

JOHN N. HUGHES
ATTORNEY AT LAW
PROFESSIONAL SERVICE CORPORATION
124 WEST TODD STREET
FRANKFORT, KENTUCKY 40601

TELEPHONE: (502) 227-7270

JNHUGHES@fewpb.net

TELEFAX (502) 875-7059

November 28, 2006

RECEIVED

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PUBLIC SERVICE
COMMISSION

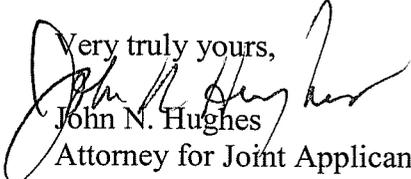
Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Case No. 2006-00327

Dear Beth:

Please file the attached responses of the Joint Applicant's to the Commission's order of November 13, 2006. .

A copy of the responses has been delivered to the Attorney General.

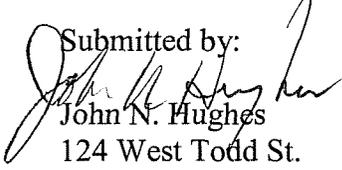
Very truly yours,

John N. Hughes
Attorney for Joint Applicants

Attachments

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Joint Application of Sandy Valley)
Water District, Southern Water and) Case No. 2006-00327
Sewer District and the city of Pikeville)
for approval of the transfer of facilities)
and for the assumption of debt by Southern)
Water and Sewer District)

Submitted by:

John N. Hughes
124 West Todd St.
Frankfort, KY 40601
(502) 227 7270
Attorney for Joint Applicants

1. Refer to Joint Applicants' Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents, Item 14(b). State whether Southern District obtained Commission authorization to borrow \$600,000 to pay Veolia Water for management fees. If no, explain why not.

Witness: Meyer

Public Service Commission Second Data Request

ITEM 1. Authorization for Southern Water to borrow \$600,000.00:

Southern Water & Sewer District did contact Mr. Mark Frost of the Public Service Commission relative to borrowing \$600,000.00 to pay Veolia Water for past due management fees. He informed the District that the District could borrow up to \$200,000.00 for a two year period, renewable for two subsequent two year terms and would not need the PSC's authorization for the loan. The District subsequently issued an RFQ for the bank loan and executed a loan with First Guaranty Bank for that amount. Copies of loan documents attached.

PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$600,000.00	02-10-2006	02-10-2008	10002110			CDJ	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing ***** has been omitted due to text length limitations.

Borrower: SOUTHERN WATER & SEWER DISTRICT (TIN: 61-0874341)
61-0874341
P.O. Box 610
McDowell, KY 41647

Lender: First Guaranty Bank
P.O. Box 888
39 Triangle Street
Martin, KY 41649

Principal Amount: \$600,000.00 Interest Rate: 5.100% Date of Note: February 10, 2006

PROMISE TO PAY. SOUTHERN WATER & SEWER DISTRICT ("Borrower") promises to pay to First Guaranty Bank ("Lender"), or order, in lawful money of the United States of America, the principal amount of Six Hundred Thousand & 00/100 Dollars (\$600,000.00), together with interest at the rate of 5.100% per annum on the unpaid principal balance from February 10, 2006, until paid in full.

PAYMENT. Borrower will pay this loan in full immediately upon Lender's demand. If no demand is made, Borrower will pay this loan in 23 regular payments of \$9,709.54 each and one irregular last payment estimated at \$429,936.07. Borrower's first payment is due March 10, 2006, and all subsequent payments are due on the same day of each month after that. Borrower's final payment will be due on February 10, 2008, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any late charges; and then to any unpaid collection costs. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: First Guaranty Bank, P.O. Box 888, 39 Triangle Street, Martin, KY 41649.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment or \$25.00, whichever is greater.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, Lender, at its option, may, if permitted under applicable law, increase the interest rate on this Note 2.000 percentage points. The interest rate will not exceed the maximum rate permitted by applicable law.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Note has been accepted by Lender in the Commonwealth of Kentucky.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Floyd County, Commonwealth of Kentucky.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

COLLATERAL. Borrower acknowledges this Note is secured by the following collateral described in the security Instruments listed herein:

- (A) a Mortgage dated February 10, 2006, to Lender on real property located in FLOYD County, KENTUCKY
- (B) inventory, chattel paper, accounts, equipment and general intangibles described in a Commercial Security Agreement dated February 10, 2006.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

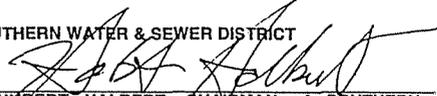
NOTIFY US OF INACCURATE INFORMATION WE REPORT TO CONSUMER REPORTING AGENCIES. Please notify us if we report any inaccurate information about your account(s) to a consumer reporting agency. Your written notice describing the specific inaccuracy(ies) should be sent to us at the following address: First Guaranty Bank P.O. Box 888 Martin, KY 41649.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

SOUTHERN WATER & SEWER DISTRICT

 By: HUBERT HALBERT, CHAIRMAN of SOUTHERN WATER & SEWER DISTRICT

COPY

DISBURSEMENT REQUEST AND AUTHORIZATION

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$600,000.00	02-10-2006	02-10-2008	10002110			CDJ	
References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing ***** has been omitted due to text length limitations.							

Borrower: SOUTHERN WATER & SEWER DISTRICT (TIN:
61-0874341)
P.O. Box 610
McDowell, KY 41647

Lender: First Guaranty Bank
P.O. Box 888
39 Triangle Street
Martin, KY 41649

LOAN TYPE. This is a Fixed Rate (5.100%) Nondisclosable Loan to a Government Entity for \$600,000.00 due on February 10, 2008.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for:

- Personal, Family, or Household Purposes or Personal Investment.
- Business (Including Real Estate Investment).

SPECIFIC PURPOSE. The specific purpose of this loan is: REORGANIZATION OF MANAGEMENT.

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$600,000.00 as follows:

Amount paid to Borrower directly:	\$600,000.00
\$600,000.00 Lender's Check #	
 Note Principal:	 \$600,000.00

CHARGES PAID IN CASH. Borrower has paid or will pay in cash as agreed the following charges:

Prepaid Finance Charges Paid in Cash:	\$0.00
Other Charges Paid in Cash:	\$1,681.00
\$181.00 Recording	
\$1,500.00 ATTORNEY FEE	
 Total Charges Paid in Cash:	 \$1,681.00

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED FEBRUARY 10, 2006.

BORROWER:

SOUTHERN WATER & SEWER DISTRICT

By: HUBERT HALBERT, CHAIRMAN of SOUTHERN WATER & SEWER DISTRICT

AMORTIZATION SCHEDULE

Principal \$600,000.00	Loan Date 02-10-2006	Maturity 02-10-2008	Loan No 10002110	Call / Coll	Account	Officer CDJ	Initials
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Any item above containing ***** has been omitted due to text length limitations.

Borrower: SOUTHERN WATER & SEWER DISTRICT (TIN: 61-0874341) P.O. Box 610 McDowell, KY 41647	Lender: First Guaranty Bank P.O. Box 888 39 Triangle Street Martin, KY 41649
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Disbursement Date: February 10, 2006
Interest Rate: 5.100

Repayment Schedule: Balloon
Calculation Method: 365/360 U.S. Rule

Payment Number	Payment Date	Payment Amount	Interest Paid	Principal Paid	Remaining Balance
1	03-10-2006	9,709.54	2,380.00	7,329.54	592,670.46
2	04-10-2006	9,709.54	2,602.81	7,106.73	585,563.73
3	05-10-2006	9,709.54	2,488.65	7,220.89	578,342.84
4	06-10-2006	9,709.54	2,539.89	7,169.65	571,173.19
5	07-10-2006	9,709.54	2,427.49	7,282.05	563,891.14
6	08-10-2006	9,709.54	2,476.42	7,233.12	556,658.02
7	09-10-2006	9,709.54	2,444.66	7,264.88	549,393.14
8	10-10-2006	9,709.54	2,334.92	7,374.62	542,018.52
9	11-10-2006	9,709.54	2,380.36	7,329.18	534,689.34
10	12-10-2006	9,709.54	2,272.43	7,437.11	527,252.23
2006 TOTALS:		97,095.40	24,347.63	72,747.77	
11	01-10-2007	9,709.54	2,315.52	7,394.02	519,858.21
12	02-10-2007	9,709.54	2,283.04	7,426.50	512,431.71
13	03-10-2007	9,709.54	2,032.65	7,676.89	504,754.82
14	04-10-2007	9,709.54	2,216.71	7,492.83	497,261.99
15	05-10-2007	9,709.54	2,113.36	7,596.18	489,665.81
16	06-10-2007	9,709.54	2,150.45	7,559.09	482,106.72
17	07-10-2007	9,709.54	2,048.95	7,660.59	474,446.13
18	08-10-2007	9,709.54	2,083.61	7,625.93	466,820.20
19	09-10-2007	9,709.54	2,050.12	7,659.42	459,160.78
20	10-10-2007	9,709.54	1,951.43	7,758.11	451,402.67
21	11-10-2007	9,709.54	1,982.41	7,727.13	443,675.54
22	12-10-2007	9,709.54	1,885.62	7,823.92	435,851.62
2007 TOTALS:		116,514.48	25,113.87	91,400.61	
23	01-10-2008	9,709.54	1,914.11	7,795.43	428,056.19
24	02-10-2008	429,936.07	1,879.88	428,056.19	0.00
2008 TOTALS:		439,645.61	3,793.99	435,851.62	
TOTALS:		653,255.49	53,255.49	600,000.00	

NOTICE: This is an estimated loan amortization schedule. Actual amounts may vary if payments are made on different dates or in different amounts.

COPY

2. Refer to Joint Applicants' Response to Commission Staffs First Set of Interrogatories and Requests for Production of Documents, Item 10. Identify the entity (Sandy Valley or Pikeville) that is presently responsible for each of the listed aspects of Sandy Valley District's operations:

- a. Accounting;
- b. Billing and collections;
- c. Distribution system operations;
- d. Meter reading;
- e. Customer relations;
- f. Distribution main maintenance.

Witness: Meyer

2. Refer to Joint Applicants' Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents, Item 10. Identify the entity (Sandy Valley or Pikeville) that is presently responsible for each of the listed aspects of Sandy Valley District's operations: a. Accounting; b. Billing and collections; c. Distribution system operations; d. Meter reading; e. Customer relations; f. Distribution main maintenance.

Sandy Valley is presently responsible for each of the listed aspects of Sandy Valley District's operations: accounting, billing and collections, distribution system operations, meter reading, customer relations and distribution main maintenance.

- a. As regards accounting functions, the individuals who have provided accounting services to Sandy Valley, including preparation of the PSC Annual Report, have informed Sandy Valley office staff that they have no intention of continuing this contracted service, regardless of the status of the asset transfer application.
- b. As regards billing and collections, one member of the original three member office staff has taken a position elsewhere and is no longer employed by Sandy Valley.
- c. As regards distribution system operations, one member of the original four member field staff has taken a position elsewhere and is no longer employed by Sandy Valley.
- d. As regards meter reading, the remaining field staff completes the meter readings as per monthly schedule and once completed proceeds with service orders.
- e. As regards distribution main maintenance, Sandy Valley's current superintendent and two field staff handle routine minor problems that occur relating to the distribution system. Non-routine and emergency problems require intervention. Specifically, the Floyd County Fiscal Court and the Pikeville Public Works Department have assisted Sandy Valley with several main line repairs, including a main line relocation, since early February, 2006. This assistance has included special equipment, equipment operators, materials, and personnel not available to Sandy Valley in-house.

Note: Staff of the Pikeville Finance Department and Public Works Department have both solicited information from and responded to Sandy Valley staff throughout this same period, by phone and in person, regarding application of Sandy Valley's existing policy, practice and procedures on a range of issues relating to system operations and management as well as data and information required in order to respond to the Commission staff requests for information relating to the joint application for asset transfer.

3. Refer to Joint Applicants' Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents, Item 15(b).

List and describe each of the actions that Southern District has taken since January 1, 2006 to reduce its operating expenses.

Witness: Meyer

Public Service Commission Second Data Request

ITEM 3. Actions that Southern Water has taken to reduce its operating costs since January 1, 2006:

1. Refer to Southern Water's response to Item 14 of the Public Service Commission's first data request, wherein Southern Water provided a comparative analysis of its year-to-date operating expenses for 2006 compared to what operating expenses would have been if the District were still under contract with Veolia Water.

Specific cost reductions include:

1. Elimination of gross profit margin included in Veolia Management Contract.
2. Maintaining employee level at or below that specified in the Veolia Management Contract.
3. Elimination of various employee incentives/bonuses previously paid by Veolia (annual employee bonus, Christmas party, etc.)
4. Reduction in annual employee health insurance expenses.
5. Elimination of manager's travel expenses to Veolia management workshops.

4 Provide a copy of the minutes of each meeting of Southern District's Board of Commissioners held since January 1, 2006

Witness: Meyer

Public Service Commission Second Data Request

ITEM 4. Copies of Minutes of Southern Water since January 1, 2006:

Copies of minutes attached.

SOUTHERN WATER & SEWER DISTRICT
P.O. BOX 610
Mc DOWELL, KY 41647

MINUTES OF SPECIAL CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
January 16, 2006 @12:00 PM/ Mc DOWELL OFFICE SOUTHERN WATER

ATTENDENCE:

Hubert Halbert, Chairman
Bert Layne, Treasure
Eula Hall, Commissioner
Paula Johnson, Commissioner
Palmer Frasure, Commissioner
Bob Meyer, Veolia Water

Tina Mosley, Veolia Water
Charlotte Frasure, Citizen

A. CALL TO ORDER: 12:02 PM
BY: HUBERT HALBERT

B. INSURANCE PROPOSALS

➤ **GENERAL LIABILITY/PROPERTY/WORKERS COMPENSATION**

Bob Meyer discussed the bids from Hatton-Allen Insurance (KY Association of Counties) & Hall & Clark Insurance (KY League of Cities) submitted in response to the District's RFP. He presented a spreadsheet from each company outlining types of coverages and premiums associated therewith. He also noted that Southern Water is presently paying \$34,000 total annual premium on General Liability & Property Coverage, at the present time. He indicated that both companies quoted Loss Control Services @ No Charge.

