

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

AUG 25 2006

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)

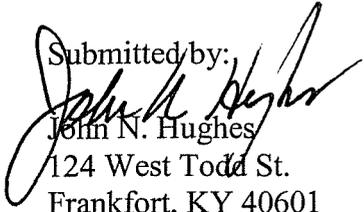
RESPONSE TO COMMISSION'S ORDER OF JULY 31, 2006

Sandy Valley Water District (Sandy Valley), Southern Water and Sewer District (Southern) and the city of Pikeville (Pikeville), by counsel, submit the attached responses to the order of July 31, 2006:

1. Southern Water and Sewer District debt summary of mortgages, notes, bonds, and other indebtedness, including amortization schedules.
2. Southern Water and Sewer District current balance sheet and income statement.
3. Sandy Valley Water District unaudited balance sheet and income statement as of July 31, 2006.
4. Sandy Valley Water District schedule of bonds and loans.

Also being filed are revised, corrected copies of Southern Water and Sewer District's PSC Annual Report for 2005 for both the water and sewer divisions (tabs 5 and 6) and the corrected, revised 2005 Independent Audit Report (tab 7). These documents were originally filed with the Application as Exhibits 7 and 9, but have since been revised

and the versions filed with the Application should be replaced with the attached revised versions.

Submitted by:

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

Certificate:

I certify that a copy of this Motion was served on the Attorney General on August 25 2006 by hand delivery.



John N. Hughes

**SOUTHERN WATER & SEWER DISTRICT
DEBT SUMMARY**

8/7/2006

DEBT SOURCE	KIA	KIA	USDA RD	USDA RD	KIA	1ST GUAR BANK	FORD MTR LEASING
LOAN NUMBER	B293-01	B295-01			A-04-06	10002110	8483900
PURPOSE	System Expansion	System Expansion	System Expansion	System Improve.	Wayland Sewer Proj	Amortize Veolia Debt	Vehicle Lease (b)
INITIAL PRINCIPAL AMOUNT	\$1,362,870	\$2,831,354	\$2,515,000	\$225,000	\$67,376	\$600,000	\$104,417
LOAN / BOND DATE	3/15/1993	2/21/1995	12/12/2002	8/16/2005	10/1/2005	2/10/2006	3/1/2006
TERM (YRS)	30	30	40	40	20	2 (a)	3
RATE	3.0%	3.0%	4.5%	4.25%	1.0%	5.1%	6.2%
MATURITY DATE	12/1/2024	12/1/2027	2042	2045	6/1/2025		
PAYMENT AMOUNT	\$34,607	\$71,898	\$69,750	\$6,000	\$1,881	\$9,710	\$3,170
PAYMENT FREQ.	Semi-Ann	Semi-Ann	Semi-Ann	Semi-Ann	Semi-Ann	Monthly	Monthly
REQUIRED RESERVE PMTS (Annual)	Fully Funded	\$15,600	\$13,980		\$4,400	N/A	N/A
PRINCIPAL BAL 12/31/05	\$996,884	\$2,303,650	\$2,489,000	\$225,000	\$65,850	N/A	N/A
	(a) First Guaranty Bank Loan (Purpose: Negotiated settlement with Veolia Water for past due management fees. Loan structured with an initial 2 year term and two subsequent 2 year terms.)						
	(b) Lease on five new service vehicles secured through an RFP by the District subsequent to termination of its management contract with Veolia Water.						

KENTUCKY INFRASTRUCTURE AUTHORITY
1991E
BEAVERFORKHORN WATER DISTRICT PHASE 1 & 2
LOAN#03-01 P&C#00000000

3.00% Rate
\$34,607.94 P&C Calculation

*Submitted by
Sutton Water Sewer*

Payment Date	Principal Due	Interest Due	Rate	Principal	Interest	Sanding Fee	Credit	Total Payment	Principal Balance	P&C Reserve	Total Reserve
06/01/95	\$14,164.90	\$20,443.05	3.00%	\$34,607.94	\$1,362.87	\$0.00	\$0.00	\$35,970.81	\$1,362,870.05	\$3,697.06	\$3,697.06
12/01/95	\$14,377.36	\$20,230.58	3.00%	\$34,607.94	\$1,346.71	\$0.00	\$0.00	\$35,956.65	\$1,346,705.16	\$3,696.65	\$7,393.75
06/01/96	\$14,593.92	\$20,019.92	3.00%	\$34,607.94	\$1,330.43	\$0.00	\$0.00	\$35,942.27	\$1,330,347.79	\$3,696.23	\$11,090.02
12/01/96	\$14,811.82	\$19,796.02	3.00%	\$34,607.94	\$1,313.73	\$0.00	\$0.00	\$35,927.68	\$1,313,924.57	\$3,695.77	\$14,785.74
06/01/97	\$15,034.10	\$19,572.84	3.00%	\$34,607.94	\$1,304.92	\$0.00	\$0.00	\$35,912.86	\$1,304,922.55	\$3,695.29	\$18,481.03
12/01/97	\$15,259.61	\$19,348.33	3.00%	\$34,607.94	\$1,288.89	\$0.00	\$0.00	\$35,897.83	\$1,284,629.14	\$3,694.78	\$22,175.81
06/01/98	\$15,488.50	\$19,120.43	3.00%	\$34,607.94	\$1,274.63	\$0.00	\$0.00	\$35,882.57	\$1,274,629.14	\$3,694.26	\$25,870.07
12/01/98	\$15,720.43	\$18,891.11	3.00%	\$34,607.94	\$1,261.14	\$0.00	\$0.00	\$35,867.08	\$1,264,419.80	\$3,693.71	\$29,563.78
06/01/99	\$15,956.64	\$18,651.30	3.00%	\$34,607.94	\$1,243.42	\$0.00	\$0.00	\$35,851.36	\$1,257,443.16	\$3,693.14	\$33,257.01
12/01/99	\$16,195.99	\$18,411.95	3.00%	\$34,607.94	\$1,227.46	\$0.00	\$0.00	\$35,835.40	\$1,251,267.18	\$3,692.54	\$36,950.46
06/01/00	\$16,438.52	\$18,169.01	3.00%	\$34,607.94	\$1,211.27	\$0.00	\$0.00	\$35,819.21	\$1,244,828.23	\$3,691.92	\$40,642.37
12/01/00	\$16,685.52	\$17,922.42	3.00%	\$34,607.94	\$1,194.83	\$0.00	\$0.00	\$35,802.77	\$1,238,142.71	\$3,691.28	\$44,333.65
06/01/01	\$16,935.90	\$17,672.14	3.00%	\$34,607.94	\$1,178.14	\$0.00	\$0.00	\$35,786.08	\$1,231,206.01	\$3,690.61	\$48,025.26
12/01/01	\$17,189.84	\$17,418.10	3.00%	\$34,607.94	\$1,161.21	\$0.00	\$0.00	\$35,769.16	\$1,224,017.07	\$3,689.91	\$51,716.17
06/01/02	\$17,447.99	\$17,160.28	3.00%	\$34,607.94	\$1,144.02	\$0.00	\$0.00	\$35,751.96	\$1,216,549.39	\$3,689.20	\$55,405.37
12/01/02	\$17,709.40	\$16,898.54	3.00%	\$34,607.94	\$1,126.52	\$0.00	\$0.00	\$35,734.51	\$1,208,869.99	\$3,688.48	\$59,093.82
06/01/03	\$17,975.94	\$16,632.90	3.00%	\$34,607.94	\$1,109.86	\$0.00	\$0.00	\$35,717.80	\$1,200,941.94	\$3,687.76	\$62,781.58
