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August 4, 2008

RECEIVED

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PUBLIC SERVICE  
COMMISSION

Stephanie Stumbo  
Executive Director  
Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

Re: Case No. 2007-00496

Dear Ms. Stumbo:

Pursuant to the Commission's order of May 21, 2008, the Graves County Water District provides this progress report on the efforts to finalize the merger. Attached are the minutes of meeting held on June 30. Minutes for the July 21 meeting will be filed with the next update.

Graves County received the \$500,000 payment from KIA and transferred that money to the Graves County Water District, which was deposited into a new account at FNB as agreed to at the Executive Board meeting. Based on the progress to date, it is expected that the merger will be completed within the timeframe established by the final order in this case.

If additional information is needed, please contact me.

Very truly yours,

  
John N. Hughes

Attorney for Graves County  
Water District

**MINUTES**  
**GRAVES COUNTY WATER DISTRICT**  
**COMMISSIONERS MEETING**  
**(FULL BOARD)**

**June 30, 2008**

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The Graves County Water District – Full Board met on June 30, 2008 at 2:00 p.m. in the large conference room of the Purchase Area Development District, Mayfield, KY.

Members in attendance:

Henry Hodges, Consumers Water District  
Johnny Dowdy, Consumers Water District  
Billy Dick, Consumers Water District  
Joey Morrow, South Graves Water District  
David Jackson, South Graves Water District  
Todd Hayden, Fancy Farm Water District  
Bill Warner, Fancy Farm Water District  
Lowell Smith, Hardeman Water District  
Marty Ivy, Hardeman Water District/Mayfield Electric & Water

Guests present:

Sheila Rogers, PADD/Consumers Water Staff  
Will Erwin, Romaine & Associates  
Krista Romaine, Romaine & Associates  
Mark Davis, PADD  
Joe Bailey, Water Management Services  
Jeremy Buchanan, PADD Staff  
Adam Scott, PADD Staff  
Tony Smith, Graves County Judge Executive  
Roger Recktenwald

- I. Graves County Judge Executive, Tony Smith, called the meeting to order at 2:00 PM and welcomed the Commissioners and guests.

Judge Smith stated that he wanted to thank all the members present and that he and all members of the Graves County Water District wanted to express their appreciation to Mr. Recktenwald and all involved, including John Hughes, their attorney, for all of the hard work they had done on this project. Judge Smith further stated that he wanted to thank Mr. Henry Hodges, Mark Davis, Adam Scott, and all involved at the PADD office for their work connected with getting this project together. Judge Smith stated that it was his understanding that the merger of the four water districts was the largest single merger that had ever taken place in the State at one time.

Mr. Recktenwald stated that the merger had been approved by the Public Service Commission on May 21, 2008 and copies had been made for everyone today. He stated that each district had signed agreements as to the merger and the PSC had basically taken those documents as they were presented.

Mr. Recktenwald stated that he and Mr. Mark Davis had created an Agenda for today's meeting to assist the Board of Commissioners in taking the steps needed to complete the merger. He noted that Mark had submitted the application to KIA for the funds to pay off all RD debt and the loans from the banks. Ms. Krista Romaine of Romaine & Associates clarified that there was one loan at Regions Bank, which was a South Graves Water District debt, and two at First Kentucky Bank, which were loans of Consumers Water District. The KIA funds are to come through the Graves Fiscal Court to retire these debts and then the balance of that money would go against the remaining debt with KIA. She noted that this process should put the Water District in a financially sound operating stance for the first year. It was noted that once the merger process was completed, KIA would refinance their Fund C loan with a Fund B loan to the District, with a total loan amount of approximately \$650,000.

The Board then began dealing with the items listed on the meeting Agenda beginning with certain issues set out in the merger application.

For clarification, Mr. Recktenwald cited from the merger application and the PSC order approving the merger, called for all members currently serving on one of the four water district boards to continue to serve on the new District's Board for a period of one year from the point of merger. Meetings of the full Board would be scheduled each quarter. A critical role for the new Board is to review all existing rules, regulations and procedures from all four of the water districts and mold these into the procedures, rules, and regulations for the new Graves County Water District. He stated that the application called for there to be an Executive Committee comprised of four members to manage the day to day operations of the District during the first year. The Executive Committee would meet monthly. In discussion, it was clarified that both the full Board and the Executive Committee could have special meetings at any time, so long as the proper notice and procedure is followed for such meetings.

As regards determination of Board meeting dates times and locations, after discussion, Mr. Henry Hodges of Consumers Water District suggested the first Monday of the quarter and after clarification from Ms. Romaine regarding the availability of financial information after the 10<sup>th</sup> or 12<sup>th</sup> of the month, there was consensus of the members to hold the full Board's quarterly meetings on the fourth (4<sup>th</sup>) Monday of the first month in each quarter (July, October, January and April) at the time of 2:00 p.m. Mr. Hodges offered that the meetings be held at the PADD office. All members agreed.

