—restricted Earning .20% A.P.R.	10,401
BB&T Bank, Meter Fund—restricted Earning .20% A.P.R.	<u>10,937</u>
Total	38,659
Insured by FDIC Insurance	<u>100,000</u>
Over or (Under) Insured	<u>\$ 61,341</u>

Time Deposits:

Certificate of Deposit—unrestricted Earning 3.87% A.P.R., Matures 12/31/08	\$ 34,111
Certificate of Deposit—unrestricted Earning 5.1% A.P.R., Matures 4/10/08	<u>30,322</u>
Total	64,433
Insured by FDIC Insurance	<u>100,000</u>
Over or (Under) Insured	<u>\$ 35,567</u>

Overall Risk to the District \$ 0

The District's cash in bank demand deposits and certificates of deposit at December 31, 2007, does not exceed the FDIC insured amount. If the District exceeds FDIC insurance amounts this excess would represent a potential loss in the event the financial institution failed to perform on its obligations. The bank has pledged collateral to secure the District's excess deposits.

**SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 4 – ACCOUNTS RECEIVABLE

Customer accounts receivable at December 31, 2007 totals to \$12,589. This represents the amount of current December bills and any amount in arrears due from customers.

NOTE 5 – CAPITAL

Donated Capital amounting to \$753,443 have been received over the total period of time that the District has been in operation. Of this amount \$48,198 represents tap on fees paid by customers. These advances from customers represent non-refundable contributions for the purpose of offsetting part of the cost of tapping onto the system. The remainder of this account has been received from various other governmental entities. Current year contributions amounted to \$2,850.

NOTE 6 – LONG-TERM DEBT

Water and Sewer revenue bonds were issued in 1981 in the original amount of \$472,000 payable to the U.S. Department of Agriculture at 5.00% per annum. Interest is payable semi-annually on January 1 and July 1 of each year beginning in 1984 and ending in 2021. The system is subject to a statutory mortgage lien until the indebtedness is repaid. Bonds maturing after January 1, 1992 are optional for redemption prior to maturity on any interest payment date falling after January 1, 1991.

The following is a summary of principal maturities of debt and interest obligations during the next five years and five year increments thereafter:

Maturity Date December 31,	Principal Amounts	Interest
2008	15,000	13,150
2009	16,000	12,400
2010	16,000	11,600
2011	17,000	10,800
2012	18,000	9,950
2013	19,000	9,050
2014-2018	110,000	30,000
2019-2021	52,000	3,950
Total	\$ 263,000	\$ 100,900

SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – ACCRUED TAXES PAYABLE

Accrued Taxes Payable as of December 31, 2007, consisted of the following:

Payroll Taxes	\$ 1,174
Sales Tax	<u>350</u>
Total Current Liabilities:	<u>\$1,524</u>

NOTE 8 – RELATED PARTIES

The bookkeeper, Sheila James, is the sister-in-law of Commissioner Max Parks.

**ADDITIONAL REPORTS REQUIRED
BY *GOVERNMENT AUDITING STANDARDS***

PIERCE & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

MICHAEL D. PIERCE, CPA
KARAMANEH WINCHESTER, CPA
JULIE A. HOFFMAN, CPA

310 Main Street, P.O. Box 527, Murray, KY 42071 Telephone (270) 753-0274 FAX (270) 753-0275 info@piercecpa.com

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 Commissioners
South 641 Water District
Hazel, KY 42049

We have audited the financial statements of South 641 Water District as of and for the year ended December 31, 2007, and have issued our report thereon dated March 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 South 641 Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South 641 Water District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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

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 over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