12/01/03	\$18,244.07	\$16,363.27	3.00%	\$34,607.94	\$1,090.88	\$0.00	\$0.00	\$35,699.83	\$1,192,640.28	\$3,687.04	\$66,468.62
06/01/04	\$18,518.34	\$16,089.80	3.00%	\$34,607.94	\$1,072.64	\$0.00	\$0.00	\$35,680.58	\$1,184,121.84	\$3,686.28	\$70,154.90
12/01/04	\$18,796.11	\$15,811.43	3.00%	\$34,607.94	\$1,054.12	\$0.00	\$0.00	\$35,662.06	\$1,175,325.83	\$3,685.51	\$73,840.41
06/01/05	\$19,078.05	\$15,529.89	3.00%	\$34,607.94	\$1,035.33	\$0.00	\$0.00	\$35,643.27	\$1,166,247.77	\$3,684.72	\$77,525.13
12/01/05	\$19,364.23	\$15,243.72	3.00%	\$34,607.94	\$1,018.25	\$0.00	\$0.00	\$35,624.19	\$1,156,897.88	\$3,683.95	\$81,209.08
06/01/06	\$19,654.60	\$14,953.26	3.00%	\$34,607.94	\$996.88	\$0.00	\$0.00	\$35,604.83	\$1,147,228.88	\$3,683.18	\$84,892.26
12/01/06	\$19,949.51	\$14,659.43	3.00%	\$34,607.94	\$977.28	\$0.00	\$0.00	\$35,585.17	\$1,137,290.35	\$3,682.38	\$88,573.64
06/01/07	\$20,248.76	\$14,359.19	3.00%	\$34,607.94	\$957.28	\$0.00	\$0.00	\$35,565.22	\$1,127,000.80	\$3,681.55	\$92,254.19
12/01/07	\$20,552.48	\$14,055.46	3.00%	\$34,607.94	\$937.33	\$0.00	\$0.00	\$35,544.97	\$1,116,478.12	\$3,680.72	\$95,934.91
06/01/08	\$20,860.77	\$13,747.17	3.00%	\$34,607.94	\$916.48	\$0.00	\$0.00	\$35,524.42	\$1,105,678.12	\$3,679.88	\$99,615.79
12/01/08	\$21,173.63	\$13,434.36	3.00%	\$34,607.94	\$895.62	\$0.00	\$0.00	\$35,503.56	\$1,094,443.86	\$3,679.04	\$103,296.83
06/01/09	\$21,491.29	\$13,119.65	3.00%	\$34,607.94	\$874.84	\$0.00	\$0.00	\$35,482.39	\$1,082,825.38	\$3,678.18	\$106,978.01
12/01/09	\$21,813.66	\$12,804.29	3.00%	\$34,607.94	\$854.25	\$0.00	\$0.00	\$35,460.89	\$1,070,772.72	\$3,677.31	\$110,659.30
06/01/10	\$22,140.88	\$12,487.07	3.00%	\$34,607.94	\$833.84	\$0.00	\$0.00	\$35,439.04	\$1,058,323.86	\$3,676.42	\$114,340.72
12/01/10	\$22,472.87	\$12,164.97	3.00%	\$34,607.94	\$813.61	\$0.00	\$0.00	\$35,416.84	\$1,045,448.80	\$3,675.52	\$118,022.24
06/01/11	\$22,810.07	\$11,837.87	3.00%	\$34,607.94	\$793.52	\$0.00	\$0.00	\$35,394.47	\$1,032,114.82	\$3,674.61	\$121,703.85
12/01/11	\$23,152.22	\$11,505.72	3.00%	\$34,607.94	\$773.71	\$0.00	\$0.00	\$35,371.86	\$1,018,382.50	\$3,673.68	\$125,385.53
06/01/12	\$23,499.50	\$11,168.44	3.00%	\$34,607.94	\$754.20	\$0.00	\$0.00	\$35,349.00	\$1,004,203.10	\$3,672.73	\$129,067.26
12/01/12	\$23,852.00	\$10,825.95	3.00%	\$34,607.94	\$734.96	\$0.00	\$0.00	\$35,325.90	\$989,543.10	\$3,671.76	\$132,749.02
06/01/13	\$24,209.78	\$10,478.17	3.00%	\$34,607.94	\$716.00	\$0.00	\$0.00	\$35,302.54	\$974,353.10	\$3,670.77	\$136,430.79
12/01/13	\$24,572.92	\$10,124.02	3.00%	\$34,607.94	\$697.31	\$0.00	\$0.00	\$35,278.94	\$958,584.33	\$3,669.76	\$140,112.55
06/01/14	\$24,941.52	\$9,763.43	3.00%	\$34,607.94	\$678.88	\$0.00	\$0.00	\$35,255.06	\$942,186.80	\$3,668.73	\$143,795.28
12/01/14	\$25,315.64	\$9,395.30	3.00%	\$34,607.94	\$660.00	\$0.00	\$0.00	\$35,229.97	\$925,100.40	\$3,667.68	\$147,478.01
06/01/15	\$25,695.37	\$9,019.57	3.00%	\$34,607.94	\$641.43	\$0.00	\$0.00	\$35,204.70	\$907,275.10	\$3,666.61	\$151,160.62
12/01/15	\$26,080.80	\$8,637.14	3.00%	\$34,607.94	\$623.14	\$0.00	\$0.00	\$35,179.24	\$888,771.86	\$3,665.52	\$154,843.14
06/01/16	\$26,472.02	\$8,248.83	3.00%	\$34,607.94	\$605.14	\$0.00	\$0.00	\$35,153.59	\$869,543.06	\$3,664.41	\$158,525.55
12/01/16	\$26,868.10	\$7,854.85	3.00%	\$34,607.94	\$587.31	\$0.00	\$0.00	\$35,127.64	\$849,543.96	\$3,663.28	\$162,207.83
06/01/17	\$27,272.13	\$7,455.81	3.00%	\$34,607.94	\$489.95	\$0.00	\$0.00	\$35,099.00	\$828,743.86	\$3,662.14	\$165,890.97
12/01/17	\$27,684.21	\$7,051.73	3.00%	\$34,607.94	\$468.95	\$0.00	\$0.00	\$35,069.00	\$807,100.83	\$3,661.00	\$169,574.97
06/01/18	\$28,098.43	\$6,643.06	3.00%	\$34,607.94	\$448.78	\$0.00	\$0.00	\$35,038.72	\$784,569.72	\$3,659.84	\$173,259.81
12/01/18	\$28,517.88	\$6,229.01	3.00%	\$34,607.94	\$429.40	\$0.00	\$0.00	\$35,007.24	\$761,090.18	\$3,658.67	\$176,945.18
06/01/19	\$28,945.65	\$5,810.00	3.00%	\$34,607.94	\$410.73	\$0.00	\$0.00	\$34,974.55	\$736,625.07	\$3,657.49	\$180,630.67
12/01/19	\$29,379.83	\$5,385.29	3.00%	\$34,607.94	\$392.74	\$0.00	\$0.00	\$34,940.64	\$711,124.86	\$3,656.30	\$184,315.97
06/01/20	\$29,820.53	\$4,955.81	3.00%	\$34,607.94	\$375.42	\$0.00	\$0.00	\$34,905.48	\$684,543.50	\$3,655.10	\$188,001.07
12/01/20	\$30,267.84	\$4,521.10	3.00%	\$34,607.94	\$358.70	\$0.00	\$0.00	\$34,869.99	\$656,830.30	\$3,653.89	\$191,685.86
06/01/21	\$30,721.85	\$4,081.09	3.00%	\$34,607.94	\$342.60	\$0.00	\$0.00	\$34,833.20	\$627,947.46	\$3,652.67	\$195,370.13
12/01/21	\$31,182.48	\$3,635.76	3.00%	\$34,607.94	\$327.11	\$0.00	\$0.00	\$34,795.09	\$597,943.50	\$3,651.44	\$199,053.67
06/01/22	\$31,650.42	\$3,184.52	3.00%	\$34,607.94	\$312.23	\$0.00	\$0.00	\$34,755.82	\$566,778.82	\$3,650.20	\$202,736.87
12/01/22	\$32,125.18	\$2,727.37	3.00%	\$34,607.94	\$297.95	\$0.00	\$0.00	\$34,715.40	\$534,403.00	\$3,648.95	\$206,420.82
06/01/23	\$32,607.06	\$2,264.30	3.00%	\$34,607.94	\$284.26	\$0.00	\$0.00	\$34,673.84	\$500,778.28	\$3,647.69	\$210,104.13
12/01/23	\$33,096.16	\$1,795.38	3.00%	\$34,607.94	\$271.14	\$0.00	\$0.00	\$34,631.04	\$465,856.24	\$3,646.42	\$213,786.55
06/01/24	\$33,592.61	\$1,319.64	3.00%	\$34,607.94	\$258.57	\$0.00	\$0.00	\$34,587.00	\$429,496.40	\$3,645.14	\$217,468.39
12/01/24	\$34,096.40	\$851.45	3.00%	\$34,607.94	\$34.10	\$0.00	\$0.00	\$34,541.90	\$400,000.00	\$3,643.85	\$221,150.24