INSURANCE QUOTES WERE AS FOLLOWS:

General Liability/Property Coverage

- Hatton-Allen - \$40,339.00
- Hall & Clark - \$51,543.00

Workers Compensation

- Hatton -Allen - \$20,838 (annual)
- Hall & Clark - \$22,533. (annual)

Term Life Insurance

- Hatton-Allen (Anthem Life Insurance Co)- \$1,550
- Hall & Clark (Guardian Life Insurance Co)- \$1,674

- **MOTION TO ACCEPT BID FROM HATTON-ALLEN INSURANCE: GENERAL LIABILITY & PROPERTY LIABILITY (\$40,339.00), WORKERS COMPENSATION (\$20,838.00) & TERM LIFE INSURANCE (\$1,550.0).**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: PALMER FRASURE

MOTION PASSED

➤ **MEDICAL INSURANCE**

Bob Meyer addressed the Insurance Proposals for Medical Insurance from Hatton-Allen Insurance & Hall & Clark Insurance. Both local agents quoted several medical insurance companies, although the most competitive quotes were from Blue Cross / Blue Shield (Anthem), and Assurant. Mr. Meyer prepared spreadsheets comparing the BC/BS quotes and Assurant. (Annual Deductible, Estimated Monthly Premiums, Employee Contribution, to Cost to employer (annual).

Medical Insurance: Estimated Monthly Premium/ Cost to Employer Annual

➤ Hatton-Allen:	Est. Monthly Premium	Cost to Employer Annual
BC/BS Option 15 -	\$11,132.50	\$102,426.00
BC/BS Option 10 -	\$9,845.67	\$86,984.04
BC/BS Option 7 -	\$9,217.49	\$79,445.88
BC/BS Option 12 -	\$10,620.06	\$96,276.72
➤ Hall & Clark:		
BC/BS Option 14 -	\$12,908.52	\$123,738.28
BC/BS Option D9 -	\$12,856.82	\$123,117.4
BC/BS Option 7-	\$10,974.43	\$100,529.16
Assurant Option 1-	\$6,762.31	\$49,983.72
Assurant Option 2 -	\$6,332.08	\$44,820.96

Medical insurance quotes were compared in detail. Bob Meyer noted that the premium quotes from Assurant were significantly lower than those from Anthem. He indicated that he was attempting to get additional information related to this company, as it would offer the District a substantial savings for the first year premiums. Bob advised the board that Dean Hall has been checking with Big Sandy Healthcare & other healthcare facilities on their affiliation with Assurant. Also, Dick Clark (Hall & Clark) told Bob that he has had limited experience with Assurant, but that he felt that this is a legitimate company. After some research on the internet Bob found out that Assurant is a \$20 billion company with \$8 million in revenues and uses CHA network. Bob suggested to the board that he be allowed to do more research on Assurant and be able to check with Better Business Bureau and etc. If Assurant is a legitimate company and maintains the same premiums as originally proposal, he would recommend this policy to the board. If the rates remain the same as in the original quote, the District would have the budget flexibility to pay 100% of the premiums, thus reducing the amount to be paid by employees and offsetting their

higher deductible cost. The commissioners also suggested that Bob get in touch with Hall & Clark and find out their quote on Dental/Vision.

- **MOTION TO ALLOW BOB MEYER TO DO EXTENSIVE RESEARCH ON ASSURANT HEALTH AND GET A DENTAL/VISION QUOTE FROM HALL & CLARK. DEFER THE AWARDED OF THE MEDICAL INSURANCE BID UNTIL FURTHER INFORMATION BEING PRESENTED AT NEXT BOARD MEETING.
MOTION MADE BY: PAULA JOHNSON
SECOND BY: PALMER FRASURE
MOTION PASSED**

C. PAYMENT OF INVOICES

- **MOTION TO PAY DRAW REQUESTS/APPROVE CHANGE ORDER:**
 - **CHANGE ORDER LAWSON CONTRACTING- \$14,211.00**
 - **KENNEY INC. - \$ 53,886.85 (to be paid from RD Funds)**
 - **LAWSON CONTRACTING - \$1,900.00 (To be paid from District Funds)****MOTION MADE BY: EULA HALL
SECOND BY: PAULA JOHNSON
MOTION PASSED**

A listing of invoices was also presented to the Commissioners for electric and water bills (previously paid by Veolia) as well as the September O&M payment to Veolia. He stated that, given the contract termination, it would make sense at this time for Southern Water to being paying the pass-through invoices directly.

- **MOTION FOR APPROVAL OF INVOICE DISBURSEMENTS FROM SOUTHERN WATER & SEWER DISTRICT \$133,990.31.
MOTION MADE BY: PAULA JOHNSON
SECOND BY: BERT LAYNE
MOTION PASSED**

D. RESOLUTION re: CODE OF ETHICS

- **MOTION TO APPROVE RESOLUTION ADOPTING FLOYD COUNTY CODE OF ETHICS.
MOTION MADE BY: BERT LAYNE
SECOND BY: PALMER FRASURE
MOTION PASSED**

E. RESOLUTION re: BANK LOAN

- **MOTION TO APPROVE RESOLUTION re: FIRST GUARANTY BANK LOAN.
MOTION MADE BY: PALMER FRASURE**

**SECOND BY: BERT LAYNE
MOTION PASSED**

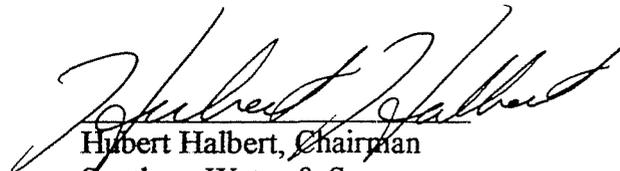
F. WATER BILL: KNOTT COUNTY EMERGENCY & RESCUE SQUAD

Bob Meyer presented the board with a Water Bill for Knott County Rescue Squad in the amount of \$5,681.17. The leak was located at setter going into the meter on their side. The water was running into a drain where no one was able to see. Considering the fact that they are a non profit organization the board members suggested that Knott County Rescue Squad be responsible for \$50.00 of the bill. The remaining balance of the bill can be adjusted off.

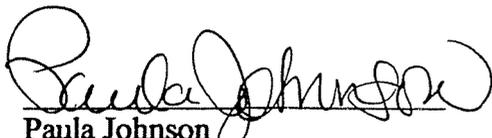
- **MOTION TO ADJUST KNOTT COUNTY RESCUE WATER BILL IN TO \$50.00 FROM \$5681.17.
MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
MOTION PASSED**

With there being no further business the meeting was adjourned at 12:50pm. Passed by the Commissioners of Southern Water and Sewer District on this _____ day of _____ 2006.

Approved by:


Hubert Halbert, Chairman
Southern Water & Sewer

Attest:


Paula Johnson
Southern Water & Sewer

Date: _____

**SOUTHERN WATER & SEWER DISTRICT
P.O. BOX 610
Mc DOWELL, KY 41647**

**MINUTES OF SPECIAL CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
January 24, 2006 @ 4:00 PM/ McDOWELL OFFICE SOUTHERN WATER**

ATTENDANCE:

Hubert Halbert, Chairman

Tina Mosley, Veolia Water

Bert Layne, Treasurer

Charlotte Frasure, Citizen

Eula Hall, Commissioner

Bob Taylor, O' Briene & Gere

Palmer Frasure, Commissioner

Betsy Carroll, Summitt Engineering

Bob Meyer, Veolia Water

A. CALL TO ORDER: 4:02 PM

BY: HUBERT HALBERT

B. MOTION TO APPROVE MINUTES 12/19/05, 12/27/05, 1/16/06

MOTION MADE BY: PALMER FRASURE

SECOND BY: EULA HALL

MOTION PASSED

C. FINANCIAL REPORT

• MOTION TO DEFER FINANCIAL REPORT

MOTION MADE BY: BERT LAYNE

SECOND BY: EULA HALL

MOTION PASSED

D. MONTHLY OPERATIONS REPORT

For the month of December 2005, customer service base was at 6,210. We had 9 new paid taps. The unaccounted water loss for the month was 25%. We purchased 8.2 million gallons from Pikeville. The current month income deposited totaled \$188,247.45, excluding a solid waste payment of \$56,442.67. The total amount of expenses paid out was \$259,829.63 (including semi-annual payment to USDA-RD). Replacement of the master meter at the water treatment plant and other 2" and larger meters has had a significant impact on our water production and water consumption data.

E. MEDICAL INSURANCE PROPOSALS

Subsequent to the last meeting, Mr. Meyer made more extensive inquiries as to the validity and cost effectiveness of the medical insurance proposal previously submitted

by Assurant. He advised the Commissioners that, although Assurant is a legitimate health insurance company, the actual premiums for Southern Water employees would be substantially higher than that originally quoted. Bob recommended that after his research on Assurant Health, the District not accept their proposal, as their premiums are higher than that of other proposals. Mr. Meyer recommended that the District accept the medical insurance proposal submitted by Hatton & Allen from Anthem Blue Cross & Blue Shield (Option 12).

- **MOTION TO ACCEPT ANTHEM OPTION 12 MEDICAL INSURANCE PROPOSAL INCLUDING DENTAL & VISION FROM HATTON & ALLEN.
MOTION MADE BY: PALMER FRASURE
SECOND BY: BERT LAYNE
MOTION PASSED**

PAYMENT OF INVOICES

A schedule of current operational invoices needing to be approved and paid was presented to the Commissioners.

- **MOTION FOR APPROVAL OF INVOICE DISBURSEMENTS FROM SOUTHERN WATER & SEWER DISTRICT \$7,392.47.
MOTION MADE BY: EULA HALL
SECOND BY: PALMER FRASURE
MOTION PASSED**

F. STATUS ON VEHICLE PURCHASE

Bob discussed the status on the purchase of new vehicles previously authorized by the Commissioners. A purchase order has been given to Mountain Ford (low bidder) for:

- (1) Ford Ranger - \$16,665
- (2) F-250 Diesels - \$48,742
- (2) F-150- \$37,660
\$103,067

The District will be leasing these vehicles from Ford Motor Leasing on a 36 month term @ \$3,139.33 per month with an annual lease payment amount of \$37,671.96. We will also be retaining the following vehicles from Veolia:

- | QTY | TYPE | YEAR | AMT OWED |
|-----|-----------------|------|----------------|
| (1) | F750 Dump | 2000 | \$10,992 |
| (1) | F150 Pickup | 2003 | \$3,380 |
| (1) | F150 Super Crew | 2003 | <u>\$6,799</u> |
| | | | \$21,171 |

G. OTHER

1) CHEMICAL FEED QUOTES WWTP

Bob indicated to the Commissioners that we have received three quotes for changes in the chemical feed system at the Wayland wastewater treatment plant, as follows:

Chris Wright ———\$1,200

Frasure Manufacturing-----\$2,600
AST Environmental: \$14,000

Bob recommended that the District accept the quote from Frasure Manufacturing as we have had a wide background of experience with Frasure Mfg and their work is more reputable than that of Chris Wright, low bid.

- **MOTION TO ACCEPT QUOTE FROM FRASURE MANUFACTURING IN THE AMOUNT OF \$2600.
MOTION MADE BY: EULA HALL
SECOND BY: PALMER FRASURE
MOTION PASSED**

2) STATUS ON PURCHASE OF McDowell PROPERTY

Bob indicated that he has discussed the potential purchase of the McDowell property with Byron Hamilton & James Frasures, owners. They are interested in the sale of this property and suggested that an independent appraisal be performed to determine market value. Mr. Meyer asked the District's permission to contract with Hansel Cooley to perform this appraisal. Commissioners approved same.

3) STATUS ON US 23 (HAROLD) SEWER PROJECT

Bob Meyer passed out current information related to the proposed Harold Sewer Project. He indicated that the District had previously approved the Interlocal Cooperation Agreement related to this project and that he and several other individuals will be meeting with the KY Division of Water and the Public Service commission in the near future to discuss the project. One of the issues still to be resolved is how the existing Sandy Valley Water District will be split up between the City of Pikeville and Southern Water & Sewer District, once the transfer of Sandy Valley assets is approved by the Public Service Commission. He also stated that preliminary data shows that there are 1350 Sandy Valley water customers on the Floyd County side and 1100 customers on the Pike County side, although the actual amount of revenues differs, as there are a larger amount of commercial customers on the Pike County side. Further information will be provided to the Commissioners as it becomes available.

4) DECLARATION OF SURPLUS PROPERTY

Mr. Meyer informed the Commissioners that he had discussed the insurance status on the Ford F150 (previously wrecked by Bob Meyer) with Bev Merrit from Collins & Company (insurance adjusters). She stated that the vehicle was totaled and that the NADA book value is \$12,500 - (\$250) deductible. Mr. Meyer recommended that the District reduce its insurance claim by the salvage amount for the vehicle (approx.

\$1,600) and advertise the vehicle for sale. He also recommended that the District re-advertise two other old service trucks previously declared surplus property by the District for sale.

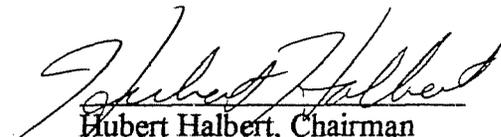
- **MOTION TO DECLARE WRECKED FORD F150 AS SURPLUS PROPERTY AND TO ADVERTISE THAT TRUCK ALONG WITH PREVIOUSLY DECLARED SURPLUS VEHICLES (1995 F-150, 1997 FORD RANGER,) FOR SALE.
MOTION MADE BY: PALMER FRASURE
SECOND BY: EULA HALL
MOTION PASSED**

5) STATUS ON CONTRACT TERMINATION

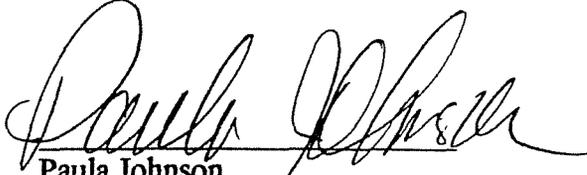
Mr. Meyer stated that Rob Nicholas, Veolia Water, has had an independent consultant visit Southern Water & Sewer to perform an inventory of all District/Veolia assets. Final settlement discussions with Veolia Water are still occurring, although a final settlement amount has not been reached. There are still discussions related to final payments to Veolia Water (to be Southern Water) employees for accrued vacation, etc. A special called meeting will be held next week to finalize approval of the complete settlement agreement.

With there being no further business the meeting was adjourned at 4:50pm. Passed by the Southern Water and Sewer District Commissioners on this _____ day of _____ 2006.

Approved by:


Hubert Halbert, Chairman
Southern Water & Sewer

Attest:


Paula Johnson
Southern Water & Sewer

**SOUTHERN WATER & SEWER DISTRICT
P.O. BOX 610
Mc DOWELL, KY 41647**

**MINUTES OF SPECIAL CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
FEBURARY 7, 2006 @ 5:00 PM/ McDOWELL OFFICE SOUTHERN WATER**

ATTENDANCE:

Hubert Halbert, Chairman
Bert Layne, Treasurer
Paula Johnson, Commissioner
Eula Hall, Commissioner
Bob Meyer, Veolia Water
Tina Mosley, Veolia Water

A. CALL TO ORDER: 5:02 PM

HUBERT HALBERT

B. CONTRACT SETTLEMENT WITH VEOLIA WATER

Bob Meyer reviewed a schedule of past due payments owed to Veolia Water as of February 1, 2006, including amounts owed for O&M and pass-through payments as well as overages for 2003-04, 2004-05, and the current year in the repair & maintenance account. He indicated that, in discussions with Rob Nicholas, there was a recognition that much of the R&M overage amount was never approved by the District. However, the total amount owed, per Veolia was \$768, 852 and Veolia has agreed to accept \$600,000 as the final settlement owed by Southern Water & Sewer District. To that end, a Mutual Release & Settlement Agreement has been prepared by Veolia and Mr. Meyer presented it to the District for approval. The agreement also stipulated that the payment for the three Veolia vehicles to be transferred to Southern Water was also included. Mr. Meyer recommended that the Agreement be approved by the District. The Agreement also stipulates that Veolia Water will pay all current employees for accrued vacation in excess of 120 hours.