UNITED STATES DEPARTMENT OF AGRICULTURE
STATEMENT OF BUDGET, INCOME AND EQUITY

Schedule 1

Name South 641 Water

Address P.O. Box 126
Hazel, KY 42049

(1) OPERATING INCOME	PRIOR YEAR Actual (2)	ANNUAL BUDGET		For the _____ Months Ended _____		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
		BEG 01-01-2010	END 12-31-2010	CURRENT YEAR		
		(3)	(3)	Actual Data		
				Current Quarter (4)	Year To Date (5)	
1. Water & Sewer		196,000				0
2. Late Charges		7,500				0
3. _____						0
4. _____						0
5. Miscellaneous						0
6. Less: Allowances and Deductions						0
7. Total Operating Income (Add lines 1 through 6)	0	203,500		0	0	0
OPERATING EXPENSES						
8. Source & Supply		56,000				0
9. Pumping		5,000				0
10. Supply/Maint.		17,500				0
11. Taxes		4,000				0
12. Admin./General		59,000				0
13. _____						0
14. _____						0
15. Interest		13,650				0
16. Depreciation		50,000				0
17. Total Operating Expense (Add Lines 8 through 16)	0	205,150		0	0	0
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	0	-1,650		0	0	0
NONOPERATING INCOME						
19. _____		2,500				0
20. _____		2,500				0
21. Total Nonoperating Income (Add 19 and 20)	0	5,000		0	0	0
22. NET INCOME (LOSS) (Add lines 18 and 21)	0	3,350		0	0	0
23. Equity Beginning of Period		455,720				0
24. Tap-On		5,500				0
25. Grant Proceeds		750,000				0
26. Equity End of Period (Add lines 22 through 25)	0	1,214,570		0	0	0

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

M. Farber

Secretary

2/10/10

Date

Appropriate Official

Date

PROJECTED CASH FLOW

For the Year BEG. 01-01-2010 END 12-31-2010
(same as schedule 1 column 3)

A. Line 22 from Schedule 1, Column 3 NET INCOME (LOSS)	\$ <u>3,350</u>
<u>Add</u>	
B. <u>Items in Operations not Requiring Cash:</u>	
1. Depreciation (line 16 schedule 1)	50,000
2. Others:	
C. <u>Cash Provided From:</u>	
1. Proceeds from Agency loan/grant	\$750,000
2. Proceeds from others	
3. Increase (Decrease) in Accounts Payable, Accruals and other Current Liabilities	
4. Decrease (Increase) in Accounts Receivable, Inventories and Other Current Assets (Exclude cash)	
5. Other: <u>Tap-On Fees</u>	\$5,500
6.	
D. Total all A, B and C Items	\$808,850
E. <u>Less: Cash Extended for:</u>	
1. All Construction, Equipment and New Capital Items (loan & grant funds)	\$665,000
2. Replacement and Additions to Existing Property, Plant and Equipment	\$10,000
3. Principal Payment Agency Loan	\$16,200
4. Principal Payment Other Loans	
5. Other:	
6. Total E 1 through 5	\$691,200
<u>Add</u>	
F. Beginning Cash Balances	\$70,100
G. Ending Cash Balances (Total of D Minus E 6 Plus F)	\$ <u>187,750</u>
<u>Item G Cash Balances Composed of:</u>	
Construction Account	\$
Revenue Account	
Debt Payment Account	\$8,600
O&M Account	\$74,150
Reserve Account	\$47,500
Funded Depreciation Account	
Others: <u>Meter Deposits</u>	\$15,500
<u>Temporary Investments</u>	\$42,000
Total - Agrees with Item G	\$ <u>187,750</u>