Totals

\$1,362,870.05 \$713,806.46 \$2,076,676.50 \$475,783.78 \$3,000 \$2,124,050.27 \$59,143.50

Created by KVA on 03/05 M 11:05 a.m.

Confirmed by Bank KVA

KENTUCKY INFRASTRUCTURE AUTHORITY
REPAYMENT SCHEDULE
BEAVER-ELKHORN WATER DISTRICT

*Assumed by
Southern Water Sewer*

3.00% Rate
\$71,897.79 P & I Calculation

LOAN B295-01

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Credit Due	Total Payment	Principal Balance	R & M Reserve	Total Reserve
06/01/98	\$29,427.47	\$43,851.30	3.00%	\$73,278.77	\$2,831.35	\$0.00	\$76,110.12	\$2,831,354.23	\$7,811.01	\$7,811.01
12/01/98	\$29,888.89	\$42,028.90	3.00%	\$71,897.79	\$2,801.93	\$0.00	\$74,699.71	\$2,801,926.78	\$7,469.97	\$15,080.98
06/01/99	\$30,318.92	\$41,580.87	3.00%	\$71,897.79	\$2,772.06	\$0.00	\$74,669.85	\$2,772,057.87	\$7,466.88	\$22,547.97
12/01/99	\$30,771.67	\$41,128.11	3.00%	\$71,897.79	\$2,741.74	\$0.00	\$74,639.53	\$2,741,740.95	\$7,463.95	\$30,011.92
06/01/00	\$31,233.25	\$40,664.54	3.00%	\$71,897.79	\$2,710.97	\$0.00	\$74,608.76	\$2,710,969.28	\$7,460.88	\$37,472.80
12/01/00	\$31,701.75	\$40,196.04	3.00%	\$71,897.79	\$2,679.74	\$0.00	\$74,577.52	\$2,679,736.03	\$7,457.75	\$44,930.55
06/01/01	\$32,177.27	\$39,720.51	3.00%	\$71,897.79	\$2,648.03	\$0.00	\$74,545.82	\$2,648,034.28	\$7,454.58	\$52,385.13
12/01/01	\$32,659.83	\$39,237.86	3.00%	\$71,897.79	\$2,615.88	\$0.00	\$74,513.65	\$2,615,857.01	\$7,451.36	\$59,836.50
06/01/02	\$33,149.83	\$38,747.86	3.00%	\$71,897.79	\$2,583.20	\$0.00	\$74,480.99	\$2,583,197.08	\$7,448.10	\$67,284.59
12/01/02	\$33,647.08	\$38,250.71	3.00%	\$71,897.79	\$2,550.05	\$0.00	\$74,447.84	\$2,550,047.24	\$7,444.78	\$74,729.38
06/01/03	\$34,151.79	\$37,746.00	3.00%	\$71,897.79	\$2,516.40	\$0.00	\$74,414.19	\$2,516,400.16	\$7,441.42	\$82,170.80
12/01/03	\$34,664.06	\$37,233.73	3.00%	\$71,897.79	\$2,482.25	\$0.00	\$74,380.04	\$2,482,248.38	\$7,438.00	\$89,608.80
06/01/04	\$35,184.02	\$36,713.76	3.00%	\$71,897.79	\$2,447.58	\$0.00	\$74,345.37	\$2,447,584.32	\$7,434.54	\$97,043.34
12/01/04	\$35,711.78	\$36,188.00	3.00%	\$71,897.79	\$2,412.40	\$0.00	\$74,310.19	\$2,412,400.29	\$7,431.02	\$104,474.36
06/01/05	\$36,247.46	\$35,650.33	3.00%	\$71,897.79	\$2,376.69	\$0.00	\$74,274.48	\$2,376,688.51	\$7,427.45	\$111,901.80
12/01/05	\$36,791.17	\$35,106.82	3.00%	\$71,897.79	\$2,340.44	\$0.00	\$74,238.23	\$2,340,441.05	\$7,423.82	\$119,325.63
06/01/06	\$37,343.04	\$34,554.75	3.00%	\$71,897.79	\$2,303.65	\$0.00	\$74,201.44	\$2,303,649.88	\$7,420.08	\$126,745.71
12/01/06	\$37,903.19	\$33,994.80	3.00%	\$71,897.79	\$2,266.31	\$0.00	\$74,164.09	\$2,266,308.84	\$7,416.67	\$134,162.38
06/01/07	\$38,471.73	\$33,426.05	3.00%	\$71,897.79	\$2,228.40	\$0.00	\$74,126.19	\$2,228,403.65	\$7,413.21	\$141,567.71
12/01/07	\$39,048.81	\$32,848.98	3.00%	\$71,897.79	\$2,189.93	\$0.00	\$74,087.72	\$2,189,931.92	\$7,409.71	\$149,016.42
06/01/08	\$39,634.54	\$32,263.25	3.00%	\$71,897.79	\$2,150.88	\$0.00	\$74,048.67	\$2,150,883.11	\$7,406.16	\$156,422.58
12/01/08	\$40,229.08	\$31,668.73	3.00%	\$71,897.79	\$2,111.25	\$0.00	\$74,009.04	\$2,111,254.57	\$7,402.48	\$163,825.06
06/01/09	\$40,832.50	\$31,065.29	3.00%	\$71,897.79	\$2,071.02	\$0.00	\$73,968.81	\$2,071,022.53	\$7,398.66	\$171,216.72
12/01/09	\$41,444.98	\$30,452.81	3.00%	\$71,897.79	\$2,030.19	\$0.00	\$73,927.98	\$2,030,187.01	\$7,394.71	\$178,601.43
06/01/10	\$42,068.68	\$29,831.13	3.00%	\$71,897.79	\$1,988.74	\$0.00	\$73,886.53	\$1,988,742.03	\$7,390.64	\$186,011.07
12/01/10	\$42,697.68	\$29,200.13	3.00%	\$71,897.79	\$1,946.68	\$0.00	\$73,844.46	\$1,946,875.37	\$7,386.44	\$193,437.51
06/01/11	\$43,338.12	\$28,559.67	3.00%	\$71,897.79	\$1,903.98	\$0.00	\$73,801.77	\$1,903,977.71	\$7,382.11	\$200,886.62
12/01/11	\$43,988.19	\$27,909.59	3.00%	\$71,897.79	\$1,860.64	\$0.00	\$73,758.43	\$1,860,639.59	\$7,377.64	\$208,359.26
06/01/12	\$44,648.02	\$27,249.77	3.00%	\$71,897.79	\$1,816.65	\$0.00	\$73,714.44	\$1,816,651.40	\$7,373.03	\$215,852.29
12/01/12	\$45,317.74	\$26,580.05	3.00%	\$71,897.79	\$1,772.00	\$0.00	\$73,669.79	\$1,772,003.38	\$7,368.27	\$223,365.56
06/01/13	\$45,997.50	\$25,900.28	3.00%	\$71,897.79	\$1,726.69	\$0.00	\$73,624.47	\$1,726,685.64	\$7,363.36	\$230,898.92
12/01/13	\$46,687.47	\$25,210.32	3.00%	\$71,897.79	\$1,680.69	\$0.00	\$73,578.48	\$1,680,888.14	\$7,358.20	\$238,457.12
06/01/14	\$47,387.78	\$24,510.01	3.00%	\$71,897.79	\$1,634.00	\$0.00	\$73,531.79	\$1,634,000.67	\$7,352.80	\$246,039.92
12/01/14	\$48,098.59	\$23,799.19	3.00%	\$71,897.79	\$1,586.51	\$0.00	\$73,484.40	\$1,586,612.89	\$7,347.16	\$253,647.08
06/01/15	\$48,820.07	\$23,077.71	3.00%	\$71,897.79	\$1,538.51	\$0.00	\$73,436.30	\$1,538,514.30	\$7,341.29	\$261,278.37
12/01/15	\$49,552.37	\$22,345.41	3.00%	\$71,897.79	\$1,489.69	\$0.00	\$73,387.48	\$1,489,894.22	\$7,335.18	\$268,933.55
06/01/16	\$50,295.66	\$21,602.13	3.00%	\$71,897.79	\$1,440.14	\$0.00	\$73,337.83	\$1,440,141.85	\$7,328.73	\$276,612.28
12/01/16	\$51,050.10	\$20,847.69	3.00%	\$71,897.79	\$1,389.85	\$0.00	\$73,287.83	\$1,389,846.19	\$7,322.04	\$284,314.32
06/01/17	\$51,815.85	\$20,081.94	3.00%	\$71,897.79	\$1,338.80	\$0.00	\$73,236.58	\$1,338,796.09	\$7,315.11	\$292,039.43
12/01/17	\$52,593.08	\$19,304.70	3.00%	\$71,897.79	\$1,286.98	\$0.00	\$73,184.77	\$1,286,980.25	\$7,307.94	\$299,777.37
06/01/18	\$53,381.98	\$18,515.81	3.00%	\$71,897.79	\$1,234.39	\$0.00	\$73,132.18	\$1,234,387.18	\$7,299.54	\$307,527.91
12/01/18	\$54,182.71	\$17,715.08	3.00%	\$71,897.79	\$1,181.01	\$0.00	\$73,078.79	\$1,181,005.18	\$7,290.90	\$315,298.81
06/01/19	\$54,995.45	\$16,902.34	3.00%	\$71,897.79	\$1,126.82	\$0.00	\$73,024.61	\$1,126,822.47	\$7,282.02	\$323,090.83
12/01/19	\$55,820.38	\$16,077.41	3.00%	\$71,897.79	\$1,071.83	\$0.00	\$72,969.62	\$1,071,827.02	\$7,272.41	\$330,902.24
06/01/20	\$56,657.89	\$15,240.10	3.00%	\$71,897.79	\$1,016.01	\$0.00	\$72,913.79	\$1,016,006.64	\$7,262.16	\$338,734.35
12/01/20	\$57,507.55	\$14,390.23	3.00%	\$71,897.79	\$959.35	\$0.00	\$72,857.14	\$959,348.95	\$7,251.27	\$346,585.62
06/01/21	\$58,370.17	\$13,527.62	3.00%	\$71,897.79	\$901.84	\$0.00	\$72,799.63	\$901,841.40	\$7,239.73	\$354,457.35
12/01/21	\$59,245.72	\$12,652.07	3.00%	\$71,897.79	\$843.47	\$0.00	\$72,741.26	\$843,471.23	\$7,227.04	\$362,349.39
06/01/22	\$60,134.41	\$11,783.38	3.00%	\$71,897.79	\$784.23	\$0.00	\$72,682.01	\$784,225.51	\$7,214.10	\$370,261.49
12/01/22	\$61,036.42	\$10,861.37	3.00%	\$71,897.79	\$724.09	\$0.00	\$72,621.88	\$724,091.10	\$7,200.91	\$378,192.60
06/01/23	\$61,951.97	\$9,945.82	3.00%	\$71,897.79	\$663.05	\$0.00	\$72,560.84	\$663,054.68	\$7,187.16	\$386,143.74
12/01/23	\$62,881.25	\$9,016.54	3.00%	\$71,897.79	\$601.10	\$0.00	\$72,498.89	\$601,102.71	\$7,172.94	\$394,114.68
06/01/24	\$63,824.47	\$8,073.32	3.00%	\$71,897.79	\$538.22	\$0.00	\$72,436.01	\$538,221.47	\$7,158.16	\$402,105.84
12/01/24	\$64,781.83	\$7,115.95	3.00%	\$71,897.79	\$474.40	\$0.00	\$72,372.19	\$474,397.00	\$7,142.81	\$410,116.65
06/01/25	\$65,753.56	\$6,144.23	3.00%	\$71,897.79	\$409.62	\$0.00	\$72,307.40	\$409,815.17	\$7,126.90	\$418,147.55
12/01/25	\$66,739.86	\$5,157.92	3.00%	\$71,897.79	\$343.86	\$0.00	\$72,241.65	\$343,861.61	\$7,110.52	\$426,198.07
06/01/26	\$67,740.96	\$4,156.83	3.00%	\$71,897.79	\$277.12	\$0.00	\$72,174.91	\$277,121.74	\$7,093.66	\$434,267.71
12/01/26	\$68,757.08	\$3,140.71	3.00%	\$71,897.79	\$209.38	\$0.00	\$72,107.17	\$209,360.78	\$7,076.24	\$442,355.95
06/01/27	\$69,788.43	\$2,109.36	3.00%	\$71,897.79	\$140.82	\$0.00	\$72,038.41	\$140,623.70	\$7,058.26	\$450,464.21
12/01/27	\$70,835.28	\$1,062.53	3.00%	\$71,897.79	\$70.84	\$0.00	\$71,968.62	\$70,835.27	\$7,039.73	\$458,593.94
Totals	\$2,831,354.22	\$1,483,894.03		\$4,315,248.27	\$98,834.20	\$0.00	\$4,414,082.48	\$0.01	\$141,567.71	\$0.00

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REPORT

wysiwyg://0/http://199.128.84.20/bond/bondscheduler.ht


**RURAL UTILITIES SERVICE
BOND SCHEDULE, 4/26/2002**


Name of Borrower: Southern Water and Sewer District			
Amount of Loan	2515000	Annual Interest Rate	0.045
Number of Initial Interest Only Payments	2	Number of principal and/or Interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	1000	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2003	1	1	113175	113175	0	2515000
2004	1	2	113175	113175	0	2515000
2005	1	3	139175	113175	26000	2489000
2006	1	4	139005	112005	27000	2462000
2007	1	5	139790	110790	29000	2433000
2008	1	6	139485	109485	30000	2403000
2009	1	7	139135	108135	31000	2372000
2010	1	8	139740	106740	33000	2339000
2011	1	9	139255	105255	34000	2305000
2012	1	10	139725	103725	36000	2269000
2013	1	11	139105	102105	37000	2232000
2014	1	12	139440	100440	39000	2193000
2015	1	13	139685	98685	41000	2152000
2016	1	14	139840	96840	43000	2109000
2017	1	15	138905	94905	44000	2065000
2018	1	16	138925	92925	46000	2019000
2019	1	17	139855	90855	49000	1970000
2020	1	18	139650	88650	51000	1919000
2021	1	19	139355	86355	53000	1866000
2022	1	20	138970	83970	55000	1811000
2023	1	21	139495	81495	58000	1753000
2024	1	22	138885	78885	60000	1693000
2025	1	23	139185	76185	63000	1630000
2026	1	24	139350	73350	66000	1564000
2027	1	25	139380	70380	69000	1495000
2028	1	26	139275	67275	72000	1423000
2029	1	27	139035	64035	75000	1348000
2030	1	28	139660	60660	79000	1269000
2031	1	29	139105	57105	82000	1187000
2032	1	30	139415	53415	86000	1101000
2033	1	31	139545	49545	90000	1011000
2034	1	32	139495	45495	94000	917000
2035	1	33	139265	41265	98000	819000
2036	1	34	139855	36855	103000	716000
2037	1	35	139220	32220	107000	609000
2038	1	36	139405	27405	112000	497000
2039	1	37	139365	22365	117000	380000
2040	1	38	139100	17100	122000	258000
2041	1	39	139610	11610	128000	130000
2042	1	40	135850	5850	130000	0
TOTALS			5518885	3003885	2515000	