- **MOTION TO ACCEPT THE MUTUAL RELEASE & SETTLEMENT AGREEMENT WITH VEOLIA AS OF FEBURARY 1ST, 2006.
MOTION MADE BY: EULA HALL
SECOND BY: PAULA JOHNSON
MOTION PASSED**

Bob Meyer also stated that the Agreement with Veolia Water stipulates that all existing employees will be paid by Veolia for all accrued vacation in excess of 120 hours per employee. Based on this, he recommended that the District credit all existing Veolia Water employees (all of whom are to be hired by Southern Water) with a beginning vacation balance of all vacation hours accrued through Veolia Water in the amount of

120 hours or less per employee. Again, any accrued vacation in excess of 120 hours per employee will be paid by Veolia Water with their last payroll check to employees.

- **MOTION FOR SOUTHERN WATER & SEWER DISTRICT TO ACCEPT AND PROVIDE TO ALL VEOLIA WATER EMPLOYEES IN THE SOUTHERN WATER PROJECT CREDIT FOR ACCRUED VACATION PER EMPLOYEE IN THE AMOUNT OF 120 HOURS OR LESS AS OF FEBRUARY 1, 2006.**
MOTION MADE BY: BERT LAYNE
SECOND BY: EULA HALL
MOTION PASSED

C. CONTRACT TERMINATION/TRANSITION PROCESS

Bob Meyer distributed a current and proposed employee pay rate schedule for review and approval by the Commissioners. On the schedule is the current pay rate per employee and a 3% cost of living increase rate is recommended for the majority of the employees. A higher increase is being recommended for those employees currently making less than \$8.00 per hour so that all existing employees will be making a minimum of \$8.00 per hour. Mr. Meyer also recommended a 2.8% reduction in his own salary. A recommendation was made that Mr. Meyer's salary be maintained at its current level.

- **MOTION TO ACCEPT THE RECOMMENDED EMPLOYEE PAY RATES WITH THE EXCEPTION THAT MR. MEYER'S SALARY BE MAINTAINED AT ITS PRESENT LEVEL.**
MOTION MADE BY: PALMER FRASURE
SECOND BY: EULA HALL
MOTION PASSED

At this time, Paula Johnson indicated that it was important that all employees understand that, with the termination of the Veolia Water contract, there is still a chain of command in place relating to supervision of employees, routine operations of the District and employee concerns. She stated that she and all of the Commissioners fully support all of the District's employees, but that neither she nor the other Commissioners are their bosses. She indicated that Mr. Meyer is the District's Manager and that supervisors have been designated and that employees are to report to and be supervised by Mr. Meyer and designated supervisors and not by the Commissioners.

- **MOTION THAT, WHILE THE COMMISSIONERS FULLY SUPPORT ALL DISTRICT EMPLOYEES, THE COMMISSIONERS ARE NOT RESPONSIBLE FOR ROUTINE OPERATIONS OF THE DISTRICT AND THAT ALL EMPLOYEES ARE TO ADDRESS PROBLEMS OR CONCERNS TO THEIR RESPECTIVE SUPERVISORS AND THE DISTRICT'S MANAGER AND NOT TO THE COMMISSIONERS.**
MOTION MADE BY: PAULA JOHNSON
SECOND BY: PALMER FRASURE
MOTION PASSED

Bob Meyer advised the commissioners that all of our accounts with various communication vendors, as well as material vendors, gas vendors, have been changed over to Southern Water & Sewer District's name. All field employees will receive a gas credit card. A detailed statement is provided for each card used. Additional credit cards for the purchase of materials, supplies, will be secured and provided to Bob Meyer, Dean Hall, Gary Blankenship, Bobby Hackworth, Jr., and Roy Kelsay. We are still requiring a purchase order number for each purchase made.

Mr. Meyer indicated that he is still exploring the possibility of the District's participation in the Kentucky Retirement System, although he has not yet been able to find out specifics related to the program. He also presented a proposed change in life insurance coverage for District employees. Previously the District had authorized a flat term life insurance rate of \$20,000 for each employee at a cost of \$129.20 per month. A revised proposal is being presented for 1(x) employee base salary with a minimum of \$15,000 and a max of \$50,000 for \$208.60 per month. The cost to the District will be \$953.00 per year.

- **MOTION TO APPROVE THE CHANGE IN LIFE INSURANCE**
MOTION MADE BY: PAULA JOHNSON
SECOND BY: BERT LAYNE
MOTION PASSED

Bob Meyer also stated that we are changing our uniform supplier from Cintas to Aramark. It will be two weeks before the uniforms will be in. The field employees will currently be wearing uniform pants and a plain gray shirt.

D. DRAFT OF NEW SOUTHERN WATER & SEWER DISTRICT PERSONNEL POLICIES

Bob Meyer distributed a draft of the proposed new Southern Water & Sewer District Personnel Policy & Procedures Manual. He requested that all Commissioners review the proposed policies and call him with any proposed changes/ amendments. The Policies Manual will be presented for final approval at the next meeting of the District.

E. HAROLD SEWER PROJECT: ASSIGNMENT OF WATER PURCHASE AGREEMENT

Mr. Meyer indicated that the City of Prestonsburg is requesting that Southern Water & Sewer District agree to an assignment of the existing water purchase agreement between Sandy Valley Water District and Prestonsburg City Utilities. This contract stipulates that Sandy Valley Water District will purchase a minimum of 3,000,000 gallons per month from Prestonsburg. Mr. Meyer recommended that the District approve this assignment.

- **MOTION TO ACCEPT THE ASSIGNMENT OF WATER PURCHASE AGREEMENT BETWEEN SANDY VALLEY WATER DISTRICT AND PRESTONSBURG CITY UTILITIES.**
MOTION MADE BY: EULA HALL
SECOND BY: PALMER FRASURE

MOTION PASSED

There will be a special meeting held @ Sandy Valley Water District February 8, 2006 with the employees to discuss the transition process.

F. McDowell BUILDING APPRAISAL

The appraisal of the McDowell property performed by Hansel Cooley stated that the market value of the building and property was \$208,500. An estimate of the debt service on \$208,500 for a ten year term is \$2,300 per month. We are currently paying \$2,500 a month in rent. Bob Meyer stated that any long term purchase agreement for the building will have to be approved by the KY PSC. The commissioners suggested that we hold off on purchasing the building until we look at other property options.

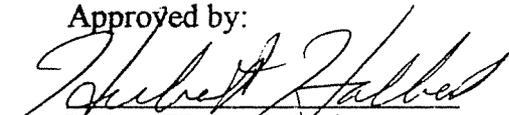
G. PAYMENT OF INVOICES

Bob Meyer presented a current listing of invoices for approval by the District. He discussed one invoice from T & H Builders for repair work to Vernon Cornett's property. He indicated that, although there has been some discussion related to who approved the work, that the work was legitimate and that he had approved the invoice for payment. He also pointed out a payment in the amount of \$41,548.12 from the District's construction account to First Guaranty Bank to reduce the amount of the outstanding line of credit with the bank.

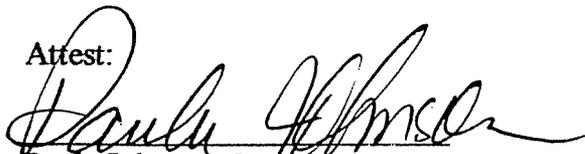
- **MOTION TO APPROVE THE PAYMENT OF INVOICES IN THE AMOUNT OF \$46,317.03.
MOTION MADE BY: PAULA JOHNSON
SECOND BY: BERT LAYNE
MOTION PASSED**

With there being no further business to discuss the meeting was adjourned at 6:00pm. Passed by the Southern Water and Sewer District Commissioners on this _____ day of _____ 2006 .

Approved by:


Hubert Halbert, Chairman
Southern Water & Sewer

Attest:


Paula Johnson, Secretary
Southern Water & Sewer

**SOUTHERN WATER & SEWER DISTRICT
PO BOX 610
MCDOWELL, KY 41647**

MINUTES OF THE SPECIAL CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
FEBURARY 13, 2006 @ 4:00PM/ MCDOWELL OFFICE SOUTHERN WATER

ATTENDEES:

HUBERT HALBERT, CHAIRMAN CHARLOTTE FRASURE, CITIZEN
BERT LAYNE, TREASURER
PALMER FRASURE, COMMISSIONER
EULA HALL, COMMISSIONER
BOB MEYER, Manager
TINA MOSLEY, Southern Water

**A. CALL TO ORDER- HUBERT HALBERT
TIME – 4:05 PM**

B. REVIEW/AMENDMENTS OF PERSONNEL POLICIES

Mr. Halbert asked the Commissioners if anyone had any questions or comments on the draft of the new Personnel Policies & Procedures Manual. Mr. Layne asked for a clarification of “exempt” and “non-exempt” employees. Mr. Meyer stated that “exempt” employees are salaried employees (exempt from overtime pay requirements) and that “non-exempt” refers to hourly paid employees. Mr. Layne also reviewed the holiday schedule to make sure which holidays were to be paid and how employees were to be paid for them. After some further discussion, the following motion was made:

- **MOTION TO APPROVE THE SOUTHERN WATER & SEWER DISTRICT PERSONNEL POLICIES AND PROCEDURES MANUAL AS PRESENTED:**
- **MOTION MADE BY: EULA HALL**
- **SECONDED BY: BERT LAYNE**
 - **MOTION PASSED**

C. BIDS ON SURPLUS VEHICLES

The following bids were received on the three surplus trucks previously advertised for sale:

2002 FORD F150/4WD (SALVAGE TITLE)
TERRY HALL..... \$1,200.00
GARY JOHNSON..... \$951.00
TIMOTHY TACKETT.....\$750.00

1995 FORD F-150 (GREEN)

GARY JOHNSON.....\$1,051.50
OSCAR MOSLEY..... \$625.00
TIMOTHY TACKETT..... \$350.00

1997 FORD RANGER

GARY JOHNSON..... \$1,279.51
TIMOTHY TACKETT..... \$350.00

- **MOTION TO ACCEPT THE HIGHEST BID ON ALL THREE SURPLUS VEHICLES.**
MOTION MADE BY: EULA HALL
SECOND BY: BERT LAYNE
 - **MOTION PASSED**

D. RECOMMENDATIONS: NEW POSITIONS

Bob Meyer indicated to the Commissioners that he had interviewed several individuals for open positions in the distribution system. Of those interviewed, he presented four individuals whom he felt were the most qualified for the positions. Of the four, he is recommending that three be hired at this time. Two of those, Charles Kendrick and Joshua Perkins are new entry level employees with a recommended beginning rate of pay of \$7.00 per hour. Steven Shortridge is an electrician and will be focused on training and operation of pump stations, control panels, etc. His recommended beginning rate of pay is \$9.00 per hour. After discussion, the following motion was made:

- **MOTION TO HIRE CHARLES KENDRICK AND JOSHUA PERKINS AT A BEGINNING RATE OF PAY OF \$7.00 PER HOUR, WITH PAY RATE INCREASING TO \$8.00 PER HOUR UPON SUCCESSFUL COMPLETION OF THEIR 60 DAY WORKING TEST PERIOD; ALSO TO HIRE STEVEN SHORTRIDGE AT THE RATE OF PAY OF \$9.00 PER HOUR.**
MOTION MADE BY: BERT LAYNE
SECOND BY: PALMER FRASURE
 - **MOTION PASSED**

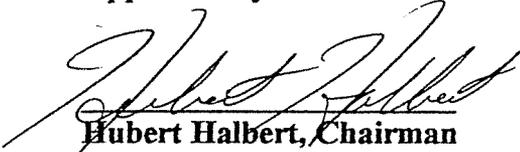
E. APPROVAL OF VENDOR PAYMENTS

- **MOTION TO APPROVE VENDOR PAYMENTS IN THE AMOUNT OF \$23,877.89.**
MOTION MADE BY: EULA HALL
SECOND BY: BERT LAYNE

• **MOTION PASSED**

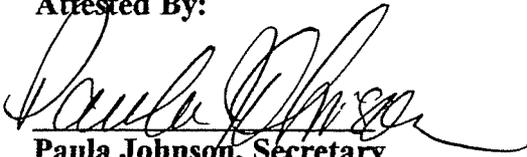
With there being no further business to discuss the meeting was adjourned at 4:30 pm. Passed by the Southern Water & Sewer Commissioners on this _____ day of _____ 2006.

Approved By:



**Hubert Halbert, Chairman
Southern Water & Sewer**

Attested By:



**Paula Johnson, Secretary
Southern Water & Sewer**

**SOUTHERN WATER & SEWER DISTRICT
P.O. BOX 610
Mc DOWELL, KY 41647**

**MINUTES OF SPECIAL CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
February 28, 2006 @ 5:00 PM/ Mc DOWELL OFFICE SOUTHERN WATER**

ATTENDANCE:

Hubert Halbert, Chairman

Bert Layne, Treasurer

Eula Hall, Commissioner

Palmer Frasure, Commissioner

Bob Meyer, Staff

Elisha Branham, Citizen

Tina Mosley, Staff

Lin Vaughn, Summit Engineering

Bob Taylor, O' Briene & Gere

Betsy Carroll, Summit Engineering

Dwayne Hamilton, Citizen

Nadene & M. Howard, Citizen

A. CALL TO ORDER: 5:02 PM

BY: HUBERT HALBERT

B. MOTION TO APPROVE MINUTES 01/24/06, 02/07/06, 02/13/06

MOTION MADE BY: PALMER FRASURE

SECOND BY: PAULA JOHNSON

MOTION PASSED

C. PROPOSED LINE RELOCATION –ROUTE 979 (ELISHA BRANHAM)

Elisha Branham approached the commission with a proposed water line relocation on his property on Rt. 979 below the mouth of Branham Creek. Mr. Branham would like to relocate 700 to 800ft. of 8" main line. The existing line will be overfilled with waste from the DOT Harold to Minnie line relocation, and Mr. Branham is willing to pay for all costs associated with the line relocation. Duane Hamilton will be coordinating the line replacement work along with Southern Water & Sewer employees. Mr. Hamilton demonstrated his proposal for relocating the existing line. Mr. Branham has agreed to cover the expense of the line relocation. After some discussion and concurrence by Southern Water personnel, the following motion was made:

- **MOTION TO AUTHORIZE RELOCATION OF APPROXIMATELY 800' OF 8' MAIN LINE ON ROUTE 979, WITH EXPENSES TO BE BORNE BY ELISHA BRANHAM AND COORDINATED WITH SOUTHERN WATER & SEWER PERSONNEL:**
 - **MOTION MADE BY: PALMER FRASURE**

**SECOND BY: EULA HALL
MOTION PASSED**

D. FINANCIAL REPORT

Bob Meyer presented the District's financial report thru October 2005.