Exhibit D

- 1) Engineer's Cost Estimate
- 2) Project Funding Breakdown

Wastewater Collection System Rehabilitation Project

for the

South 641 Water District - Hazel, KY

Opinion of Probable Cost for Construction

25-Mar-10

ITEM	DESCRIPTION	QUANTITIES		UNIT PRICE	TOTAL
		UNIT	TOTALS		
1	Cured-in-Place Pipe for 8" Gravity Sewers	LF	5150	\$30.00	\$154,500
2	Cured-in-Place Point Repair	EA	1	\$2,000.00	\$2,000
3	Manhole Cleaning	EA	21	\$150.00	\$3,150
4	Manhole Inflow Cover	EA	5	\$100.00	\$500
5	Manhole Lining	VF	134	\$160.00	\$21,440
6	Repair Manhole Bench	EA	1	\$400.00	\$400
7	Replace Manhole Casting	EA	5	\$750.00	\$3,750
8	Raise Manhole - 6"	EA	2	\$400.00	\$800
9	Point Repair	EA	6	\$3,000.00	\$18,000
10	Point Repair with Service Connection	EA	1	\$3,500.00	\$3,500
11	Top Hat - Lateral Reconnections (Extend 3 ft min. into Lateral)	EA	7	\$2,500.00	\$17,500
12	Television Inspection & Cleaning - 8" Main - Light Cleaning	LF	3950	\$2.00	\$7,900
13	Television Inspection & Cleaning - 8" Main - Heavy Cleaning	LF	2520	\$4.00	\$10,080
14	Remove Intruding Tap	EA	10	\$300.00	\$3,000
15	Select Fill	TONS	440	\$25.00	\$11,000
16	Flowable Fill	CY	15	\$100.00	\$1,500
17	Class AA Concrete - 4000 psi (8")	SY	75	\$100.00	\$7,500
18	Cleanup and Seeding	LS	1	\$3,000.00	\$3,000
19	Traffic Control	LS	1	\$5,000.00	\$5,000
				SUBTOTAL	\$274,520
				CONTINGENCIES 10%	\$27,452
				TOTAL ESTIMATED COST	\$301,972

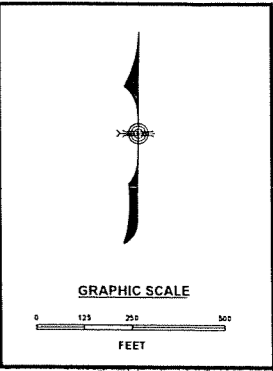
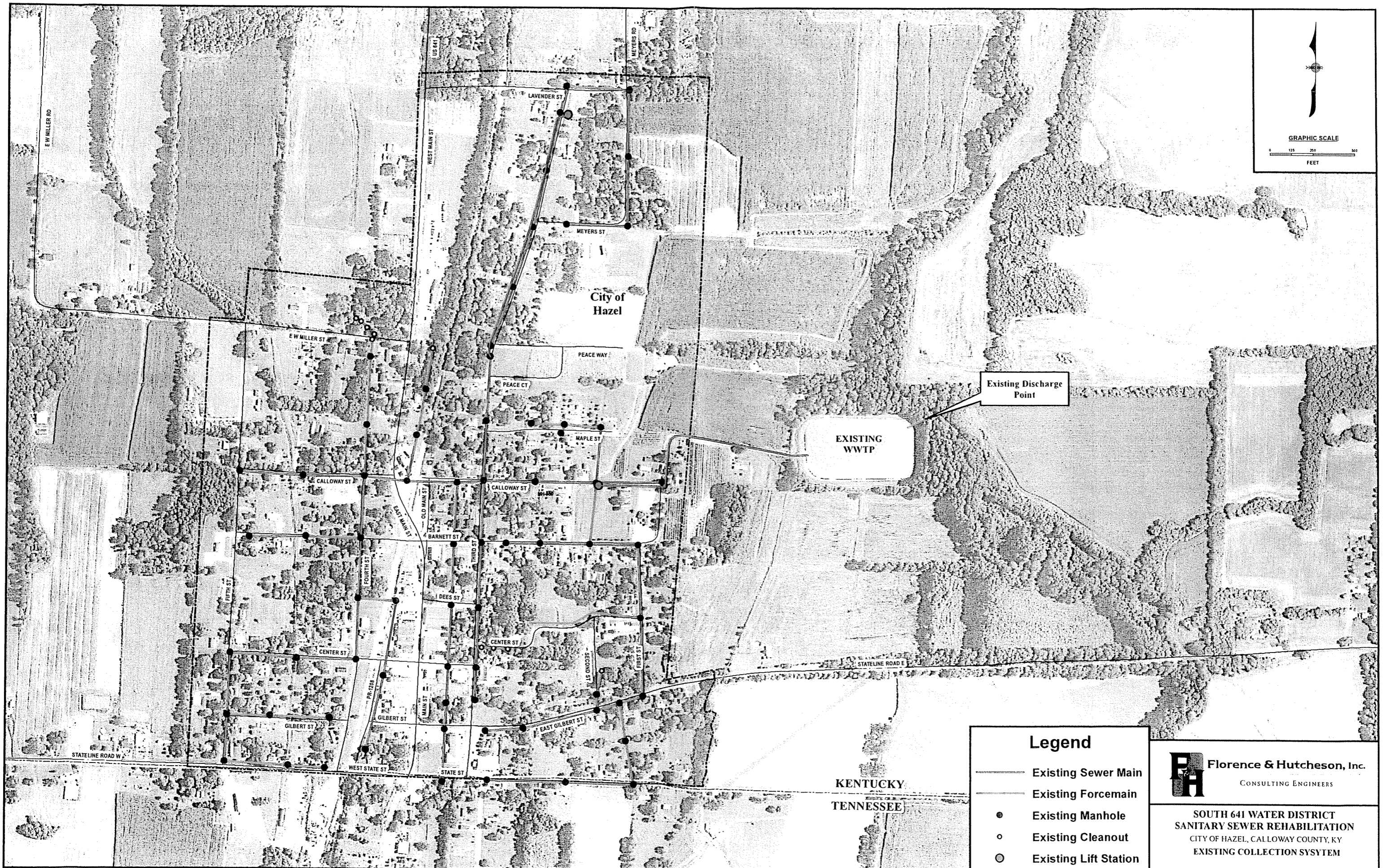
Project Funding		
Community Development Block Grant	\$	440,000.00
EPA Special Appropriation Grant	\$	240,600.00
Kentucky Infrastructure Authority HB 380 Grant	\$	200,000.00
Kentucky Infrastructure Authority HB 608 Grant	\$	60,000.00
Total Project Funding	\$	940,600.00