**RURAL UTILITIES SERVICE
BOND SCHEDULE, 8/16/2005**

Name of Borrower: Southern Water and Sewer District			
Amount of Loan	225000	Annual Interest Rate	0.0425
Number of Initial Interest Only Payments	2	Number of principal and/or Interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	500	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2006	1	1	9563	9563	0	225000
2007	1	2	9563	9563	0	225000
2008	1	3	12063	9563	2500	222500
2009	1	4	11957	9457	2500	220000
2010	1	5	11850	9350	2500	217500
2011	1	6	12244	9244	3000	214500
2012	1	7	12117	9117	3000	211500
2013	1	8	11989	8989	3000	208500
2014	1	9	11862	8862	3000	205500
2015	1	10	12234	8734	3500	202000
2016	1	11	12085	8585	3500	198500
2017	1	12	11937	8437	3500	195000
2018	1	13	12288	8288	4000	191000
2019	1	14	12118	8118	4000	187000
2020	1	15	11948	7948	4000	183000
2021	1	16	12278	7778	4500	178500
2022	1	17	12087	7587	4500	174000
2023	1	18	11895	7395	4500	169500
2024	1	19	12204	7204	5000	164500
2025	1	20	11992	6992	5000	159500
2026	1	21	12279	6779	5500	154000
2027	1	22	12045	6545	5500	148500
2028	1	23	11812	6312	5500	143000
2029	1	24	12078	6078	6000	137000
2030	1	25	11823	5823	6000	131000
2031	1	26	12068	5568	6500	124500
2032	1	27	11792	5292	6500	118000
2033	1	28	12015	5015	7000	111000
2034	1	29	12218	4718	7500	103500
2035	1	30	11899	4399	7500	96000
2036	1	31	12080	4080	8000	88000
2037	1	32	12240	3740	8500	79500
2038	1	33	11879	3379	8500	71000
2039	1	34	12018	3018	9000	62000
2040	1	35	12135	2635	9500	52500
2041	1	36	12232	2232	10000	42500
2042	1	37	11807	1807	10000	32500
2043	1	38	11882	1382	10500	22000
2044	1	39	11935	935	11000	11000
2045	1	40	11468	468	11000	0
TOTALS			475979	250979	225000	

INDUCKY INFRASTRUCTURE AUTHORITY
 PAYMENT SCHEDULE
 JAN #A04-06

UTHERN WATER & SEWER
 SUBJECT TO CHANGE WITH ADDITIONAL DRAWS

1.00% Rate
 \$1,881.34 P & I Calculation

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Serviceing Fee	Credit Due	Total Payment	Principal Balance	R & M Reserve	Total Reserve
12/01/05	\$1,525.76	\$260.15	1.00000%	\$1,785.91	\$67.38	\$0.00	\$1,853.29	\$67,376.00	\$4,400.00	\$4,400.00
06/01/06	\$1,548.78	\$331.20	1.00000%	\$1,879.98	\$66.51	\$0.00	\$1,946.49	\$64,962.45	\$0.00	\$4,400.00
12/01/06	\$1,556.53	\$324.81	1.00000%	\$1,881.34	\$64.96	\$0.00	\$1,946.30	\$63,405.92	\$4,400.00	\$8,800.00
06/01/07	\$1,564.31	\$317.03	1.00000%	\$1,881.34	\$63.41	\$0.00	\$1,944.75	\$61,841.61	\$0.00	\$8,800.00
12/01/07	\$1,572.13	\$309.21	1.00000%	\$1,881.34	\$61.84	\$0.00	\$1,943.18	\$60,269.48	\$4,400.00	\$13,200.00
06/01/08	\$1,580.00	\$301.34	1.00000%	\$1,881.34	\$60.27	\$0.00	\$1,941.61	\$58,689.48	\$0.00	\$17,600.00
12/01/08	\$1,587.89	\$293.45	1.00000%	\$1,881.34	\$58.69	\$0.00	\$1,940.03	\$57,101.59	\$4,400.00	\$17,600.00
06/01/09	\$1,595.83	\$285.51	1.00000%	\$1,881.34	\$57.10	\$0.00	\$1,938.44	\$55,505.75	\$0.00	\$17,600.00
12/01/09	\$1,603.81	\$277.53	1.00000%	\$1,881.34	\$55.51	\$0.00	\$1,936.85	\$53,901.94	\$4,400.00	\$22,000.00
06/01/10	\$1,611.83	\$269.51	1.00000%	\$1,881.34	\$53.90	\$0.00	\$1,935.24	\$52,290.11	\$0.00	\$22,000.00
12/01/10	\$1,619.89	\$261.45	1.00000%	\$1,881.34	\$52.29	\$0.00	\$1,933.63	\$50,670.22	\$4,400.00	\$26,400.00
06/01/11	\$1,627.99	\$253.35	1.00000%	\$1,881.34	\$50.67	\$0.00	\$1,932.01	\$49,042.23	\$0.00	\$26,400.00
12/01/11	\$1,636.13	\$245.21	1.00000%	\$1,881.34	\$49.04	\$0.00	\$1,930.38	\$47,406.10	\$4,400.00	\$30,800.00
06/01/12	\$1,644.31	\$237.03	1.00000%	\$1,881.34	\$47.41	\$0.00	\$1,928.75	\$45,761.79	\$0.00	\$30,800.00
12/01/12	\$1,652.54	\$228.80	1.00000%	\$1,881.34	\$45.76	\$0.00	\$1,927.10	\$44,109.24	\$4,400.00	\$35,200.00
06/01/13	\$1,660.80	\$220.54	1.00000%	\$1,881.34	\$44.11	\$0.00	\$1,925.45	\$42,448.44	\$0.00	\$35,200.00
12/01/13	\$1,669.10	\$212.24	1.00000%	\$1,881.34	\$42.45	\$0.00	\$1,923.79	\$40,779.34	\$4,400.00	\$39,600.00
06/01/14	\$1,677.44	\$203.90	1.00000%	\$1,881.34	\$40.78	\$0.00	\$1,922.12	\$39,101.90	\$0.00	\$39,600.00
12/01/14	\$1,685.83	\$195.51	1.00000%	\$1,881.34	\$39.10	\$0.00	\$1,920.44	\$37,416.07	\$4,400.00	\$44,000.00
06/01/15	\$1,694.26	\$187.08	1.00000%	\$1,881.34	\$37.42	\$0.00	\$1,918.76	\$35,721.81	\$0.00	\$44,000.00
12/01/15	\$1,702.73	\$178.61	1.00000%	\$1,881.34	\$35.72	\$0.00	\$1,917.06	\$34,019.07	\$0.00	\$44,000.00
06/01/16	\$1,711.25	\$170.09	1.00000%	\$1,881.34	\$34.02	\$0.00	\$1,915.36	\$32,307.82	\$0.00	\$44,000.00
12/01/16	\$1,719.80	\$161.54	1.00000%	\$1,881.34	\$32.31	\$0.00	\$1,913.65	\$30,588.02	\$0.00	\$44,000.00
06/01/17	\$1,728.40	\$152.94	1.00000%	\$1,881.34	\$30.59	\$0.00	\$1,911.93	\$28,859.62	\$0.00	\$44,000.00
12/01/17	\$1,737.05	\$144.29	1.00000%	\$1,881.34	\$28.86	\$0.00	\$1,910.20	\$27,122.57	\$0.00	\$44,000.00
06/01/18	\$1,745.73	\$135.61	1.00000%	\$1,881.34	\$27.12	\$0.00	\$1,908.46	\$25,376.84	\$0.00	\$44,000.00
12/01/18	\$1,754.46	\$126.88	1.00000%	\$1,881.34	\$25.38	\$0.00	\$1,906.72	\$23,622.38	\$0.00	\$44,000.00
06/01/19	\$1,763.23	\$118.11	1.00000%	\$1,881.34	\$23.62	\$0.00	\$1,904.96	\$21,859.14	\$0.00	\$44,000.00
12/01/19	\$1,772.04	\$109.30	1.00000%	\$1,881.34	\$21.86	\$0.00	\$1,903.20	\$20,087.10	\$0.00	\$44,000.00
06/01/20	\$1,780.90	\$100.44	1.00000%	\$1,881.34	\$20.09	\$0.00	\$1,901.43	\$18,306.20	\$0.00	\$44,000.00
12/01/20	\$1,789.81	\$91.53	1.00000%	\$1,881.34	\$18.31	\$0.00	\$1,899.65	\$16,516.39	\$0.00	\$44,000.00
06/01/21	\$1,798.76	\$82.58	1.00000%	\$1,881.34	\$16.52	\$0.00	\$1,897.86	\$14,717.63	\$0.00	\$44,000.00
12/01/21	\$1,807.75	\$73.59	1.00000%	\$1,881.34	\$14.72	\$0.00	\$1,896.06	\$12,909.88	\$0.00	\$44,000.00
06/01/22	\$1,816.79	\$64.55	1.00000%	\$1,881.34	\$12.91	\$0.00	\$1,894.25	\$11,093.08	\$0.00	\$44,000.00
12/01/22	\$1,825.88	\$55.46	1.00000%	\$1,881.34	\$11.09	\$0.00	\$1,892.43	\$9,267.20	\$0.00	\$44,000.00
06/01/23	\$1,835.00	\$46.34	1.00000%	\$1,881.34	\$9.27	\$0.00	\$1,890.61	\$7,432.20	\$0.00	\$44,000.00
12/01/23	\$1,844.18	\$37.16	1.00000%	\$1,881.34	\$7.43	\$0.00	\$1,888.77	\$5,588.02	\$0.00	\$44,000.00
06/01/24	\$1,853.40	\$27.94	1.00000%	\$1,881.34	\$5.59	\$0.00	\$1,886.93	\$3,734.62	\$0.00	\$44,000.00
12/01/24	\$1,862.66	\$18.68	1.00000%	\$1,881.34	\$3.73	\$0.00	\$1,885.08	\$1,871.96	\$0.00	\$44,000.00
06/01/25	\$1,871.95	\$9.39	1.00000%	\$1,881.34	\$1.87	\$0.00	\$1,883.21	\$0.00	\$0.00	\$44,000.00
Totals	\$68,037.00	\$7,119.87		\$75,156.87	\$1,439.59	\$0.00	\$76,596.46		\$44,000.00	