- **MOTION TO ACCEPT FINANCIAL REPORT THRU OCTOBER 2005.**

**MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
MOTION PASSED**

E. MONTHLY OPERATIONS REPORT:

For the month of January 2006, the customer service base was at 6,172 (156 sewer customers). There were 4 new paid taps for the month. The unaccounted water loss for the month was slightly less than 18%. The District purchased 8.9 million gallons from Pikeville during January. The current month income deposited totaled \$206,755.34 excluding solid waste payments of \$116,799.58. The total amount of expenses paid out was \$159,468.48. Mr. Meyer also presented the commissioners with a schedule of bank account balances the District currently has with First Guaranty Bank:

- Operations Account - \$64,091
- Construction Account - \$190,437
- KIA ESCROW - \$64,257
- KIA RESERVE #3 - \$123,737
- KIA RESERVE ACCOUNT - \$64,705
- USDA DEPR RESERVE - \$13,448

TOTAL CASH BALANCES 1/31/06: \$520,675

F. OPERATIONS INVOICES PAYMENT APPROVAL (Per Schedule Presented to Commissioners):

- **MOTION TO APPROVE PAYMENT OF OPERATIONS INVOICES:**

**MOTION MADE BY: PAULA JOHNSON
SECOND BY: BERT LAYNE
MOTION PASSED**

Bob Meyer proposed that the Commissioners consider receiving their monthly compensation based on the regular semi-weekly pay schedule for all other employees. This will simplify the payroll process, including disbursement of commissioners' checks and accounting for all payroll taxes and reports. He also asked the Commissioners what amount of detailed Payroll information they would like to have each month. After some discussion, the following motion was made:

- **MOTION TO HAVE COMMISSIONERS CHECKS ISSUED ON FIRST REGULAR PAY DAY OF EACH MONTH AND TO HAVE THE**

MANAGER PRESENT A SUMMARY PAYROLL REPORT FOR ALL OTHER EMPLOYEES TO THE COMMISSION EACH MONTH:

- **MOTION MADE BY: PAULA JOHNSON**
SECOND BY: BERT LAYNE
MOTION PASSED

G. RD SYSTEMS IMPROVEMENT PROJECTS

Much of the work on the RD Systems Improvement Project has been completed, including installation of the master meter at the Allen WTP, all the 2" contract installation meters have been installed as well as the PRV on Route 850. Lawson Contracting will begin installation of the new Morg Branch Pump Station within the next week to two weeks. An engineering invoice from O'Brien & Gere was presented to the Commissioners for approval:

- **MOTION TO APPROVE O' BRIEN & GERE PAY REQUEST (RD FUNDS).**
MOTION MADE BY: PALMER FRASURE
SECOND BY: PAULA JOHNSON
MOTION PASSED

H. WAYLAND SEWER PROJECT

Bob Meyer stated that a final warranty walk-through for the Wayland project (with both the plant contractor (AST) and the line contractor (K Carrender), as well as Summit Engineering) is scheduled for next week. He also indicated that the Commission needed to authorize a "Certificate of Completion" for the Wayland Sewer Project and that Summit Engineering was also issuing a certificate of completion for the Project.

- **MOTION TO RECONIZE THE COMPLETION OF THE WAYLAND SEWER PROJECT.**
 - **MOTION MADE BY: PALMER FRASURE**
SECOND BY: PAULA JOHNSON
MOTION PASSED

Mr. Meyer discussed the current status on the property dispute the Mr. Charlie Martin. He stated that Ralph Stevens, representing the District, had a pre-trial conference with Mr. Martin's legal counsel and the circuit judge, and that there was a still a dispute over \$1,000 in property damages. Mr. Halbert expressed concerns over whether the District could pay expenses associated with the Elkhorn property from whom the District obtained the original easement. Mr. Meyer stated that he would discuss the situation with Mr. Stevens, Elkhorn Coal (Jim Newman), and others associated with this issue. He also expressed concerns that we are continuing to pay legal fees to Ralph Stevens associated with defending the District in this case and that we would be expending more than the claimed amount (\$1,000) in defending the suit. The commissioners recommended that Mr. Meyer contact both Jim Newman and Ralph Stevens to determine Elkhorn Coal's involvement and the District's liability in this situation.

I. CURRENT LINE EXPANSION PROJECT: STATUS REPORT

Bob Meyer handed out a schedule of all the proposed Line Expansions in the District's current project (funded primarily through Floyd County Fiscal Court). The list included the status of each line expansion and a time frame for submission to KY DOW and bidding and completion of proposed line extensions. Mr. Meyer indicated that he has been working with OBG (Engineers) attempting to determine the lowest cost for small water booster stations that will serve 8-12 houses. Both Mr. Meyer and Mr. Taylor indicated that they had obtained preliminary cost estimates and would have proposals for the new line expansions completed and ready for submission to Kentucky DOW by the end of March, 2006.

J. DOT LINE RELOCATION PROJECT: Route 7- PAY REQUEST LAWSON CONTRACTING

Mr. Meyer presented an invoice to the Commissioners related to the relocation of one section of the Route 7 line in Knott County (at the Dry Creek intersection) under contract with KYDOT (and separate contract with Lawson Contracting) for said project. The invoice from Lawson Contracting was for \$13,600.00.

- o **MOTION TO APPROVE LAWSON CONTRACTING PAY REQUEST (\$13,600).**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

MOTION PASSED

K. VEOLIA VEHICLE PURCHASE

Mr. Meyer stated that, in the last regular meeting of the District, the termination contract presented by Veolia Water contained an oversight, in that it was not supposed to have included the payment for Veolia vehicles being retained by the District in the \$600,000 settlement figure. The previous verbal agreement provided for the District paying an additional \$17,000 for the three vehicles being retained (two F150's and the F750 dump truck). After some discussion, Mr. Meyer suggested that the District pay an additional \$17,000 for the three vehicles, pursuant to the verbal understanding.

- o **MOTION TO PAY VEOLIA \$17,000 FOR THE PURCHASE OF THE THREE VEOLIA VEHICLES BEING RETAINED BY THE DISTRICT:**

MOTION MADE BY: EULA HALL

SECOND BY: PAULA JOHNSON

MOTION PASSED

L. OTHER

A. PROPOSED TARIFF AMENDMENT: ANNUAL LEAK ADJUSTMENT

Bob Meyer presented a proposed tariff revision to the Commissioners wherein the District would allow up to one annual leak adjustment to customers at their request, but that any amount of excess usage over their average usage would be charged at a new rate

based on the District's cost of producing or purchasing water. He indicated that the rates in the existing tariff will have to be amended in order to establish a "leakage" rate. This approach for leak adjustments is how the PSC wants Districts to handle these situations.

- **MOTION TO APPROVE CHANGE IN TARRIFF TO INCLUDE A SPECIAL RATE FOR LEAKS.**

MOTION MADE BY: EULA HALL

SECOND BY: BERT LAYNE

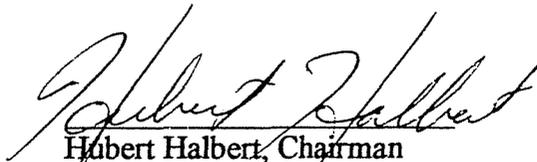
MOTION PASSED

B. ACCRUED VACATION STATUS

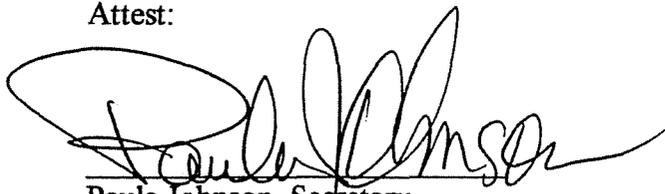
Bob Meyer informed the board that in the final employee pay checks received from Veolia, Veolia went ahead and paid all employees with less than 120 hours of accrued vacation the entire amount owed to the employees. Consequently, employees who were paid by Veolia for all accrued vacation under 120 hours will not have any accrued vacation carried over to the District. Employees with over 120 hours of accrued leave were paid only for the overage and will have 120 hours of leave transferred to the District.

With there being no further business the meeting was adjourned at 6:00 pm. Passed by the Southern Water and Sewer District Commissioners on this _____ day of _____ 2006.

Approved by:


Hubert Halbert, Chairman
Southern Water & Sewer

Attest:


Paula Johnson, Secretary
Southern Water & Sewer

**SOUTHERN WATER & SEWER DISTRICT
P.O. BOX 610
Mc DOWELL, KY 41647**

**MINUTES OF SPECIAL CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
April 24, 2006 @ 5:00 PM/ Mc DOWELL OFFICE SOUTHERN WATER**

ATTENDANCE:

Hubert Halbert, Chairman

Bert Layne, Treasure

Eula Hall, Commissioner

Paula Johnson, Secretary

Palmer Frasure, Commissioner

Bob Meyer, Staff

Tina Mosley, Staff

Charlotte Frasure, Citizen

Kathy Halbert, Citizen

Bob Taylor, O' Brien & Gere

John Caudill, Knott Co. Citizen

Betsy Carroll, Summit Engineering

A. CALL TO ORDER: 5:02 PM

BY: HUBERT HALBERT

B. MOTION TO APPROVE MINUTES 03/27/06

MOTION MADE BY: BERT LAYNE

SECOND BY: PALMER FRASURE

MOTION PASSED

C. CURRENT FINANCIAL REPORT

- **MOTION TO DEFER THE FINANCIAL REPORT DUE TO THE 2005 AUDIT PROCESS.**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

MOTION PASSED

D. MONTHLY OPERATION REPORT

For the month of March 2006, customer service base was at 6,160 (163 sewer customers). The District had 8 new paid taps. The unaccounted water loss for the month was 22%. The District purchased 9.1 million gallons from Pikeville. The current month income deposited totaled \$248,994.42 with payroll totaling \$64,731.63 and vendor payments of \$183,602.29. Bob noted that the new Rural Development account for escrow payments has been established.

E. OPERATIONS INVOICES PAYMENT APPROVAL

- **MOTION TO APPROVE OPERATION INVOICES PAYMENT (Copy of Invoices attached).**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

MOTION PASSED

Bob notified the board that a full payment to Floyd County Fiscal Court for a \$100,000.00 Bond Issue payment is coming due June 1st, 2006

F. RD SYSTEM IMPROVEMENT PROJECT

Bob indicated that there have been some issues with Ivan McKinney over signing an easement with AEP that would allow us to get power to the pump station at the new Morg Branch pump station. Eula Hall had mentioned previously that Bob may want to check with Dora Newsome (adjoining property owner) and AEP relative to providing power to the new pump station. Dora Newsome has agreed and has signed an easement for AEP allowing us to get power to the new pump station. Bob Meyer presented an invoice for purchase of new larger meters from CI Thornburg.

- **MOTION TO APPROVE CI THORNBURG (New 2" and 1" METERS) PAY REQUEST \$5,060.**
MOTION MADE BY: EULA HALL
SECOND BY: PAULA JOHNSON
MOTION PASSED

G. EMERGENCY REPAIRS/REPLACEMENT : LACKEY TANK

Bob Meyer then discussed that in the process of building the new tank a new access road had to be built. Bob Taylor stated that the access road is straight up hill and that Geo-Tech brought their equipment off the site today. Geo-Tech has drilled two holes across Baptist Bottom just above the old tank site. We have a preliminary invoice from Darren Lawson for the work done on the new access road. Bob suggested that the board make a motion to allow Bob to negotiate with Darren Lawson for the final amount of the invoice.

- **MOTION TO AUTHORIZE BOB MEYER TO NEGOTIATE FINAL PAYMENT LAWSON CONTRACTING FOR TANK ROAD.**
MOTION MADE BY: PALMER FRASURE
SECOND BY: EULA HALL
MOTION PASSED

H. SANDY VALLEY WATER DISTRICT

Included in the board packet was various information related to the US 23 Sewer Project and Sandy Valley Water District. There are two major concerns related to the proposed project. The projected cash flow for Sandy Valley Water District will be negative if the District has to purchase a minimum of 3,000,000 gallons per month from the City of Prestonsburg, pursuant to the existing wholesale agreement between Prestonsburg and Sandy Valley. The District had previously agreed to accept and assignment of this agreement. The second concern has to do with assumption of Sandy Valley's current debt with USDA RD and the EDA. Bob stated that, based on customer data, Southern water would assume 43% of the debt and Pikeville would assume 57% of the debt. Bob indicated to the Commissioners that he would recommend authorizing the assumption of debt agreements with RD and EDA, but only if the District were to rescind its previous decision to accept and assignment of the City of Prestonsburg-Sandy Valley wholesale agreement, as the District can

provide water through its own system much cheaper and the cash flow would be positive for the District. After some discussion, the following motion was made:

- **MOTION TO APPROVE A RECISSION OF THE DISTRICT'S PREVIOUS DECISION TO ACCEPT AND ASSIGNMENT OF THE PRESTONSBURG/ SANDY VALLEY WHOLESALE CONTRACT AND TO AUTHORIZE HUBERT HALBERT TO EXECUTE THE ASSUMPTION OF DEBT AGREEMENTS WITH USDA-RD AND EDA.**

MOTION MADE BY: PALMER FRASURE

SECOND BY: PAULA JOHNSON

MOTION PASSED

I. KNOTT COUNTY W & S DISTRICT STATUS

Mr. Halbert indicated that Bob Meyer and Judge Thompson made a trip to Hazard to meet with representatives of Knott County, USDA-RD, and KIA. However, when they arrived, they were notified that the meeting had been cancelled, but that they had not been informed prior to arriving in Hazard.

J. DISCUSSION ON TAP FEE PAYMENTS

Hubert Halbert brought up the proposal that the new customers on county-constructed line extensions be allowed to pay for their portion of tap fees (\$250) in installments (the fiscal court is paying \$200 each toward their tap fees). He recommended that these customers be allowed to make \$50 per month payments on their tap fees, as suggested previously by Judge Thompson. Bob indicated that we will need to make a change in our tariffs to accommodate this process. After some discussion, the following motion was made:

- **MOTION TO ALLOW NEW CUSTOMERS ON COUNTY-CONSTRUCTED LINES TO PAY THEIR PORTION OF THE TAP FEE (\$250) IN INSTALLMENTS OF \$50.00 PER MONTH.**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: PALMER FRASURE

MOTION PASSED

K. OTHER

A. DISCUSSION ON PROPERTY ACQUISITION

Bob discussed the possibility of acquisition of the McDowell property with Byron Hamilton and Jim Frasure. Byron and Jim offered to sell the building & property for \$200,000 and deduct from that any overpayments already made and any rent payments made until the purchase were approved. He also stated that there is a building for sale at the mouth of John Hall Branch and Route 979 owned by Glenn Tackett. The building was previously used as a hardware store and has several apartments on the second floor. The building (including inventory) is for sale for \$130,000. After some discussion, the Commissioners authorized Bob to offer \$150,000 for the McDowell property.