ESTIMATED BREAKDOWN OF PROJECT COSTS

	8/1/2009 submitted to PSC	2/10/2010
PART 1: Wastewater Treatment Plant Improvements and Lift Station Construction (in Construction)		
Construction	\$ 278,690.00	\$ 352,325.27 <i>as-bid</i>
Contingency 10%	\$ 27,869.00	\$ 874.73
Design and Inspection	\$ 60,100.00	\$ 60,100.00
Groundwater protection plan report fee	\$ 2,900.00	\$ 2,900.00
Subsurface investigation	\$ 2,500.00	\$ 2,500.00
Total Estimated Cost	\$ 372,059.00	\$ 418,700.00
 PART 2: Sewer Rehab (Current application for CPNC)		
Construction	\$ 379,400.00	\$ 337,000.00
Contingency 10%	\$ 37,941.00	\$ 33,700.00
Design and Inspection	\$ 58,500.00	\$ 58,500.00
Flow Monitoring	\$ 9,900.00	\$ 9,900.00
Smoke Testing	\$ 12,200.00	\$ 12,200.00
Sewer Cleaning and CCTV Inspection	\$ 29,300.00	\$ 29,300.00
Total Estimated Cost	\$ 527,241.00	\$ 480,600.00
 Kentucky Infrastructure Authority (KIA) Administration Costs		
Kentucky Infrastructure Authority HB 380 - \$1,000	\$ 1,000.00	\$ 1,000.00
Kentucky Infrastructure Authority HB 608- \$300	\$ 300.00	\$ 300.00
Total KIA Admin Costs	\$ 1,300.00	\$ 1,300.00
 Purchase Area Development District Administration Costs		
Community Development Block Grant Admin - \$25,000	\$ 25,000.00	\$ 25,000.00
HB 380 Admin	\$ 10,000.00	\$ 10,000.00
HB 608 Admin	\$ 3,000.00	\$ 3,000.00
Total PADD Admin Costs	\$ 38,000.00	\$ 38,000.00
Environmental Review Notices	\$ 216.75	\$ 216.75
Easements, Legal Fees - Miscellaneous Project Contingency	\$ 1,783.25	\$ 1,783.25
Total Estimated Project Costs	\$ 940,600.00	\$ 940,600.00

Exhibit E

11x 17 Map of existing collection system



EXISTING WWTP

Existing Discharge Point

- Legend**
- Existing Sewer Main
 - Existing Forcemain
 - Existing Manhole
 - Existing Cleanout
 - ⊙ Existing Lift Station

FH Florence & Hutcheson, Inc.
CONSULTING ENGINEERS

**SOUTH 641 WATER DISTRICT
SANITARY SEWER REHABILITATION
CITY OF HAZEL, CALLOWAY COUNTY, KY
EXISTING COLLECTION SYSTEM**

KENTUCKY
TENNESSEE