The Board then determined the membership of the Executive Committee. Each District nominated a member to serve. Consumers Water District designated Mr. Johnny Dowdy as their designated member. Hardeman Water District named Mr. Gene Mason as its designated member. South Graves Water District named Mr. Joey Morrow as its designated member. Mr. Todd Hayden was named as the designated member from the Fancy Farm Water District. There was consensus acceptance of all Executive Committee members named.

The issue of the time and place for Executive Committee meetings was then discussed. It was determined jointly that the monthly meeting of the Executive Committee take place prior to the full Board meeting to allow for timely transfer of information between the Executive Committee and the Board. The time, date and location, 8:00 a.m. on the third (3<sup>rd</sup>) Monday of each month at the PADD office, was agreed to by all members for the Executive Committee meetings.

As regards a central office location for the new District, Judge Executive Tony Smith stated that he recognized the importance of preserving each District's history as contained in its records and files and offered the use of a small business office on the 3<sup>rd</sup> floor of the courthouse. He noted that it would be adequate to house the files of all the Districts and accommodate a desk for staff. Members expressed appreciation and accepted the Judge's offer. It was determined to proceed with getting a physical address and phone connection in the new office as soon as possible and to arrange for moving each District's files immediately upon completion of the merger.

In further discussion, it was noted that the PSC approval Order stipulated the date of merger must not be later than 120 days from the date of the Order, which is September 19, 2008. There appears to be no reason why the merger cannot be completed within this timeframe. Members were reminded that the application cited that each District's customer rates and charges would remain the same for a minimum of between one year and up to two years until the new District can determine actual costs taking into consideration any economies that would be generated by the merger.

Mr. Recktenwald noted the PSC Order cited that the District must file a "notification of acceptance" wherein the merged District accepts the rules and regulations of all the districts, individually, for the first year. Mr. Jack Hughes, the attorney working with the County dealing with the PSC in this matter will prepare the necessary filings. By way of example, in the Fancy Farm Water District service area the new Graves County Water District would be operating under the Fancy Farm Water

District rules and regulations throughout the first year of the merger. In the second year new tariffs (including rules, regulations, procedures and rates) will be submitted by Graves County Water District to the PSC and will be subject to PSC approval.

In discussion regarding the specific merger date, Ms. Romaine stated that a date of August 31<sup>st</sup> would be better from an accounting standpoint, noting that reports would have to be generated for the individual districts as well as a combined financial report. Mrs. Romaine and Mr. Will Erwin stated that as far as the Hardeman financial records, they had no debts but did have assets which would need to be calculated.

It was noted and agreed in discussion that the KIA grant to Graves County Fiscal Court to support the merger would be made to the Fiscal Court and, in turn, Judge Smith would request the Fiscal Court to make payment to the Graves County Water District, which, in turn, would make pay outs to RD and the respective banks, with the available balance be applied against the outstanding KIA loan to the Graves County Water District. It was agreed by consensus to target making all loan pay outs during July, 2008.

In a related matter, Mrs. Romaine stated that the District would need to open a new bank account and apply for an EIN number. Mr. Recktenwald stated that these and other organization issues would need to be dealt with at the first meeting of the Executive Committee. Such issues would include letters to employees and contractors, vendors and others regarding the merger, as well as responding to requirements set out in the PSC's approval Order.

Mr. Henry Hodges stated that he felt the Executive Committee would need to have officers in order to properly begin the business of the new District. After a brief discussion officers of the Executive Committee were nominated and approved by the members via acclamation. These include: Mr. Johnny Dowdy, Chairman; Mr. Todd Hayden, Vice-Chairman; Mr. Joey Morrow, Secretary-Treasurer.

Mr. Todd Hayden of Fancy Farm Water District recommended that a formal notice providing information regarding the merger be provided to all customers of all the Districts. Mr. Marty Ivy of Mayfield Electric & Water and a member of the Hardeman Water District stated that the document could be added as a stuffer into the billing of each customer at the end of July, 2008. All members concurred in taking this action.

It was noted that the fourth Monday of the quarter for the first full Board meeting would be the last Monday in July and that drafting of new rules would begin at that time.

Mr. Recktenwald encouraged each District to continue to have the regular monthly meetings of each water district until at least through the end of August or until the merger was completed. Mr. Adam Scott stated that he had made copies of the tariffs for each water district in the event anyone wanted to review each individual tariff for a comparison.

All present were asked to voice any concerns or issues that they felt needed to be discussed today. There being none, Judge Smith again congratulated the Board members on their participation and having received approval of the PSC for the merger.

There being no further business the meeting was adjourned at 2:58 p.m., with the date of Monday, July 21, 2008 at 8:00 a.m. being selected as the next meeting date.

RESPECTFULLY SUBMITTED,

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Johnny Dowdy, Chairman

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Joey Morrow, Secretary-Treasurer