B. RETIREMENT OPTIONS

Bob has talked with Woodmen of the World about a 403(b) retirement package. The representative for the KY State Retirement group has not returned Bob's phone calls. Bob made a suggestion to the board that they allow him to put out an RFP for Retirement Options.

o **MOTION TO ALLOW BOB TO PUT OUT AN RFP FOR RETIREMENT OPTIONS.**

MOTION MADE BY: BERT LAYNE

SECOND BY: PALMER FRASURE

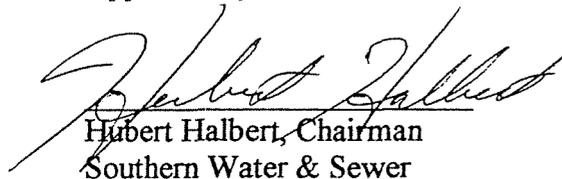
MOTION PASSED

C. ROAD CLEAN UP

Dean Hall informed the board that the guys have been working for the past 2 days on the Pride Cleanup and have picked up over a dump truck load of garbage. On Bill Hall and John Hall Branches.

With there being no further business the meeting was adjourned at 6:15 pm. Passed by the Southern Water and Sewer District Commissioners on this 22nd day of May 2006.

Approved by:


Hubert Halbert, Chairman
Southern Water & Sewer

Attest:


Paula Johnson, Secretary
Southern Water & Sewer

**SOUTHERN WATER & SEWER DISTRICT
P.O. BOX 610
Mc DOWELL, KY 41647
MINUTES OF REGULAR MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
May 22, 2006 @ 5:00 PM/ Mc DOWELL OFFICE SOUTHERN WATER**

ATTENDANCE:

Hubert Halbert, Chairman
Bert Layne, Treasure
Eula Hall, Commissioner
Paula Johnson, Secretary
Palmer Frasure, Commissioner
Bob Meyer, Staff

Charlotte Frasure, Citizen
Kathy Halbert, Citizen
Jim Thompson, O' Brien & Gere
Tina Mosley, Staff

A. CALL TO ORDER: 5:02 PM

BY: HUBERT HALBERT

B. MOTION TO APPROVE MINUTES 04/24/06

MOTION MADE BY: PAULA JOHNSON

SECOND BY: BERT LAYNE

MOTION PASSED

C. CURRENT FINANCIAL REPORT

- **MOTION TO DEFER THE FINANCIAL REPORT.**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: BERT LAYNE

MOTION PASSED

D. MONTHLY OPERATIONS REPORT

For the month of April 2006, customer service base was at 6,186 (165 sewer customers). There were 13 new paid taps, ten of which are on new county line extensions. The unaccounted water loss for the month was 14%. The District purchased 8 million gallons from Pikeville. The current month income deposited totaled \$249,185.53 with payroll totaling \$44,246.95 and vendor payments of \$132,043.39. A payment was made to Veolia for one month rent on building and lease on trucks. That was the final bill that the District owes Veolia.

- **MOTION TO APPROVE MONTHLY OPERATION REPORT**

MOTION MADE BY: PALMER FRASURE

SECOND BY: EULA HALL

MOTION PASSED

E. OPERATIONS INVOICES PAYMENT APPROVAL

Enclosed in the board packet were 2 sets of invoices (\$15,900 and \$32,772.40). Also presented for approval was a \$100,000 bond payment to Floyd County Fiscal Court.

- **MOTION TO APPROVE OPERATION INVOICES PAYMENT.**
MOTION MADE BY: EULA HALL
SECOND BY: BET LAYNE
MOTION PASSED

F. RD SYSTEM IMPROVEMENT PROJECT

Bob Meyer discussed with the Commissioners the current status on the new Morg Branch Pump Station. We are still waiting on a power drop from AEP, although that is expected to happen within the next week. At that time, EFI will do a formal start-up process. Subsequent to start-up, a by-pass will be installed by the contractor and the pump station will be fully functional. Once the new station is operational, District personnel will remove the old pump station and fill in the area previously occupied by the old station. The telemetry tower will be moved to the new pump station site.

G. EMERGENCY REPAIRS/REPLACEMENT :

The current status on the new Lackey Tank is that plans have been submitted to DOW and approval should be received within 2 weeks. Working with Jim Thompson, PE, we are securing quotes on the new tank. The new tank will hold 200,000 gallons of water (same as old tank) and will be sited just above the old tank site. Funding will be provided partially through Floyd County's coal severance funds; if necessary, the balance of the funds needed (total of approx \$300,000) will be secured through a low interest KIA loan.

We should receive the permits by the end of the week for the eight new county line extensions, six of which require a new pump station. Two contracts will be advertised – one for construction of the lines and one for the six new pump stations. Once the permits have been received from DOW, the District will advertise for bids.

Bob informed the board that over the weekend we had to replace a main line creek crossing on Right Beaver near Lackey. The line that comes out of the Lackey Tank and feeds Wayland, Route 7, Hindman etc. broke where it crosses the creek near the Lackey Tank. There were approximately 400 people without water for part of the weekend. This included customers from Lackey, Estill, Wayland, and Hindman. We distributed two pick-up truck loads of water to customers. Janet Owens, property owner, expressed her concern that we did not have an easement for the water line across Beaver Creek. Bob is working with Ralph Stevens, attorney, to obtain a copy of the District's easement for this water line. Mr. Meyer informed the Commissioners that he had to authorize emergency repairs and a new creek crossing constructed by Lawson Contracting to repair the line break. The Commissioners authorized Bob Meyer to take any steps necessary to repair the creek crossing, including payment for emergency repairs.

H. PERSONNEL ACTIONS

- **MOTION TO GO INTO EXECUTIVE SESSION**
MOTION MADE BY: BERT LAYNE
SECOND BY: PAULA JOHNSON
MOTION PASSED

- **MOTION TO ADJORN FROM EXECUTIVE SESSION.
MOTION MADE BY: BERT LAYNE
SECOND BY: PAULA JOHNSON
MOTION PASSED**

- **MOTION TO APPROVE RECOMMENDED PAY INCREASE FOR
STEVEN SHORTRIDGE FROM \$9.00 TO \$9.50 PER HOUR.
MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
MOTION PASSED**

- **MOTION THAT MR. MEYER OBTAIN WRITTEN COMMENTS
FROM EMPLOYEES REGARDING DENZIL MCKINNEY'S
DISMISSAL AND ENSURE THAT SUFFICIENT DOCUMENTATION
IS IN PLACE TO SUBSTANTIATE HIS TERMINATION.
MOTION MADE BY: PAULA JOHNSON
SECOND BY: PALMER FRASURE
MOTION PASSED**

I. OTHER

**A. SELECTION OF ENGINEERING FIRM FOR EASTERN SEWER
PROJECT**

- **MOTION TO AWARD EASTERN SEWER PROJECT
CONTRACT TO SUMMITT ENGINEERING.
MOTION MADE BY: BERT LAYNE
SECOND BY: PALMER FRASURE
MOTION PASSED**

B. PURCHASE OF MCDOWELL PROPERTY

Bob discussed the offer that Byron Hamilton and Jim Frasure (dba Eastern Territory Leasing) have given Southern Water & Sewer on the property located at Mc Dowell. The building was originally appraised by Hansel Cooley for \$208,500. Mr. Hamilton and Mr. Frasure have offered it to Southern Water & Sewer for \$175,000. Mr. Halbert and Mr. Meyer suggested that we proceed with the process of purchasing the property, including obtaining approval from the Kentucky Public Service Commission.

- **MOTION TO AUTHORIZE BOB MEYER TO INITIATE THE
PROCESS FOR PURCHASE OF THE MCDOWELL
PROPERTY, BOTH WITH EASTERN TERRITORY LEASING
AND WITH THE KY PUBLIC SERVICE COMMISSION.**
- **MOTION MADE BY PAULA JOHNSON
SECOND BY: BERT LAYNE
MOTION PASSED**

C. STATUS ON DOT HEARING: HAROLD TO MINNIE PROJECT

Last week Bob Meyer had a pre-hearing telephone conference with Trevor Earl, attorney for DOT, and a hearing officer from the Attorney General's office. The attorney for the Department of Transportation indicated that he needed additional information from DOT regarding the facts in this particular situation. The hearing officer allowed approximately 2 months for Mr. Earl and Southern Water to discuss this situation and decide if some resolution could be reached regarding the Cabinet's request for return of part of the funding provided by the Cabinet. A second telephone conference is scheduled for the middle of July, 2006.

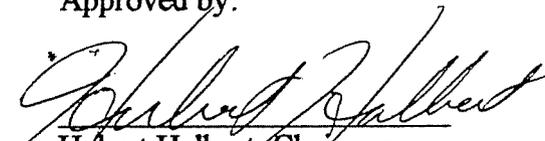
D. CHANGE IN BILLING FORMAT

Bob Meyer presented a copy of the old billing card presently utilized by Southern Water and a proposed new billing form. CRC, who provides the software for customer billings for the District, has partnered with Statement Rendering Services, who provides a revised billing format. Bob indicated that the new billing format is user friendly, has an enclosed return envelope, etc. We can display a 12 month water usage history for each customers account. The bills will still be calculated here but forwarded to SRS for processing. Located inside the envelope will be a copy of their bill and a return envelope. SRS will also print up our CCR and include it with the bills the month of June 2006. That in itself will provide a cost savings to the District.

- o **MOTION TO APPROVE THE NEW BILLING FORMS BY STATEMENT RENDEERING SERVICES.
MOTION MADE BY: EULA HALL
SECOND BY: PALMER FRASURE
MOTION PASSED**

With there being no further business the meeting was adjourned at 6:35 pm. Passed by the Southern Water and Sewer District Commissioners on this _____ day of _____ 2006.

Approved by:


Hubert Halbert, Chairman
Southern Water & Sewer

Attest:


Paula Johnson, Secretary
Southern Water & Sewer

Southern Water & Sewer District
PO Box 610
McDowell, KY 41647

Regular Meeting of:
Southern Water & Sewer District
June 26, 2006 @ 5:00PM/ McDowell Office Southern Water

Attendance:

Hubert Halbert, Chairman	Jim Thompson, O' Brien & Gere
Bert Layne, Treasurer	Betsy Carroll, Summit Engineering
Eula Hall, Commissioner	Kevin Howard, Summit Engineering
Paula Johnson, Secretary	Charlotte Frasure, Citizen
Palmer Frasure, Commissioner	Brenda Powers, Big Sandy ADD
Bob Meyer, Staff	Kathy Halbert, Citizen
Tina Mosley, Staff	Paul Hunt Thompson, County Judge

A. CALL TO ORDER: 5:01 P.M.

By: Hubert Halbert

B. MOTION TO APPROVE MINUTES May 22,2006

MOTION MADE BY: PAULA JOHNSON

SECOND BY: BERT LAYNE

MOTION PASSED

C. CURRENT FINANCIAL REPORT

Bob Meyer discussed the current financial report thru April 30, 2006. We are still waiting on the final audit. Bob noted that our actual expenses & revenues are fairly close to our budget for the current year.

MOTION TO APPROVE FINANCIAL REPORT

MOTION MADE BY: EULA HALL

SECOND BY: PALMER FRASURE

MOTION PASSED

D. MONTHLY OPERATIONS REPORT

For the month of May 2006, customer service base was at 6203 (164 sewer customers). There were 21 new paid taps, most of which are on new county line extensions. The unaccounted waster loss for the month was 30%. This increase is due in part to the meter reading cycle being earlier for the new billing format. The District purchased 9.2 million gallons from Pikeville. The current month income deposited totaled \$264,922.63 with payroll totaling \$44,095.32 and vendor payments of \$251,872.96.

E. OPERATIONS INVOICES PAYMENT APPROVAL

Enclosed in the board packet were two sets of invoices to be paid out of the operations account. Also presented for approval was an RD payment of \$60,176.25 (semi-annual bond payment, out of the RD Bond Escrow Acct).

MOTION TO APPROVE OPERATION INVOICE PAYMENTS AND THE RD PAYMENT OF \$60,176.25

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

MOTION PASSED

F. RD SYSTEMS IMPROVEMENTS PROJECT- STATUS REPORT

Bob Meyer informed the board that the project is substantially complete; however, we are still waiting on parts to complete the new Morg Br pump station. The station and power is in place and once the parts come in, the station will come on line and at that time we can dismantle the old pump station & building and fill in spot where the old building is located.

G. LACKEY TANK:

Bob Meyer indicated that there were a couple of things to discuss. First was the quotes on the new tank which were opened at 1:00 pm. Today. Jim Thompson and Bob Taylor from O'Brien & Gere recommended KY Glass Lined Tanks, as they were the low quote. The only other quote was from Laurel Construction. The second item was finalizing the deeds associated with the new tank site (with Knott Floyd Land Company). The first deed is for Southern Water and Sewer District to deed the old tank site back to Knott Floyd Mining and the new tank site be deeded from Knott Floyd Mining to Southern Water and Sewer. The major concern now is the funding options that we have. The total cost will be around \$340,000. Part of this funding is already available through Floyd County Coal Severance Funds (approx \$90,000). One option would be to borrow the balance of funds required through a 1% interest loan from KIA.

At this time, County Judge Paul Hunt Thompson suggested that the board defer any further discussion on this item until they went into executive session later in the meeting to discuss potential legal concerns that could impact funding for the Lackey tank.

MOTION TO ACCEPT KY GLASS LINED TANKS BID

MOTION MADE BY: PALMER FRASURE

SECOND BY: EULA HALL

MOTION PASSED

H. LINE EXTENSIONS/ NEW PUMP STATIONS- BIDDING STATUS

Bob Meyer distributed a packet to the board that included a summary of all currently proposed new line extensions. Two RFP's have been issued: Contract 29: Line Construction and Contract 30: Pump Stations. Jim Thompson indicated that there are eight plan holders for Contract 29. Paul Hunt Thompson stated that

Bryant Branch is solid rock and the board may have to consider a change order to Contract 29 to include Bryant Branch later on.

I. EASTERN SEWER PROJECT: SUMMIT ENGINEERING CONTRACT

Bob Meyer informed the board that there is a problem concerning the location for the Eastern Sewer Project plant. There are several parcels of land that could work for the plant site, but we have had no success in negotiating a reasonable price for any of those sites. We are looking at properties from Fletcher Gayheart, Ned Hall, Steve Webb, and Floyd County Board of Education.