AMORTIZATION SCHEDULE

Principal	Loan Date	Maturity	Loan No	Call/Col	Account	Officer	Initials
\$600,000.00	02-10-2006	02-10-2009	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

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

APR:	6.20%	Payment Schedule	Lease Number:	8483900	
Lease Payment Number	Lease Payment Date	Lease Payment	Interest Portion	Principal Portion	Concluding Payment
1	3 / 1 / 2006	3,169.68	0.00	3,169.68	101,247.32
2	4 / 1 / 2006	3,169.68	523.11	2,646.57	98,600.75
3	5 / 1 / 2006	3,169.68	509.44	2,660.24	95,940.51
4	6 / 1 / 2006	3,169.68	495.69	2,673.99	93,266.52
5	7 / 1 / 2006	3,169.68	481.88	2,687.80	90,578.72
6	8 / 1 / 2006	3,169.68	467.99	2,701.69	87,877.03
7	9 / 1 / 2006	3,169.68	454.03	2,715.65	85,161.38
8	10 / 1 / 2006	3,169.68	440.00	2,729.68	82,431.70
9	11 / 1 / 2006	3,169.68	425.90	2,743.78	79,687.92
10	12 / 1 / 2006	3,169.68	411.72	2,757.96	76,929.96
11	1 / 1 / 2007	3,169.68	397.47	2,772.21	74,157.75
12	2 / 1 / 2007	3,169.68	383.15	2,786.53	71,371.22
13	3 / 1 / 2007	3,169.68	368.75	2,800.93	68,570.29
14	4 / 1 / 2007	3,169.68	354.28	2,815.40	65,754.89
15	5 / 1 / 2007	3,169.68	339.73	2,829.95	62,924.94
16	6 / 1 / 2007	3,169.68	325.11	2,844.57	60,080.37
17	7 / 1 / 2007	3,169.68	310.42	2,859.26	57,221.11
18	8 / 1 / 2007	3,169.68	295.64	2,874.04	54,347.07
19	9 / 1 / 2007	3,169.68	280.79	2,888.89	51,458.18
20	10 / 1 / 2007	3,169.68	265.87	2,903.81	48,554.37
21	11 / 1 / 2007	3,169.68	250.86	2,918.82	45,635.55
22	12 / 1 / 2007	3,169.68	235.78	2,933.90	42,701.65
23	1 / 1 / 2008	3,169.68	220.63	2,949.05	39,752.60
24	2 / 1 / 2008	3,169.68	205.39	2,964.29	36,788.31
25	3 / 1 / 2008	3,169.68	190.07	2,979.61	33,808.70
26	4 / 1 / 2008	3,169.68	174.68	2,995.00	30,813.70
27	5 / 1 / 2008	3,169.68	159.20	3,010.48	27,803.22
28	6 / 1 / 2008	3,169.68	143.65	3,026.03	24,777.19
29	7 / 1 / 2008	3,169.68	128.02	3,041.65	21,735.53
30	8 / 1 / 2008	3,169.68	112.30	3,057.38	18,678.15
31	9 / 1 / 2008	3,169.68	96.50	3,073.18	15,604.97
32	10 / 1 / 2008	3,169.68	80.63	3,089.05	12,515.92
33	11 / 1 / 2008	3,169.68	64.67	3,105.01	9,410.91
34	12 / 1 / 2008	3,169.68	48.62	3,121.06	6,289.85
35	1 / 1 / 2009	3,169.68	32.50	3,137.18	3,152.67
36	2 / 1 / 2009	3,168.96	16.29	3,152.67	1.00
TOTALS		114,107.76	9,690.76	104,417.00	

Southern Water and Sewer District
BALANCE SHEET
As of June 30, 2006

REVISED 8/3/06

ASSETS

CURRENT ASSETS

Cash on Hand	\$ 460.00
First Guaranty - New	168,118.64
Accounts Receivable - Water	319,359.86
Accounts Receivable - Garbage	127,076.92
Accounts Receivable - Sewer	10,376.21
A/R - Cip Pride	19,746.71
KIA Escrow - New	120,448.20
KIA R & M Reserve - New	68,268.87
KIA R & M Reserve #3 - New	127,715.26
First Guaranty - RD Account	6,397.52
RD Depreciation Reserve Acct.	12,321.79
RD Escrow Acct	<u>61,429.86</u>

Total Current Assets 1,041,719.84

PROPERTY AND EQUIPMENT

Utility Plant	24,068,141.00
Utility Plant	1,812,961.49
Construction in Progress	3,394,395.34
Less: Accumulated Depreciation	<u>(8,693,610.43)</u>

Net Property and Equipment 20,581,887.40

OTHER ASSETS

Prepaid Interest	98,409.92
Accumulated Amortization	<u>(7,380.75)</u>

Total Other Assets 91,029.17

TOTAL ASSETS \$ 21,714,636.41

Southern Water and Sewer District
BALANCE SHEET
As of June 30, 2006

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
NOTE PAYABLE-FIRST GUARANTY	\$ 571,173.19
First Guaranty USF Trucks	15,126.43
LEASE PAYABLE - FORD MOTOR	95,940.51
Customer Deposits	64,145.98
Accrued Fica	10,437.08
Accrued Ky WTH	3,478.40
Accrued KUI/FUTA	2,958.96
Accrued School Tax	2,861.07
Accrued Sales Tax	1,316.18
Accrued Interest - KIA III	118,396.04
Accrued Interest - Meter Deposits	2,914.20
A/P - Solid Waste	<u>259,286.76</u>
Total Current Liabilities	<u>1,148,034.80</u>
LONG-TERM LIABILITIES	
N/P - KIA I	996,883.54
N/P - KIA III	2,303,649.90
Bonds Payable	2,489,000.00
N/P - KIA A-04-06	<u>65,850.24</u>
Total Long-Term Liabilities	<u>5,855,383.68</u>
Total Liabilities	<u>7,003,418.48</u>
CAPITAL	
Contributed Capital	19,780,271.29
RD Grant Funds	366,997.50
ARC Grant Funds	433,919.00
Grant in Aid - AML (Johns Creek)	168,277.33
Grant in Aid - Pride (Wayland)	769,358.12
Advances for Construction - Bill Hall Bran	423,410.31
KIA - R & M Reserve	72,312.83
R & M Reserve - KIA iii	106,508.80
Current Earnings	(402,828.29)
Retained Earnings	<u>(7,007,008.96)</u>
Total Stockholders' Equity	<u>14,711,217.93</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 21,714,636.41</u>

Southern Water and Sewer District
INCOME STATEMENT - SEWER
For the 1 Month and 6 Months Ended June 30, 2006

	1 Month Ended June 30, 2006	%	6 Months Ended June 30, 2006	%
Sales				
Metered Sales - Sewer	\$ 6,955.02	3.12	\$ 45,283.41	3.87
Less Returns & Allowances	0.00	0.00	0.00	0.00
Total Sales	<u>6,955.02</u>	<u>3.12</u>	<u>45,283.41</u>	<u>3.87</u>
Gross Profit	<u>6,955.02</u>	<u>3.12</u>	<u>45,283.41</u>	<u>3.87</u>
Operating Expenses				
CHEMICALS-SEWER	1,104.30	0.49	1,104.30	0.09
Sewer Supplies	0.00	0.00	41.40	0.00
LAB-SEWER	4,526.50	2.03	4,526.50	0.39
SUPPLIES	0.00	0.00	0.00	0.00
WAGES-SEWER	9,888.00	4.43	9,888.00	0.85
UTILITIES-SEWER	10,478.71	4.69	10,478.71	0.90
Repairs-Sewer	0.00	0.00	0.00	0.00
UNIFORMS - SEWER	176.80	0.08	176.80	0.02
HEALTH INSURANCE - SEWER	3,322.75	1.49	3,322.75	0.28
Total Operating Expenses	<u>29,497.06</u>	<u>13.21</u>	<u>29,538.46</u>	<u>2.52</u>
Operating Income (Loss)	<u>(22,542.04)</u>	<u>(10.10)</u>	<u>15,744.95</u>	<u>1.35</u>
Other Income (Expense)				
Net Income (Loss) Before Taxes	<u>(22,542.04)</u>	<u>(10.10)</u>	<u>15,744.95</u>	<u>1.35</u>
Net Income (Loss)	<u>\$ (22,542.04)</u>	<u>(10.10)</u>	<u>\$ 15,744.95</u>	<u>1.35</u>

See Accountants' Compilation Report

Southern Water and Sewer District
INCOME STATEMENT - WATER
For the 1 Month and 6 Months Ended June 30, 2006