MOTION TO GO INTO EXECUTIVE SESSION TO DISCUSS LEGAL MATTERS:

**MOTION MADE BY: PAULA JOHNSON
SECOND BY: BERT LAYNE
MOTION PASSED**

MOTION TO RETURN INTO REGULAR OPEN SESSION

**MOTION MADE BY: PAULA JOHNSON
SECOND BY: BERT LAYNE
MOTION PASSED**

MOTION TO APPROVE THE PROPOSED SUMMIT ENGINEERING CONTRACT

**MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
MOTION PASSED**

J. OTHER:

• **BUILDING ACQUISITION STATUS**

Bob Meyer discussed the letter to PSC which will contain a copy of the purchase agreement between Southern Water & Sewer and Jim Frazier. Once we obtain approval from the PSC, we will RFP actual bank loan for \$175,000.

• **RETIREMENT PLAN RFP**

Bob Meyer informed the commissioners that a RFP has been submitted for 401 (k) instead of a 401(B). The RFP's are due in on 07/12/06.

• **WAYLAND AUDIT ISSUE**

Brenda Powers stated that CDBG (one of the federal funding agencies for the Wayland Sewer Project) requires an audit from Wayland to close out the Wayland Sewer Project. Wayland as a city has not done an audit in the last 7 years. Bob Meyer stated that he is talking with Jeff Reed from Mike Spears office to see if they can help with the audit, as they are already auditing the sewer project funds for Southern Water. He indicated that Stacy Marshall and Judge Thompson are also trying to figure out less expensive alternatives to providing the necessary audit.

• RAY CONN SUIT

Donny Ray submitted two invoices for grass cutting services for Southern Water & Sewer for the summer of 2005. Southern paid one invoice but did not pay the last invoice, as it was apparent to our personnel that the contracted work was not performed. Recently, Ray Conn filed suit against Southern Water to collect the remaining \$1,500 that he feels is due to him. Bob Meyer has asked Ralph Stevens to file a response to this suit. The commissioners concurred with this decision. Currently, we are cutting pump station sites in house and Lee Hall is performing the grass cutting services at tank sites.

Bert Layne asked that the meeting scheduled for August 28th, 2006 be rescheduled for August 21st, 2006.

MOTION TO CHANGE THE REGULAR MONTHLY MEETING OF
SOUTHERN WATER & SEWER FROM 08/28/06 TO 08/21/06

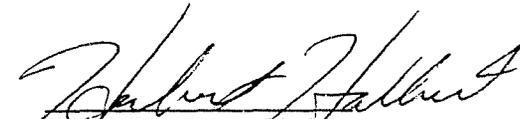
MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

MOTION PASSED

With there being no further discussion the meeting was adjourned at 7:15pm. Passed by the Southern Water & Sewer District Commissioners on this _____ day of _____ 2006.

Approved By:


Hubert Halbert, Chairman

Attested By:


Paula Johnson, Secretary

Southern Water & Sewer District
PO Box 610
McDowell, KY 41647

Special Called Meeting of:
Southern Water & Sewer District
July 10, 2006 @ 5:00PM/ McDowell Office Southern Water

Attendance:

Hubert Halbert, Chairman	Jim Thompson, O' Brien & Gere
Bert Layne, Treasurer	Kathy Halbert, Citizen
Eula Hall, Commissioner	Charlotte Frasure, Citizen
Paula Johnson, Secretary	
Palmer Frasure, Commissioner	
Bob Meyer, Staff	
Tina Mosley, Staff	

A. CALL TO ORDER: 5:01 P.M.
By: Hubert Halbert

B. CONTRACT AWARDS:

Bob Meyer handed out the bid tab sheets provided by O'Brien & Gere, Jim Thompson. Also included were two recommendation letters signed by Bob Taylor. On Contract 29: Line Construction Drains Unlimited came in as the low bid at \$420,350.00. After extensive research Bob Taylor and Jim Thompson recommend we award Contract 29 to Drains Unlimited. Hubert Halbert informed Bob Meyer that he discussed the situation with Stacy Marshall and he said that if Bob Taylor recommends them then we should accept them. He again pointed out that specific recommendation letters had been prepared by O'Brien & Gere and signed by Bob Taylor stating that their recommendations were to award Contract 29 to Drains Unlimited and Contract 30 (Pump Stations), to Wascon, Inc. (Guthrie Sales) who came in with the lowest bid for Contract 30 at \$138,055.00.

MOTION TO AWARD CONTRACT 29 TO DRAIN UNLIMITED AT \$420,350.00
WITH RECOMMENDATION BY O' BRIEN & GERE / BOB TAYLOR

MOTION MADE BY: PALMER FRASURE

SECOND BY: PAULA JOHNSON

MOTION PASSED

MOTION TO AWARD CONTRACT 30 (PUMP STATION) TO WASCON, INC AT
\$138,055.00 WITH RECOMMENDATION BY O' BRIEN & GERE / BOB
TAYLOR

MOTION MADE BY: BERT LAYNE

SECOND BY: EULA HALL

MOTION PASSED

C. STATUS ON PROPERTY ACQUISITION: EASTERN SEWER PROJECT

Bob Meyer informed the board that the Eastern Sewer Project may have to be put on hold until a suitable site is obtained for the sewer plant. We are still working with several landowners in the Eastern Area. Fletcher Gayheart, Steve Webb, Kathy Stewart, and the Floyd County Board of Education. The project is only budgeted \$25,000 for land. Bob will continue to work with potential property owners as well as Summit Engineering to locate and option a suitable site.

D. PURCHASE OPTION: MCDOWELL PROPERTY

Bob Meyer informed the commissioners that Jim Frasure and Byron Hamilton are requesting \$5,000.00 up front on the purchase option rather than the \$500.00 that was originally presented to the Commission. Ralph Stevens revised the purchase option and the revised option is being presented for approval by the Commission. Bob stated that the \$5,000 will be applied to the rent payments if PSC does not approve the purchase, so it is not at risk. Bob Meyer also stated that he has been discussing getting the front parking lot paved by the County; Mike Jarrell has indicated that he feels he can get this done.

MOTION TO APPROVE THE REVISED PURCHASE OPTION TO INCLUDE \$5,000 EARNEST MONEY

MOTION MADE BY: PALMER FRASURE

SECOND BY: PAULA JOHNSON

MOTION PASSED

E. PAYMENT OF ENGINEERING INVOICE: LACKEY TANK

MOTION TO APPROVE PAY REQUEST TO JIM THOMPSON \$23,375.00

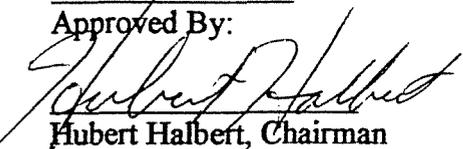
MOTION MADE BY: PAULA JOHNSON

SECOND BY: BERT LAYNE

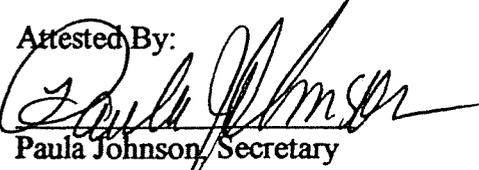
MOTION PASSED

With there being no further discussion the meeting was adjourned at 5:45pm. Passed by the Southern Water 7 Sewer District Commissioners on this _____ day of _____ 2006.

Approved By:


Hubert Halbert, Chairman

Attested By:


Paula Johnson, Secretary

SOUTHERN WATER & SEWER DISTRICT
P.O. BOX 610
Mc DOWELL, KY 41647
MINUTES OF REGULAR MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
July 24, 2006 @ 5:00 PM/ Mc DOWELL OFFICE SOUTHERN WATER

ATTENDANCE:

Hubert Halbert, Chairman
Bert Layne, Treasurer
Eula Hall, Commissioner
Palmer Frasure, Commissioner
Paula Johnson, Commissioner
Bob Meyer, Staff

Brenda Powers, Big Sandy ADD
Tina Mosley, Staff
Jim Thompson, O' Brien & Gere
Kevin Howard, Summit Engineering
John Caudill, Knott County Citizen

A. CALL TO ORDER: 5:02 PM

BY: HUBERT HALBERT

**B. MOTION TO APPROVE REGULAR CALLED MEETING MINUTES
06/26/06 AND SPECIAL CALLED MEETING ON 07/10/06.**

MOTION MADE BY: BERT LAYNE

SECOND BY: EULA HALL

MOTION PASSED

C. CURRENT FINANCIAL REPORT

• **MOTION TO DEFER FINANCIAL REPORT.**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

MOTION PASSED

D. MONTHLY OPERATIONS REPORT

- For the month of June 2006, customer service base was at 6,244 (168 Sewer Customers). There were 14 new paid taps, 8 which were on county line extensions. The unaccounted water loss for the month was 27%. This increase is due in part to the meter reading cycle being earlier for the new billing format. Over the weekend we had a major 12" line break between Allen and Martin @ Finance Hollow. The District purchased 8.2 million gallons from Pikeville for the month of June. The current month income deposited totaled \$247,067.93 with payroll totaling \$42,827.89 and vendor payments of \$182,199.51. The \$100,000 check to the Floyd County Fiscal Court cleared the bank in June and there was an automatic transfer to the Escrow Account in the amount of \$45,725.00.

E. OPERATIONS INVOICES PAYMENT APPROVAL

Enclosed in the board packet were two sets of invoices to be paid out of the operations account.

- **MOTION TO APPROVE OPERATIONS INVOICES**
MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
MOTION PASSED

F. RD SYSTEMS IMPROVEMENT PROJECTS

Bob Meyer informed the board that he received a letter from Clyde Johnson, attorney representing Ivan McKinney. Mr. Johnson expressed his client's concerns with the height on the new Morg. Br. Pump Station. Mr. Meyer is working with Ralph Stevens to respond to Mr. Johnson's letter. He asked the Commissioners' approval to have Mr. Ralph Stevens respond to Mr. Johnson's letter on behalf of the District.

- **MOTION TO AUTHORIZE RALPH STEVENS TO RESPOND ON BEHALF OF THE DISTRICT TO MR. JOHNSON'S LETTER.**
MOTION MADE BY: PAULA JOHNSON
SECOND BY: PALMER FRASURE
MOTION PASSED
- **MOTION TO MAKE FINAL PAYMENT TO O' BRIEN & GERE FOR ENGEINERRING SERVICES (\$7,202.50) ON THE RD SYSTEMS IMPROVEMENT PROJECT:**
 - **MOTION MADE BY: PAULA JOHNSON**
SECOND BY: PALMER FRASURE
MOTION PASSED

G. LACKEY TANK

Bob Meyer indicated that in the board packet was a funding & budget analysis for the new line expansions (8 total, including 6 new pump stations), the Lackey tank, and emergency repairs. Brenda Powers indicated that she had attended the last Floyd County Fiscal Court meeting and that Magistrate Jackie Owens indicated that he felt Southern Water had put the Fiscal Court in a position of owing a large amount of debt on behalf of Southern Water. He apparently was asking the court why these lines had to be bid out instead of being laid by the County Road Crew. Mr. Meyer stated that most of the new lines included new pump stations and major road bores and that it was not a job that could be efficiently handled by the County crew. The Commissioners suggested that Mr. Meyer and one of the Commissioners attend the next Fiscal Court meeting, if schedules permitted. Mr. Meyer also presented a summary of the bids received for more pipe for line extensions to the Commissioners. The low bid for the pipe was received from C.I. Thornburg.

- **MOTION TO AWARD PIPE BID CONTRACT TO CI THORNBURG.**
 - **MOTION MADE BY: PAULA JOHNSON**
 - SECOND BY: EULA HALL**
 - MOTION PASSED**

Bob informed the board that there will be a contract signing of Contract 29 & Contract 30 on August 3rd @ 10:00 a.m.

H. EASTERN SEWER PROJECT: STATUS ON PLANT SITE

Bob Meyer informed the board that the Eastern Sewer Project is still on hold. He has discussed a potential site for the treatment plant on KYDOT right of way with Gene Layne, of the Pikeville DOT office and received a positive verbal response to the option, but requested that Mr. Meyer provide him with more detailed plans. Kevin Howard, of Summit Engineering, indicated that this might necessitate converting all collection lines to a pressure system.

I. OTHER

1. Harold to Minnie (DOT Status)

Bob Meyer discussed with the board a follow up telephone conference with Scott Major and Trevor Earl on the status of the Harold to Minnie DOT line relocation. DOT's attorney, Mr. Earl, indicated that he still has not received all the information in his office from KYDOT. Another conference call has been scheduled and a formal hearing date set for 11-02-06.

2. KY League of Cities

Bob Meyer informed the board that he received a phone call from KY League of Cities with concerns on premium payments which were not paid in 2003-2004 for liability and property policies in the amount of \$27,000. Bob and Maribeth are communicating with KLC to determine the actual amount of payments that were not made and why the District was not billed for these payments.

3. Retirement Plan

Bob presented the board with the only response received to the 401(K) RFP which was from Edward Jones. He indicated that the plan (a 401(k)) would be similar the plan that employees previously had with Veolia, which allows employees to contribute a certain amount to the plan and the District matches employees contributions, to the extent that the District's budget allows. The matching percentages will have to be approved by the Commissioners. Edward Jones would set up all the plan documents including IRS forms, and work with individual employees to determine how they want to participate. Mr. Meyer asked the Commissioners' approval to negotiate with Mr. AO Onkst of Edward Jones to present a formal proposal to the District at the next regular meeting. Commissioners authorized Mr. Meyer to do so.

Bob Meyer informed the board that Micro Com had installed new equipment for the repeater site on Slone Mountain, at a cost of approximately \$5,600. Mr. Ray Slone,

owner of the site, has given permission for us to place the new repeater equipment on the site. These expenses will be paid through grant funds available from Floyd County Fiscal Court.

Brenda Powers asked Bob what the status was on the Wayland Sewer Project Audit. Bob replied that he is still waiting to hear from Mike Spears' office as to whether they would be willing to perform the audit and how much it would cost.

With there being no further business the meeting was adjourned at 6:35 pm. Passed by the Southern Water and Sewer District Commissioners on this _____ day of _____ 2006.

Approved by:



Hubert Halbert, Chairman
Southern Water & Sewer

Attest:



Paula Johnson, Secretary
Southern Water & Sewer

**SOUTHERN WATER & SEWER DISTRICT
PO BOX 610
MCDOWELL, KY 41647**

**MINUTES OF THE SPECIAL CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
AUGUST 23, 2006 @ 1:00 PM / MCDOWELL OFFICE SOUTHERN WATER**

ATTENDEES:

**HUBERT HALBERT, CHAIRMAN
BERT LAYNE, TREASURER
PALMER FRASURE, COMMISSIONER
BOB MEYER, STAFF
TINA MOSLEY, STAFF**

**CHARLOTTE FRASURE, CITIZEN
KATHY HALBERT, CITIZEN
JIM THOMPSON, O'BRIEN & GERE
JEFF REED, CPA
JESSICA HALE, FLOYD CO. TIMES**

**A. CALL TO ORDER- HUBERT HALBERT
TIME - 1:05 PM**

B. REVIEW & APPROVAL OF FY 2005 AUDIT & PSC REPORT

Jeff Reed from Mike Spears CPA office presented the board with the 2005 Audit and PSC Reports. He reviewed the audit report in detail and stated that the District was in good financial standing. He stated that the District now has almost \$26,000,000 in fixed assets, a dramatic increase since the merger in 2000. He stated that in 2005, over \$3,000,000 was transferred from construction in progress to fixed assets that will now be depreciated. This included the Wayland sewer project and the Route 7 project. Total liabilities at the end of 2005 was \$7,188,783, which increased from the 2004 FY total of \$6,966,505. He then reviewed the Statement of Revenue and Expenses. Mr. Halbert asked Mr. Reed how Southern Water compared financially to other water districts he audits. Mr. Reed responded that Southern Water's financial condition was comparable to most of the other districts he audits. He also stated that he has the amended PSC annual returns for both water and sewer prepared for submission to the PSC. He indicated that if any commissioners had further questions about the audit, he could be reached during the day at his office in Prestonsburg.

**MOTION TO APPROVE THE FY 2005 AUDIT FOR SOUTHERN WATER
& SEWER DISTRICT**

MOTION MADE BY: BERT LAYNE

SECOND BY: PALMER FRASURE

> MOTION PASSED

C. AUTHORIZATION FOR SUBMISSION OF PRIDE APPLICATION

Bob Meyer informed the board that he has been coordinating with Summit Engineering on the submission of a PRIDE Application on behalf of Southern Water in the amount of \$177,465 for the Eastern Sewer Project. He stated that the entire project (initial phase) is projected to cost \$677,465. Floyd County has already committed \$350,000 in coal severance funds and the Floyd County Board

of Education has committed \$150,000 from its general fund, leaving a deficit of \$177,465. Mr. Meyer is still in the process of negotiating the state right of way property with DOT. The Pride Application must be submitted by September 1, 2006.

MOTION TO AUTHORIZE SUBMISSION OF PRIDE APPLICATION FOR EASTERN SEWER PROJECT.

MOTION MADE BY: PALMER FRASURE

SECOND BY: BERT LAYNE

> MOTION PASSED

D. RECOMMENDATION OF NEW EMPLOYEE

Bob Meyer stated that we recently had one of our certified operators resign from the Allen Water Treatment plant staff. Larry Daniels, from Paintsville, has been offered a job by Paintsville Utilities and was asking for a \$1.50 per hour raise. Mr. Meyer informed him that we could not afford that much of an increase, so Mr. Daniels resigned at that time. Bob stated that he has discussed the possibility of re-hiring Chris Francis, who previously worked at the Allen Water Treatment Plant and was recommending that action to the Commissioners. He stated that Mr. Francis is presently working for Francis Water Company, but would be available on a short term notice to begin work with Southern Water. He indicated that Mr. Francis would be hired on a 3 month probationary basis, pursuant to the District's personnel policies.

> MOTION MADE TO REHIRE CHRIS FRANCIS FOR AN OPERATOR POSITION AT THE ALLEN WATER PLANT.

MOTION MADE BY: BERT LAYNE

SECOND BY: PALMER FRASURE

MOTION PASSED

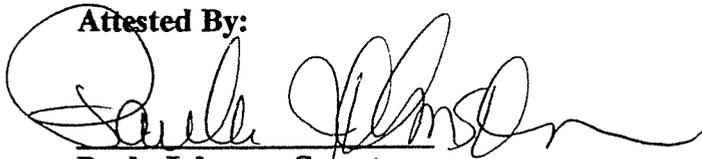
With there being no further business to discuss the meeting was adjourned at 1:30 PM

Passed by the Southern Water & Sewer Commissioners on this _____ day of _____ 2006.

Approved By:


Hubert Halbert, Chairman

Attested By:


Paula Johnson, Secretary

**SOUTHERN WATER & SEWER DISTRICT
PO BOX 610
MCDOWELL, KY 41647**

**MINUTES OF THE REGULAR CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
AUGUST 28, 2006 @ 5:00 PM/ MCDOWELL OFFICE SOUTHERN WATER**

ATTENDEES:

**BERT LAYNE, ACTING CHARIMAN
PAULA JOHNSON, SECRETARY
PALMER FRASURE, COMMISSIONER
BOB MEYER, Staff
TINA MOSLEY, Staff
EULA HALL, Commissioner**

~~KEVIN HOWARD, SUMMITT ENG.~~
**KEVIN HOWARD, SUMMITT ENG.
JIM THOMPSON, O'BRIEN & GERE
CHARLOTTE FRASURE, CITIZEN**

**A. CALL TO ORDER- BERT LAYNE
TIME - 5:05 PM**

**B. MOTION TO APPROVE MINUTES OF JULY 24 AND AUGUST 23,2006.
MOTION MADE BY: PAULA JOHNSON
SECOND BY: PALMER FRASURE
> MOTION PASSED**

C. CURRENT FINANCIAL REPORT
Bob Meyer presented the District with a current financial report thru June 30, 2006. Total assets as of June 30,2006 were \$21,714,636. YTD revenues were less than expenses; however, taking depreciation into account (non-cash expense), the District still showed a positive cash flow.
**MOTION TO APPROVE FINANCIAL REPORT THRU JUNE 30, 2006
MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
> MOTION PASSED**

D. MONTHLY OPERATIONS REPORT
For the month of July 2006, customer service base was at 6,253 (169 Sewer Customers). There were 5 new paid taps, 2 of which were on county line extensions. The unaccounted water loss for the month was 20%. The district purchased 9.1 million gallons from Pikeville for the month of July. The current month income deposited totaled \$249,819 with payroll totaling \$43,410.10 and vendor payments of \$184,537.11.

E. OPERATIONS INVOICES PAYMENT APPROVAL
Enclosed in the board packet were two sets of invoices to be paid out of the operations account. After discussion related to specific invoices, the following motion was made:

- **MOTION TO APPROVE OPERATIONS INVOICES
MOTION MADE BY: PAULA JOHNSON**

SECOND BY: EULA HALL
▪ MOTION PASSED

F. PROJECT STATUS REPORTS:

RD Systems Improvement Project: Bob Meyer stated that the Morg Branch Pump Station is completed (with the exception of telemetry, which will be paid out of District operating funds). Jim Thompson (OBG Engineers) and Bob Meyer are currently working with RD personnel on final closeout for this project.

Lackey Tank: KY Glass Lined Tanks is making substantial progress with site prep work and will be actually begin on assembly of the tank within the next several weeks. There was a minor setback last week when the contractor broke the main line going to the old tank and repairs necessitated several customers being without water for several hours. The new tank is on site (in sections), and will start to be assembled within the next several weeks.

New Line Extensions: Mr. Meyer discussed progress on the new line extensions being constructed by Drains Unlimited. The contractor has substantially completed Goose Creek and is currently working on Oklahoma Hollow. Mr. Meyer and staff are still working with property owners related to easements / leases for the six new small pump stations. Mr. Meyer indicated that he is working with the Floyd County Bd of Education on the Left Fork of Toler Creek site. He also indicated that he has talked to Alpha Hamilton (Tinker Fork site) who is asking \$500. for a lease on that site; and Bud Bradley (Lick Fork) is requesting \$1,000. for that site. Commissioners requested that Mr. Meyer continue to negotiate with these prospective land owners to reduce the acquisition amount for individual sites.

G. CONSTRUCTION INVOICES APPROVAL

Mr. Meyer presented several construction invoices to the Commissioners for their approval (copies of invoices attached). He also stated that, as these construction expenses were being paid out of Floyd County coal severance/coal development funds, they would also have to be approved the by the Floyd County Fiscal Court.

MOTION TO APPROVE CONSTRUCTION INVOICES AND FORWARD SAME TO FLOYD COUNTY FISCAL COURT.

MOTION MADE BY: PAULA JOHNSON

SECOND BY: PALMER FRASURE

> MOTION PASSED

MOTION TO APPROVE OBRIEN & GERE INVOICES: DRY CREEK (\$1161.78) AND BOSCO BRIDGE (\$1,981.90), BOTH TO BE PAID FROM KYDOT FUNDS:

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

> MOTION PASSED

H. EASTERN SEWER PROJECT

Bob informed the board on the status of the Eastern Sewer Project. He has a verbal agreement with Gene Layne on the property located on the state right-of-way at Eastern for location of the new sewer plant. A PRIDE application has now been submitted in the amount of \$167,000. for the Eastern Sewer Project to make up the deficit in funding for Phase I of this project.

I. KENTUCKY LEAGUE OF CITIES

MOTION TO GO INTO EXECUTIVE SESSION TO DISCUSS PENDING LITIGATION WITH KENTUCKY LEAGUE OF CITIES:

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

> MOTION PASSED

MOTION TO COME OUT OF EXECUTIVE SESSION

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

> MOTION PASSED

MOTION RECOGNIZING THAT THE DISTRICT OWES KENTUCKY LEAGUE OF CITIES FOR PAST DUE INSURANCE PREMIUMS AND ALLOWING MR. MEYER, AS DISTRICT MANAGER, TO NEGOTIATE WITH KENTUCKY LEAGUE OF CITIES REPRESENTATIVES FOR REPAYMENT TERMS THAT CONFORM WITH THE DISTRICT'S INTERNAL CASH FLOW SITUATION (EITHER THROUGH CURRENT OPERATIONS CASH ACCOUNT OR THROUGH LINE OF CREDIT WITH FIRST GUARANTY BANK).

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

> MOTION PASSED

MOTION TO ESTABLISH FORMAL INCOMING DAILY MAIL LOG FOR ALL MAIL WITH THE EXCEPTION OF CUSTOMER PAYMENTS:

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

> MOTION PASSED

J. RETIREMENT PLAN: RECOMMENDATION

Bob Meyer indicated that Edward Jones was the only respondent to the RFP for a 401(k) retirement plan for District employees. Based on information he received from AO Onkst, Edward Jones rep in Pikeville, he presented the Commissioners with various matching options for the 401(k) plan:

Matching Formula (Option 1): District matches employee contributions \$1 for \$1 for the first 3%, and \$.50 per dollar for 4% to 5% of employee contributions. Estimated annual cost to District: \$10,800.

Matching Formula (Option 2): District matches \$.50 to each \$1 contributed by employees up to 3.5% total employer match. Estimated annual cost to District: \$9,450.

Non-elective Contribution Formula: District contributes 3% to each eligible employees fund regardless of whether or not the employee decides to contribute anything to the plan.

After some discussion, the following motion was made:

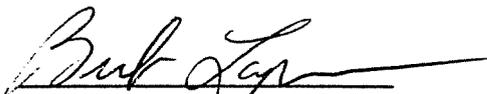
MOTION TO APPROVE MATCHING FORMULA OPTION #2
MOTION MADE BY: PAULA JOHNSON
SECOND BY: PALMER FRASURE
▪ **MOTION PASSED**

K. PSC INSPECTION: WATER LOSS PREVENTION PLAN

Mr. Meyer provided Commissioners with various communications from the PSC related to their most recent inspection and the District's response. Their primary concern was unaccounted water loss. Mr. Meyer indicated that he has responded to the PSC with a Water Loss Prevention Program for the District, a copy of which was provided to the Commissioners. To date, we have not received any response from the PSC.

With there being no further business to discuss the meeting was adjourned at 6:30 PM
Passed by the Southern Water & Sewer Commissioners on this _____ day of _____ 2006.

Approved By:


Bert Layne, Acting Chairman

Attested By:


Paula Johnson, Secretary

**SOUTHERN WATER & SEWER DISTRICT
PO BOX 610
MCDOWELL, KY 41647**

MINUTES OF THE REGULAR CALLED MEETING OF:
SOUTHERN WATER & SEWER DISTRICT COMMISSION
September 25, 2006 @ 5:00 PM/ MCDOWELL OFFICE SOUTHERN WATER

ATTENDEES:

BERT LAYNE, ACTING CHAIRMAN
PAULA JOHNSON, SECRETARY
EULA HALL, COMMISSIONER
BOB MEYER, STAFF
TINA MOSLEY, STAFF

BRENDA POWERS, BIG SANDY A.D.D.
LIN VAUGHAN, SUMMITT ENG.
JIM THOMPSON, O'BRIEN & GERE

- A. **CALL TO ORDER-** BERT LAYNE, Acting Chairman
TIME – 5:05 PM
- B. **MOTION TO APPROVE MINUTES OF AUGUST 28, 2006 WITH NOTED CHANGE IN ATTENDEES**
MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
➤ **MOTION PASSED**
- C. **CURRENT FINANCIAL REPORT**
Bob presented the District with a current financial report thru August 30, 2006. Total assets as of August 31, 2006 were \$21,689,269.29. YTD Revenues were less than expenses; however, taking depreciation into account (non-cash expense) the District still shows a positive cash flow.
- **MOTION TO APPROVE FINANCIAL REPORT THRU AUGUST 31, 2006**
MOTION MADE BY: EULA HALL
SECOND BY: PAULA JOHNSON
 - **MOTION PASSED**
- D. **MONTHLY OPERATIONS REPORT**
For the month of August 2006, customer service base was at 6,268 (166 Sewer Customers). There were 9 new paid taps, 5 of which are on county line extensions. The unaccounted water loss for the month was 37%. Recognizing the continued high water loss, we have designated a full time crew to perform leak detection duties at night – presently, Dean Hall, Reece Salyer, and Bob Hackworth. They have found several leaks and a telemetry problem with the Tackett Fork Tank causing it to overflow on a routine basis. The district purchased 10.8 million gallons from Pikeville for the month of August. The current month income deposited totaled \$294,995.24 with payroll totaling \$43,922.21 and vendor payments of \$155,283.61 (plus \$59,216 FCSW).
- **MOTION TO APPROVE MONTHLY OPERATIONS REPORT**
MOTION MADE BY: EULA HALL

SECOND BY: PAULA JOHNSON

- **MOTION PASSED**

E. OPERATIONS INVOICES PAYMENT APPROVAL

Enclosed in the board packet was one set of invoices to be paid out of the District's operations account. After discussion related to specific invoices, the following motion was made:

- **MOTION TO APPROVE OPERATIONS INVOICES TOTALING \$63,452.59**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

- **MOTION PASSED**

F. PROJECT STATUS REPORTS:

Jim Thompson, O' Brien & Gere, stated that the recent rains have had an impact on the productivity of KY Glass Lined Tanks with regard to the new Lackey tank. One more large concrete pour is needed and the actual tank can be constructed at that time. Bob Meyer mentioned several road repairs that need to be made from the new construction lines (as also discussed at the last fiscal court meeting). Goose Creek, Oklahoma Hollow, Lick Fork, and Mill Creek have been completed all but pressure testing and customer hook ups. We are still attempting to identify a parcel of land on which to construct the new pump station for Steeles Creek.