	1 Month Ended June 30, 2006	%	6 Months Ended June 30, 2006	%
Sales				
Metered Sales - Residential	\$ 193,858.48	86.85	\$ 989,483.78	84.58
Metered Sales - Business	8,951.70	4.01	50,500.20	4.32
Sales for Resale	3,117.60	1.40	23,760.80	2.03
Penalties	3,933.72	1.76	27,010.44	2.31
Meter Service	2,000.00	0.90	10,265.08	0.88
Tap fees	4,400.00	1.97	23,562.70	2.01
Less Returns & Allowances	0.00	0.00	0.00	0.00
Total Sales	216,261.50	96.88	1,124,583.00	96.13
Gross Profit	216,261.50	96.88	1,124,583.00	96.13
Operating Expenses				
Solid Waste Payments	(177,981.38)	(79.73)	0.00	0.00
Water Purchases	15,745.73	7.05	88,584.73	7.57
Management Fees	241,259.28	108.08	241,259.28	20.62
Operations Labor - Pumping	10,244.08	4.59	48,732.03	4.17
Fuel for Power Production	0.00	0.00	3,142.82	0.27
Supplies - Pumping	0.00	0.00	2,293.61	0.20
Repairs - Pumping	243.01	0.11	3,173.85	0.27
Telephone & Utilities - Pumping	7,996.68	3.58	11,113.39	0.95
LAB SERVICES	(2,938.05)	(1.32)	2,083.75	0.18
Chemicals	4,195.10	1.88	26,985.75	2.31
Fuel	220.00	0.10	541.55	0.05
Lawn Service	500.00	0.22	1,500.00	0.13
Operations Labor - T & D	11,542.81	5.17	97,241.91	8.31
Uniform Rental - T & D	979.22	0.44	1,878.46	0.16
Supplies - T & D	17,374.35	7.78	49,957.40	4.27
Vehicle Repairs - T & D	2,078.49	0.93	2,908.77	0.25
Utilities - T & D	(72,146.43)	(32.32)	73,322.23	6.27
Repairs Pump - T & D	8,017.56	3.59	45,883.55	3.92
Uniform Rental - T & D	0.00	0.00	328.70	0.03
Vehicle Repairs - T & D	0.00	0.00	571.10	0.05
Repairs - T & D	0.00	0.00	7,155.01	0.61
Fuel-Gasoline	4,511.84	2.02	16,248.73	1.39
Truck Lease	(6,339.36)	(2.84)	0.00	0.00
Equip. Rental	1,050.00	0.47	3,700.00	0.32
Billing Postage	2,496.00	1.12	8,362.84	0.71
Billing Postage	0.00	0.00	0.00	0.00
Wages - Office	12,788.00	5.73	66,439.54	5.68
Rent	0.00	0.00	3,119.40	0.27
Office Postage	0.00	0.00	111.51	0.01
Office Supplies	1,500.00	0.67	6,936.79	0.59
Telephone & Utilities - Office	476.53	0.21	5,471.45	0.47
Bank Charges	(40.00)	(0.02)	(88.25)	(0.01)
Health Insurance	(5,151.42)	(2.31)	24,588.33	2.10

See Accountants' Compilation Report

Southern Water and Sewer District
INCOME STATEMENT - WATER
For the 1 Month and 6 Months Ended June 30, 2006

	1 Month Ended June 30, 2006	%	6 Months Ended June 30, 2006	%
SHIPPING	0.00	0.00	194.67	0.02
DENTAL INS	0.00	0.00	2,202.40	0.19
Workers Comp	10,690.50	4.79	10,690.50	0.91
Life Ins.	0.00	0.00	0.00	0.00
Legal	0.00	0.00	1,657.00	0.14
Accounting	5,192.00	2.33	11,305.00	0.97
Engineering	0.00	0.00	0.00	0.00
Professional Fees	0.00	0.00	4,068.12	0.35
Legal	0.00	0.00	0.00	0.00
Property Insurance	0.00	0.00	24,062.51	2.06
Commissioners Bond	0.00	0.00	507.50	0.04
Bonds	0.00	0.00	0.00	0.00
Commissioner's Bond	0.00	0.00	0.00	0.00
Bonds	0.00	0.00	203.00	0.02
Commissioner's Fee	1,000.00	0.45	4,500.00	0.38
Railroad Rent/Easements	0.00	0.00	0.00	0.00
Misc. Expenses	633.00	0.28	3,654.76	0.31
Misc. Expenses	0.00	0.00	0.00	0.00
Travel Reimbursement	0.00	0.00	0.00	0.00
Travel Reimbursement	0.00	0.00	0.00	0.00
Travel Reimbursement	0.00	0.00	0.00	0.00
Training	99.25	0.04	555.60	0.05
Advertising	998.50	0.45	998.50	0.09
Depreciation Expense	81,271.00	36.41	487,626.00	41.68
Depreciation Expense	3,545.00	1.59	21,270.00	1.82
Payroll Taxes	(11,506.98)	(5.16)	5,287.38	0.45
PSC Taxes	0.00	0.00	0.00	0.00
Sales Taxes	0.00	0.00	0.00	0.00
Total Operating Expenses	<u>170,544.31</u>	<u>76.40</u>	<u>1,422,331.17</u>	<u>121.58</u>
Operating Income (Loss)	<u>45,717.19</u>	<u>20.48</u>	<u>(297,748.17)</u>	<u>(25.45)</u>
Other Income (Expense)				
Interest Expense - TFB	(11,480.62)	5.14	(11,480.62)	0.98
Interest Expense - KIA	(18,311.00)	8.20	(109,866.00)	9.39
Interest Income - Now	0.00	0.00	65.37	0.01
Interest Income - Escrow	103.27	0.05	456.18	0.04
Total Other Income (Expense)	<u>(29,688.35)</u>	<u>(13.30)</u>	<u>(120,825.07)</u>	<u>(10.33)</u>
Net Income (Loss) Before Taxes	<u>16,028.84</u>	<u>7.18</u>	<u>(418,573.24)</u>	<u>(35.78)</u>
Net Income (Loss)	<u>\$ 16,028.84</u>	<u>7.18</u>	<u>\$ (418,573.24)</u>	<u>(35.78)</u>

See Accountants' Compilation Report

Southern Water and Sewer District
INCOME STATEMENT - CONSOLIDATED
For the 1 Month and 6 Months Ended June 30, 2006

	1 Month Ended June 30, 2006	%	6 Months Ended June 30, 2006	%
Sales				
Metered Sales - Residential	\$ 193,858.48	86.85	\$ 989,483.78	84.58
Metered Sales - Business	8,951.70	4.01	50,500.20	4.32
Metered Sales - Sewer	6,955.02	3.12	45,283.41	3.87
Sales for Resale	3,117.60	1.40	23,760.80	2.03
Penalties	3,933.72	1.76	27,010.44	2.31
Meter Service	2,000.00	0.90	10,265.08	0.88
Tap fees	4,400.00	1.97	23,562.70	2.01
Less Returns & Allowances	0.00	0.00	0.00	0.00
Total Sales	223,216.52	100.00	1,169,866.41	100.00
Gross Profit	223,216.52	100.00	1,169,866.41	100.00
Operating Expenses				
Solid Waste Payments	(177,981.38)	(79.73)	0.00	0.00
Water Purchases	15,745.73	7.05	88,584.73	7.57
Management Fees	241,259.28	108.08	241,259.28	20.62
Operations Labor - Pumping	10,244.08	4.59	48,732.03	4.17
CHEMICALS-SEWER	1,104.30	0.49	1,104.30	0.09
Fuel for Power Production	0.00	0.00	3,142.82	0.27
Supplies - Pumping	0.00	0.00	2,293.61	0.20
Repairs - Pumping	243.01	0.11	3,173.85	0.27
Telephone & Utilities - Pumping	7,996.68	3.58	11,113.39	0.95
LAB SERVICES	(2,938.05)	(1.32)	2,083.75	0.18
Chemicals	4,195.10	1.88	26,985.75	2.31
Fuel	220.00	0.10	541.55	0.05
Sewer Supplies	0.00	0.00	41.40	0.00
Lawn Service	500.00	0.22	1,500.00	0.13
LAB-SEWER	4,526.50	2.03	4,526.50	0.39
SUPPLIES	0.00	0.00	0.00	0.00
Operations Labor - T & D	11,542.81	5.17	97,241.91	8.31
WAGES-SEWER	9,888.00	4.43	9,888.00	0.85
Uniform Rental - T & D	979.22	0.44	1,878.46	0.16
Supplies - T & D	17,374.35	7.78	49,957.40	4.27
Vehicle Repairs - T & D	2,078.49	0.93	2,908.77	0.25
Utilities - T & D	(72,146.43)	(32.32)	73,322.23	6.27
Repairs Pump - T & D	8,017.56	3.59	45,883.55	3.92
Uniform Rental - T & D	0.00	0.00	328.70	0.03
Vehicle Repairs - T & D	0.00	0.00	571.10	0.05
Repairs - T & D	0.00	0.00	7,155.01	0.61
Fuel-Gasoline	4,511.84	2.02	16,248.73	1.39
UTILITIES-SEWER	10,478.71	4.69	10,478.71	0.90
Truck Lease	(6,339.36)	(2.84)	0.00	0.00
Equip. Rental	1,050.00	0.47	3,700.00	0.32
Repairs-Sewer	0.00	0.00	0.00	0.00
UNIFORMS - SEWER	176.80	0.08	176.80	0.02

See Accountants' Compilation Report

Southern Water and Sewer District
INCOME STATEMENT - CONSOLIDATED
For the 1 Month and 6 Months Ended June 30, 2006

	1 Month Ended June 30, 2006	%	6 Months Ended June 30, 2006	%
Billing Postage	2,496.00	1.12	8,362.84	0.71
Billing Postage	0.00	0.00	0.00	0.00
Wages - Office	12,788.00	5.73	66,439.54	5.68
Rent	0.00	0.00	3,119.40	0.27
Office Postage	0.00	0.00	111.51	0.01
Office Supplies	1,500.00	0.67	6,936.79	0.59
Telephone & Utilities - Office	476.53	0.21	5,471.45	0.47
Bank Charges	(40.00)	(0.02)	(88.25)	(0.01)
Health Insurance	(5,151.42)	(2.31)	24,588.33	2.10
SHIPPING	0.00	0.00	194.67	0.02
DENTAL INS	0.00	0.00	2,202.40	0.19
Workers Comp	10,690.50	4.79	10,690.50	0.91
Life Ins.	0.00	0.00	0.00	0.00
HEALTH INSURANCE - SEWER	3,322.75	1.49	3,322.75	0.28
Legal	0.00	0.00	1,657.00	0.14
Accounting	5,192.00	2.33	11,305.00	0.97
Engineering	0.00	0.00	0.00	0.00
Professional Fees	0.00	0.00	4,068.12	0.35
Legal	0.00	0.00	0.00	0.00
Property Insurance	0.00	0.00	24,062.51	2.06
Commissioners Bond	0.00	0.00	507.50	0.04
Bonds	0.00	0.00	0.00	0.00
Commissioner's Bond	0.00	0.00	0.00	0.00
Bonds	0.00	0.00	203.00	0.02
Commissioner's Fee	1,000.00	0.45	4,500.00	0.38
Railroad Rent/Easements	0.00	0.00	0.00	0.00
Misc. Expenses	633.00	0.28	3,654.76	0.31
Misc. Expenses	0.00	0.00	0.00	0.00
Travel Reimbursement	0.00	0.00	0.00	0.00
Travel Reimbursement	0.00	0.00	0.00	0.00
Travel Reimbursement	0.00	0.00	0.00	0.00
Training	99.25	0.04	555.60	0.05
Advertising	998.50	0.45	998.50	0.09
Depreciation Expense	81,271.00	36.41	487,626.00	41.68
Depreciation Expense	3,545.00	1.59	21,270.00	1.82
Payroll Taxes	(11,506.98)	(5.16)	5,287.38	0.45
PSC Taxes	0.00	0.00	0.00	0.00
Sales Taxes	0.00	0.00	0.00	0.00
Total Operating Expenses	200,041.37	89.62	1,451,869.63	124.11
Operating Income (Loss)	23,175.15	10.38	(282,003.22)	(24.11)
Other Income (Expense)				
Interest Expense - TFB	(11,480.62)	5.14	(11,480.62)	0.98
Interest Expense - KIA	(18,311.00)	8.20	(109,866.00)	9.39
Interest Income - Now	0.00	0.00	65.37	0.01
Interest Income - Escrow	103.27	0.05	456.18	0.04

See Accountants' Compilation Report

Southern Water and Sewer District
INCOME STATEMENT - CONSOLIDATED
For the 1 Month and 6 Months Ended June 30, 2006

	1 Month Ended June 30, 2006	%	6 Months Ended June 30, 2006	%
Total Other Income (Expense)	(29,688.35)	(13.30)	(120,825.07)	(10.33)
Net Income (Loss) Before Taxes	(6,513.20)	(2.92)	(402,828.29)	(34.43)
Net Income (Loss)	<u>\$ (6,513.20)</u>	<u>(2.92)</u>	<u>\$ (402,828.29)</u>	<u>(34.43)</u>

SANDY VALLEY WATER DISTRICT

INCOME STATEMENT
FOR THE SEVEN MONTHS ENDED JULY 31, 2006

Revenues		\$580,405
<u>Cost of Sales</u>		
Purchases	\$204,023	
Tax (Sales and School)	15,079	
Materials and Supplies	13,441	
Total Cost of Sales	232,543	
Gross Profit		\$347,862
<u>Operating Expenses</u>		
Bank Charges	\$65	
Commissioner Compensation	2,500	
Deposit Returns	924	
Equipment Rent	591	
Fuel	5,593	
Garbage Billing	74,991	
Health Insurance	18,042	
Interest to Customer	193	
Legal and Professional	11,950	
Miscellaneous	1,447	
Office Expense	1,647	
Payroll Tax	10,350	
Postage and Box Rent	3,634	
Rent	3,800	
Repairs	2,524	
Returned Checks	549	
Salaries and Wages	100,757	
Telephone & Utilities	7,057	
Training	95	
Water Testing	1,183	
Workers Comp	34	
Total Operating Expenses	247,926	
Operating Income (Loss)		\$99,936
<u>Other Income (Expenses)</u>		
Interest Earned	\$50	
Interest Paid	(53,410)	
Total Other Income (Expenses)	(53,360)	
Net Income		\$46,576

SANDY VALLEY WATER DISTRICT

BALANCE SHEET

JULY 31, 2006

ASSETS

Current Assets

Cash in Bank	\$24,742	
Accounts receivable	76,853	
Total Current Assets		\$101,595

Fixed Assets

Construction in Progress	\$1,521,558	
Land	49,845	
Office Furniture & Fixtures	20,645	
Plant, Tools and Equip	2,203,742	
Total	\$3,795,790	
Less: Accumulated Depreciation	(1,431,845)	
Net Fixed Assets		2,363,945
Total Assets		\$2,465,540

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	\$63,606	
Payroll Taxes and Withholdings	4,762	
Other Liabilities	169,509	
Customer Deposits	55,055	
Total Current Liabilities		\$292,932

Long-Term Debt

Notes Payable - Rural Dev Funds	\$1,451,736	
Notes Payable - EDA Funds	37,384	
Total Long-Term Debt		1,489,120
Total Liabilities		\$1,782,052

Equity

Retained Earnings	(543,516)	
Donated Capital	1,227,004	
Total Equity		683,488
Total Liabilities and Equity		\$2,465,540

EDA LEAN

Form ED-99

U. S. DEPARTMENT OF COMMERCE
ECONOMIC DEVELOPMENT ADMINISTRATION
WASHINGTON, DC 20230
CERTIFIED STATEMENT OF ACCOUNT

As of July 1, 2006

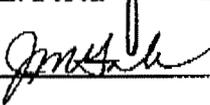
Interest Accrued on Unpaid Balance through above date

Project Number: 04-01-00023-01
Name: Sandy Valley Water District
P. O. Box 127
Betsy Lane, KY, 41605

Total Amount Disbursed:	
Loan	\$506,000.00
Care & Preservation of Collateral	\$ -0-
Prior Liens	\$ -0-
Others (Non-Cash Interest)	\$ -0-
Less Repayments	\$468,519.42
Current Principal Balance	\$ 37,480.58
Add: Accrued Interest Payable	\$ (96.11)
Total Interest Paid	\$571228.48
Total Indebtedness	\$ 37,384.47
Interest Rate	Percent 4.125%
Daily Interest Accrual on Current Outstanding Balance	\$4.29

Date of Last Transaction	Interest Paid Through	Date of Default
07/06/2006	07/01/2006	NA
Date of Loan	Maturity Date	Collateral
01-01-1970	01-01-2008	NA

Authorized Signature 
Prepared by: Jesus L. Perez Date: July 20, 2006

Checked by:  Date: 7/24/06

*EDA contact info: Mr Ken Kurovich
202 - 482 - 0806 (Wash. D.C.)
OR
Don Hoff
404 - 730 - 3002 (Atlanta)*

Kukovich, Ken

From: Kukovich, Ken
Sent: Wednesday, July 26, 2006 3:05 PM
To: 'roger.recktenwald@veoliawatema.com'
Cc: Walters, Sandra
Subject: FW: DRAFT DRAFT Offer to Amend and transmittal letter

Roger: per our conversation, Certified Statement of Account to your fax number of 606-432-1660.
O 606-437-5114
Thanks, Ken Kukovich

-----Original Message-----

From: Kukovich, Ken
Sent: Wednesday, July 19, 2006 10:56 AM
To: 'roger.recktenwald@veoliawatema.com'
Cc: Huff, Donald; Walters, Sandra
Subject: DRAFT DRAFT Offer to Amend and transmittal letter

Roger: this is in circulation for approval, and may be changed, but please take a look at it for factual matters.
I understand from our conversation that the five copies of the Offer to be sent will also be notarized by EDA.

Thanks,
Ken Kukovich
Financial Analyst
(202) 482-0806
[Fax: 202-482-2217]



SandValleyLoanTr EDA Ltr
ariserAmend (... dyValleyLoanAssigr

RD Loan

TERM NBR	410	OPR ID	410	ACCOUNT INFORMATION											
CNUM	20-036-0610701067	NAME	SANDY VALLEY WATER	STDT	082206	ACDT	082206								
FCOD	9120	LNUM	01	KCOD	00	DUED	00	FMCD	0	FLAG		CSDT		ZSPC	0
DEFL		DEXD		DECL		DFLA		DFCA						SPCL	0
DSED		DSXD		DSCD		LSAA		DSLO						FPCD	
DOLN	111601	AMED	000000	APDT	090498	DCCA		FYLN	41	ICRC		INR1	4.7500		
ZDLP	080706	ZDLR	081606	RGT2	1	LRDT	041906	RGT1	02	CCCD	0	PAYC	7	INR2	4.7500
XAON	1,426,000.00	XAOA		RCCT							.00	EPMT			.00
PTC1	129,324.43	FTC3		QPCR	129,324.43							CICR			
ICRT	330,120.88	INCR		QICR	330,120.88							QNIC			
SSTS	100,412.35A	SSC3		QSST	100,412.35A							MICE		ICCD	0
<u>UNFN</u>	1,296,675.57	UNPA		QUPR	1,296,675.57							YICE		NUMO	
UNIN	23,083.10-	UNIA		QUIN	23,083.10-							YNIC		QDEL	
DACN	168.7455	DACA		<u>QDIN</u>	168.7455							MOIN			
UPAM		UPUN		FC10	553,520.10							QMTI			
UIAM		UIUN		FCIN								QTMJ			
STAM		ZADI		ZAAI								ZEDI		RHDM	
XAIC		PTC2		CYIC								AVIR			
XANI	48,087.92	ZDNI	010107	JTOI	1	STIN						PNSR			
STAN		STAA		QSTA								ICDF			
TPOF		ZSST		QMDU	52,324.43							ICGR			

CASE NUMBER: 20 036 0610701067 STATUS TYPE: AI LOAN: 01 ACDT: 082206
 WARNING - UNIN OR UNIA IS NEGATIVE - VERIFY ACDT

Date of Loan: 11/16/01
 Original Amount: \$1,426,000
 Unpaid prin: \$1,296,675.57
 Daily int.: 168.7455
 as of: 8-22-06
 Loan 91-01

RD contact person: Mr Ronnie Brooks
 606-784-6447

RD Loan

TERM NBR	410	OPR ID	410	ACCOUNT INFORMATION			
CNUM	20-036-0610701067	NAME	SANDY VALLEY WATER	STDT	082206	ACDT	082206
FCOD	9120	LNUM	02	KCOD	00	DUED	00
DEFL	DEXD	DECL	DFLA	DFCA		CSDT	ZSPC 0
DSED	DSXD	DSCD	LSAA	DSLO			SPCL 0
DOLN	111601	AMED	000000	APDT	080300	DCCA	
ZDLP	080706	ZDLR	081606	RGT2	1	LRDT	041906
XAON	100,000.00	XAOA		RCCT			EPMT .00
PTC1	3,831.88	PTC3		QPCR	3,831.88		CICR
ICRT	22,540.21	INCR		QICR	22,540.21		QNIC
SSTS	995.29A	SSC3		QSST	995.29A		MICE ICCD 0
UNPN	96,168.12	UNPA		QUPR	96,168.12		YICE NUMO
UNIN	465.63-	UNIA		QUIN	465.63-		YNIC QDEL
DACN	12.5150	DACA		QDIN	12.5150		MOIN
UPAM		UPUN		FC10	42,298.22		QMTI
UIAM		UIUN		FCIN			QTMI
STAM		ZADI		ZAAI			ZEDI RHDM
XAIC		PTC2		CYIC			AVIR
XANI	3,383.99	ZDNI	010107	JTOI	1	STIN	PNSR
STAN		STAA		QSTA			ICDF
TPOF	?	ZSST		QMDU	2,388.70		ICGR