G. CONSTRUCTION INVOICES APPROVAL

Mr. Meyer presented several construction invoices to the commissioners for their approval (copies of invoices attached). He also stated that, as these construction expenses were being paid out of Floyd County Coal Severance/Coal Development Funds, they will also have to be approved by the Floyd County Fiscal Court.

- **MOTION TO APPROVE CONSTRUCTION INVOICES AND FORWARD SAME TO FLOYD FISCAL COURT**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: PALMER FRASURE

- **MOTION PASSED**

H. EASTERN SEWER PROJECT

Bob Meyer indicated that we have submitted another funding application for Pride Funds and are continuing to work with KYDOT on securing excess right of way property at Eastern for both the plant site and one lift station. Otherwise, we are waiting to see if the PRIDE funds will be awarded for the Eastern Project.

I. KENTUCKY LEAGUE OF CITIES

Bob informed the commissioners that he has had a meeting with J.D. Chaney, attorney for KY League of Cities. They have agreed to waive penalties associated with late payment of insurance premiums and a payment agreement has been negotiated with an initial payment of \$13,920 and \$4,000 to be paid per month until the balance is paid in full.

J. PERSONNEL

Bob Meyer presented two personnel actions that needed District Commissioners' approval. The first was to hire Chris (Yogi) Robinson, who has had over ten years experience in water line construction, is an experienced equipment operator, and recently has been working for the District on a contract basis. Mr. Meyer recommended that the District hire Mr. Robinson at the rate of \$14.00 per hour.

- **MOTION TO HIRE CHRIS ROBINSON FULL TIME @\$14.00 HOUR**

MOTION MADE BY: PAULA JOHNSON

SECOND BY: EULA HALL

- **MOTION PASSED**

The second recommendation was with respect to Chris Francis, recently hired by the District as a WTP operator. Mr. Francis recently received his Class III Certification for WTP operation and Mr. Meyer recommends we give him a \$1.00 on the hour pay increase.

- **MOTION TO GIVE CHRIS FRANCIS A \$1.00 PAY INCREASE FOR HIS CLASS III CERTIFICATION**

MOTION MADE BY: EULA HALL

SECOND BY: PAULA JOHNSON

- **MOTION PASSED**

Bob informed the District that Roy Kelsey, sewer plant operator, is still having complicated problems with his colon and has been transferred to a hospital in Indiana. Bob also mention that Gary Blankenship is a new father to a baby Boy, Kanyan Pheonex and Steven Shortridge recently got married.

K. US 23 PROJECT

Bob updated the board on the Pride on the River Project. He stated that PSC needs more financial information, including a cash flow for Southern Water & Sewer and Sandy Valley.

With there being no further business to discuss the meeting was adjourned at 6:30 PM

Passed by the Southern Water & Sewer Commissioners on this _____ day of _____ 2006.

Approved By:


Bert Layne, Acting Chairman

Attested By:


Paula Johnson, Secretary

Southern Water & Sewer District
PO Box 610
McDowell, KY 41647

Special called meeting of:
Southern Water & Sewer District
October 30, 2006 @ 4:00PM/ McDowell Office Southern Water

Attendance:

Hubert Halbert, Chairman	Lin Vaughn, Summit Engineering
Bert Layne, Treasurer	Charlotte Frasure, Citizen
Eula Hall, Commissioner	Kathy Halbert, Citizen
Paula Johnson, Secretary	Dean Hall, Staff
Palmer Frasure, Commissioner	
Bob Meyer, Staff	
Tina Mosley, Staff	

A. CALL TO ORDER: 4:00 P.M. By: Hubert Halbert

B. MOTION TO APPROVE MINUTES September 25,2006
MOTION MADE BY: EULA HALL
SECOND BY: BERT LAYNE
MOTION PASSED

C. CURRENT FINANCIAL REPORT
MOTION TO DEFER FINANCIAL REPORT
MOTION MADE BY: BERT LAYNE
SECOND BY: EULA HALL
MOTION PASSED

D. MONTHLY OPERATIONS REPORT
For the month of September 2006, customer service base was at 6287 (164 sewer customers). There were 11 new paid taps, 3 of which are on new county line extensions. The unaccounted waster loss for the month was 23%. The District purchased 7.2 million gallons from Pikeville for the month of September. The current month income deposited totaled \$253,799.66 with payroll totaling \$75,757.81 (3 pay periods in September) and vendor payments of \$172,276.07 (plus \$53,040.19 payment to FCSW).

E. OPERATIONS INVOICES PAYMENT APPROVAL
Enclosed in the board packet was a set of invoices to be paid out the Districts operations account. After discussion related to specific invoices, the following motion was made:

MOTION TO APPROVE OPERATIONS INVOICES TOTALING \$46,505.42.
MOTION MADE BY: BERT LAYNE

SECOND BY: EULA HALL
MOTION PASSED

F. PROJECT STATUS REPORT

Bob Meyer indicated that the Lackey Tank has been completed (except for tying in with old lines) and 7 of the 8 original lines that Drains Unlimited is installing have been completed. There is approximately 1,500 foot to complete in Tinker Fork. The focus now is cleanup work on the lines that has been completed. Bob also wanted to mention that they are still trying to find a location for a pump station for Steeles Creek (Connie Scott) and Lick Fork. Hubert Halbert asked Bob Meyer what kind of contract Southern Water currently has with O' Brien & Gere. Mr. Meyer responded that the current contract covers all of the new lines and pump stations currently being constructed and will terminate when the projects are completed. Hubert Halbert addressed Bob Meyer with his concern about the line that has been installed by the county crew on Turkey Creek. Mr. Halbert said that Ernie Moore has informed him that Southern Water has no business being on his property. Mr. Halbert also indicated that there is currently no easement for the Brent Allen property on Route 680. Bob Meyer advised the commissioners that he and the field supervisors will check out any meters that have been set, that they are in fact paid taps, and will also check up on the status of several lines that the county has laid or is laying.

Line Adjustment

G. CONSTRUCTION INVOICE APPROVAL

Mr. Meyer presented several construction invoices to the commissioners for their approval (copies of invoices attached). He also stated that KY Glass Lined Tanks, Drains Unlimited, and Big Sandy ADD invoices were being paid out of Floyd County Coal Severance/ Coal Development Funds. They will also have to be approved by the Floyd County Fiscal Court. Bob Meyer also presented an invoice from Kenney Inc. that will be paid from DOT on the Dry Creek project.

MOTION TO APPROVE CONSTRUCTION INVOICES AND FORWARD TO FLOYD COUNTY FISCAL COURT FOR APPROVAL

MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
MOTION PASSED

H. EASTERN SEWER PROJECT

Mr. Meyer addressed the board with a response letter he received from the Pride Application that was previously submitted. Southern Water and Sewer has been turned down for the funding. Mr. Meyer will be meeting with Lin Vaughn, Summit Engineering, to discuss alternative approaches to funding and or reducing the scope of the original project.

I. 2007 BUDGET APPROVAL

Bob Meyer presented the board with the 2007 FY Budget for Southern Water & Sewer (attached budget enclosed) for their approval. The projected revenue less

7.5% uncoll is \$2,318,531, with a projected total O& M expense of \$1,680,570. The budget also includes all debt service payments (principal & interest) as well as all escrow payments.

MOTION TO APPROVE THE 2007 BUDGET
MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
MOTION PASSED

J. OTHER:

• PERSONNEL

Bob Meyer informed the board that Carol Moore has submitted her resignation. Mr. Meyer asked that the board authorize him to advertise with Employment Services for that position and one field position.

MOTION TO AUTHORIZE ADVERTISEMENT FOR TWO POSITIONS

MOTION MADE BY: PAULA JOHNSON
SECOND BY: EULA HALL
MOTION PASSED

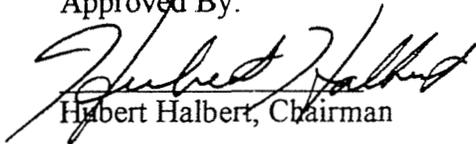
Hubert Halbert asked Bob Meyer if Floyd County Solid Waste has reimbursed us with partial payment for postage for our billing services we have provided them. The subject was brought up in PSC Training. Mr. Meyer said he would get in touch with Lon May.

• US 23 PROJECT

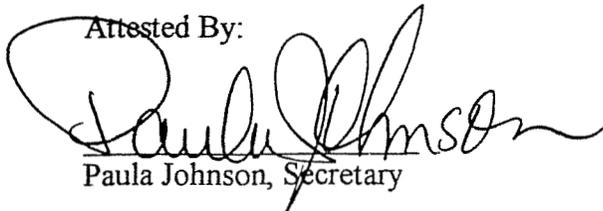
Bob Meyer informed the commissioners that we are still responding, along with the City of Pikeville and Sandy Valley Water District to various PSC information requests related to the Sandy Valley Water District / Pride on the River Project. He expects this process to take several months.

With there being no further discussion the meeting was adjourned at 5:25pm. Passed by the Southern Water & Sewer District Commissioners on this _____ day of _____ 2006.

Approved By:


Hubert Halbert, Chairman

Attested By:


Paula Johnson, Secretary

5 Refer to Joint Applicants' Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents, Item 14(c).

- a. State the monthly interest expense incurred on the \$600,000 loan that Southern District incurred to finance the termination of its management agreement with Veolia Water.
- b. State whether this monthly interest expense should not be considered in any analysis of the effect of the termination of the management agreement upon Southern District's revenues and expenses.

Witness: Meyer

Public Service Commission Second Data Request

ITEM 5a. Monthly interest expense incurred on the \$600,000.00 loan that Southern Water made to finance the termination of its management agreement with Veolia Water:

Refer to attached amortization schedule for loan: Total interest expense for 2006 will be \$24,347.63 (10 months); Total interest expense for 2007 will be \$25,113.87 (12 months).

ITEM 5b: Monthly interest expense associated with the bank loan for termination of the Veolia Contract should be considered in any analysis of the effect of the termination of the management contract upon Southern District's revenues and expenses for the following reasons:

1. Had Southern District not terminated the agreement, Veolia Water would have started charging the District for carrying the past due balance (ie: interest expense).
2. Cost savings to the District (refer to Item 3 above), coupled with interest charges that would have been made by Veolia to Southern District result in a lower operating cost for the District, compared with the interest expense that the District is paying on the \$600,000 note.
3. Interest expenses associated with the \$600,000 note will be reduced each year of the loan and will be eliminated after 6 years.

AMORTIZATION SCHEDULE

Principal \$600,000.00	Loan Date 02-10-2006	Maturity 02-10-2008	Loan No 10002110	Call / Coll	Account	Officer CPJ	Initials
References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing ***** has been omitted due to text length limitations.							

Borrower: SOUTHERN WATER & SEWER DISTRICT (TIN:
61-0874341)
P.O. Box 610
McDowell, KY 41647

Lender: First Guaranty Bank
P.O. Box 888
39 Triangle Street
Martin, KY 41649

Disbursement Date: February 10, 2006
Interest Rate: 5.100

Repayment Schedule: Balloon
Calculation Method: 365/360 U.S. Rule

Payment Number	Payment Date	Payment Amount	Interest Paid	Principal Paid	Remaining Balance
1	03-10-2006	9,709.54	2,380.00	7,329.54	592,670.46
2	04-10-2006	9,709.54	2,602.81	7,106.73	585,563.73
3	05-10-2006	9,709.54	2,488.65	7,220.89	578,342.84
4	06-10-2006	9,709.54	2,539.89	7,169.65	571,173.19
5	07-10-2006	9,709.54	2,427.49	7,282.05	563,891.14
6	08-10-2006	9,709.54	2,476.42	7,233.12	556,658.02
7	09-10-2006	9,709.54	2,444.66	7,264.88	549,393.14
8	10-10-2006	9,709.54	2,334.92	7,374.62	542,018.52
9	11-10-2006	9,709.54	2,380.36	7,329.18	534,689.34
10	12-10-2006	9,709.54	2,272.43	7,437.11	527,252.23
2006 TOTALS:		97,095.40	24,347.63	72,747.77	
11	01-10-2007	9,709.54	2,315.52	7,394.02	519,858.21
12	02-10-2007	9,709.54	2,283.04	7,426.50	512,431.71
13	03-10-2007	9,709.54	2,032.65	7,676.89	504,754.82
14	04-10-2007	9,709.54	2,216.71	7,492.83	497,261.99
15	05-10-2007	9,709.54	2,113.36	7,596.18	489,665.81
16	06-10-2007	9,709.54	2,150.45	7,559.09	482,106.72
17	07-10-2007	9,709.54	2,048.95	7,660.59	474,446.13
18	08-10-2007	9,709.54	2,083.61	7,625.93	466,820.20
19	09-10-2007	9,709.54	2,050.12	7,659.42	459,160.78
20	10-10-2007	9,709.54	1,951.43	7,758.11	451,402.67
21	11-10-2007	9,709.54	1,982.41	7,727.13	443,675.54
22	12-10-2007	9,709.54	1,885.62	7,823.92	435,851.62
2007 TOTALS:		116,514.48	25,113.87	91,400.61	
23	01-10-2008	9,709.54	1,914.11	7,795.43	428,056.19
24	02-10-2008	429,936.07	1,879.88	428,056.19	0.00
2008 TOTALS:		439,645.61	3,793.99	435,851.62	
TOTALS:		653,255.49	53,255.49	600,000.00	

NOTICE: This is an estimated loan amortization schedule. Actual amounts may vary if payments are made on different dates or in different amounts.

COPY

6. Refer to Joint Applicants' Response to Commission Staffs First Set of Interrogatories and Requests for Production of Documents, Item 18,

State whether Southern District has performed any studies to ascertain the amount of savings in reduced expenses that will result from the proposed transfer. If yes, provide these studies.

Witness: Meyer

Public Service Commission Second Data Request

ITEM 6. Amount of savings in reduced expenses that will result in the proposed transfer:

Southern District has not performed any formal studies to ascertain the amount of savings in reduced expenses that will result from the proposed transfer. However, it has provided the Public Service Commission with a projected cash flow statement for that portion of Sandy Valley Water District's system that will be transferred to Southern District, upon PSC approval. (Refer to Item 19 in the first set of responses to PSC Interrogatories).

Anticipated cost savings include:

1. Elimination of Commissioners' fees for Sandy Valley Water District.
2. Reduction in purchased water expense, given the fact that Southern Water plans to either provide the necessary water for Sandy Valley Water customers from its own system, or purchase any additional water needed from the City of Pikeville, eliminating the higher cost of purchased water from the City of Prestonsburg.
3. Eliminate costs associated with maintenance of a separate Sandy Valley office (rent, utilities, etc.) (ie: consolidate all office, customer, & billing expenses into the McDowell office of Southern Water).
4. Eliminate separate accounting & legal expenses associated with Sandy Valley Water District.
5. Reduce insurance expenses by incorporating Sandy Valley Water District's insurance liability with Southern District's.