CASE NUMBER: 20 036 0610701067 STATUS TYPE: AI LOAN: 02 ACDT: 082206
 WARNING - UNIN OR UNIA IS NEGATIVE - VERIFY ACDT

Date of Loan: 11/16/01

Original Amount: \$100,000

Unpaid pri: \$96,168.12

daily int. \$ 12.5150

as of 8-22-06

Loan 91-02

Payee Report
1/1/00 Through 8/10/06

Date	Num	Description	Memo	Category	Clr	Amount
1/10/00	20614	EDA		Bonds	R	-2,780.05
1/31/00	20768	EDA		Bonds	R	-2,780.05
3/14/00	20853	EDA		Bonds	R	-2,780.05
4/11/00	20900	EDA		Bonds	R	-2,780.05
5/2/00	20940	EDA		Bonds	R	-2,780.05
6/2/00	20996	EDA		Bonds	R	-2,780.05
6/23/00	21055	EDA		Bonds	R	-2,780.05
8/1/00	21128	EDA		Bonds	R	-2,780.05
8/21/00	21166	EDA		Bonds	R	-2,780.05
9/6/00	21187	EDA		Bonds	R	-2,780.05
10/9/00	21254	EDA		Bonds	R	-2,780.05
10/31/00	21344	EDA		Bonds	R	-2,780.05
12/4/00	21435	EDA		Bonds	R	-2,780.05
1/3/01	21499	EDA		Bonds	R	-2,780.05
2/5/01	21719	EDA		Bonds	R	-2,780.05
3/2/01	21786	EDA		Bonds	R	-2,780.05
4/2/01	21962	EDA		Bonds	R	-780.05
4/30/01	22019	EDA		Bonds	R	-2,780.05
5/25/01	22071	EDA		Bonds	R	-2,780.05
7/2/01	22140	EDA		Bonds	R	-2,780.05
7/30/01	22190	EDA		Bonds	R	-2,780.05
9/5/01	22270	EDA		Bonds	R	-2,780.05
10/3/01	22415	EDA		Bonds	R	-2,780.05
11/5/01	22473	EDA		Bonds	R	-2,780.05
12/3/01	22548	EDA		Bonds	R	-2,780.05
12/20/01	22591	EDA		Bonds	R	-2,780.05
1/7/02	22618	EDA		Bonds	R	-7,282.08
1/28/02	22657	EDA		Bonds	R	-2,780.05
3/4/02	22818	EDA		Bonds	R	-2,780.05
4/17/02	22913	EDA		Bonds	R	-2,780.05
5/1/02	22936	EDA		Bonds	R	-2,780.05
5/29/02	23005	EDA		Bonds	R	-2,780.05
6/25/02	23061	EDA		Bonds	R	-2,780.05
8/2/02	23111	EDA		Bonds	R	-2,780.05
8/21/02	23175	EDA		Bonds	R	-2,780.05
9/30/02	23251	EDA		Bonds	R	-2,780.05
10/22/02	23415	EDA		Bonds	R	-2,780.05
12/9/02	23521	EDA		Bonds	R	-2,780.05
2/5/03	23637	EDA		Bonds	R	-2,780.05
3/5/03	23703	EDA		Bonds	R	-2,780.05
4/3/03	23753	EDA		Bonds	R	-2,780.05
4/30/03	23826	EDA		Bonds	R	-2,780.05
5/12/03	23845	EDA		Bonds	R	-2,780.05
6/10/03	23898	EDA		Bonds	R	-2,780.05
6/26/03	23916	EDA		Bonds	R	-2,780.05
7/10/03	23949	EDA		Bonds	R	-2,780.05
8/6/03	24009	EDA		Bonds	R	-2,780.05
9/4/03	24052	EDA		Bonds	R	-2,780.05
10/1/03	24173	EDA		Bonds	R	-2,780.05
11/10/03	24257	EDA		Bonds	R	-2,780.05
1/7/04	24358	EDA		Bonds	R	-2,780.05
2/3/04	24413	EDA		Bonds	R	-2,780.05
3/2/04	24469	EDA		Bonds	R	-2,780.05
3/25/04	25028	EDA		Bonds	R	-2,780.05
4/30/04	25087	EDA		Bonds	R	-2,780.05
5/26/04	25215	EDA		Bonds	R	-2,780.05
7/1/04	25278	EDA		Bonds	R	-2,780.05
8/4/04	25371	EDA		Bonds	R	-2,780.05
9/8/04	25423	EDA		Bonds	R	-2,780.05
10/11/04	25593	EDA		Bonds	R	-2,780.05

Payee Report
1/1/00 Through 8/10/06

Date	Num	Description	Memo	Category	Clr	Amount
11/8/04	25655	E D A		Bonds	R	-2,780.05
12/10/04	25721	E D A		Bonds	R	-2,780.05
1/10/05	25785	E D A		Bonds	R	-2,780.05
3/1/05	25868	E D A		Bonds	R	-2,780.05
3/29/05	25925	E D A		Bonds	R	-2,780.05
4/12/05	25950	E D A		Bonds	R	-2,780.05
5/19/05	26005	E D A		Bonds	R	-2,780.05
6/8/05	26047	E D A		Bonds	R	-2,780.05
7/9/05	26112	E D A		Bonds	R	-2,780.05
8/8/05	26212	E D A		Bonds	R	-2,780.05
9/6/05	26264	E D A		Bonds	R	-2,780.05
10/7/05	26332	E D A		Bonds	R	-2,780.05
11/2/05	26378	E D A		Bonds	R	-2,780.05
12/7/05	26444	E D A		Bonds	R	-2,780.05
1/5/06	26514	E D A		Bonds	R	-2,780.05
2/13/06	26611	E D A		Bonds	R	-2,780.05
3/2/06	26631	E D A		Bonds	R	-2,780.05
4/10/06	26708	E D A		Bonds	R	-2,780.05
5/11/06	26756	E D A		Bonds	R	-2,780.05
6/7/06	26784	E D A		Bonds	R	-2,780.05
7/3/06	26832	E D A		Bonds	R	-2,780.05
8/2/06	26869	E D A		Bonds	R	-2,780.05
TOTAL 1/1/00 - 8/10/06						-230,466.13
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-230,466.13
<hr/>						
NET TOTAL						-230,466.13

Payee Report
1/1/03 Through 8/10/06

Date	Num	Description	Memo	Category	Clr	Amount
1/29/03	23612	USDA Rural Dev		Bonds	R	-7,306.50
2/5/03	23640	USDA Rural Dev		Bonds	R	-7,282.68
3/5/03	23704	USDA Rural Dev		Bad Debt	R	-7,282.68
4/3/03	23754	USDA Rural Dev		Bonds	R	-7,282.68
4/23/03	23816	USDA Rural Dev		Bonds	R	-7,282.68
5/12/03	23855	USDA Rural Dev		Bonds	R	-7,282.68
6/10/03	23899	USDA Rural Dev		Bonds	R	-7,282.68
6/26/03	23906	USDA Rural Dev		Bonds	R	-7,282.68
7/10/03	23950	USDA Rural Dev		Bonds	R	-7,282.68
8/6/03	24010	USDA Rural Dev		Bonds	R	-7,282.68
9/4/03	24053	USDA Rural Dev		Bad Debt	R	-7,282.68
10/1/03	24174	USDA Rural Dev		Bonds	R	-7,282.68
11/10/03	24258	USDA Rural Dev		Bonds	R	-7,282.68
12/5/03	24298	USDA Rural Dev		Bonds	R	-7,282.68
1/7/04	24359	USDA Rural Dev		Bonds	R	-7,282.68
2/3/04	24414	USDA Rural Dev		Bonds	R	-7,282.68
3/2/04	24470	USDA Rural Dev		Bonds	R	-7,282.68
3/25/04	25027	USDA Rural Dev		Bonds	R	-7,282.68
4/30/04	25088	USDA Rural Dev		Bonds	R	-7,282.68
7/1/04	25286	USDA Rural Dev		Bonds	R	-7,282.68
7/28/04	25354	USDA Rural Dev	June Pmt	Bonds	R	-7,282.68
8/4/04	25372	USDA Rural Dev		Bonds	R	-7,282.68
9/8/04	25424	USDA Rural Dev		Bonds	R	-7,282.68
10/11/04	25594	USDA Rural Dev		Bonds	R	-7,282.68
11/8/04	25656	USDA Rural Dev		Bonds	R	-7,282.68
12/10/04	25722	USDA Rural Dev		Bonds	R	-7,282.68
1/10/05	25786	USDA Rural Dev		Bonds	R	-7,282.68
3/1/05	25869	USDA Rural Dev		Bonds	R	-7,282.68
3/29/05	25926	USDA Rural Dev		Bonds	R	-7,282.68
4/12/05	25968	USDA Rural Dev		Bonds	R	-7,282.68
5/19/05	26006	USDA Rural Dev		Bonds	R	-7,282.68
6/8/05	26048	USDA Rural Dev		Bonds	R	-7,282.68
7/9/05	26111	USDA Rural Dev		Bonds	R	-7,282.68
8/8/05	26213	USDA Rural Dev		Bonds	R	-7,282.68
9/6/05	26265	USDA Rural Dev		Bonds	R	-7,282.68
10/7/05	26333	USDA Rural Dev		Bonds	R	-7,282.68
11/2/05	26379	USDA Rural Dev		Bonds	R	-7,282.68
12/7/05	26445	USDA Rural Dev		Bonds	R	-7,282.68
1/5/06	26515	USDA Rural Dev		Bonds	R	-7,282.68
2/13/06	26612	USDA Rural Dev		Bonds	R	-7,282.68
3/2/06	26630	USDA Rural Dev		Bonds	R	-7,282.68
4/10/06	26707	USDA Rural Dev		Bonds	R	-7,282.68
5/11/06	26757	USDA Rural Dev		Bonds	R	-7,202.68
6/7/06	26785	USDA Rural Dev		Bonds	R	-7,282.68
7/3/06	26831	USDA Rural Dev		Bonds	R	-7,282.68
8/2/06	26868	USDA Rural Dev		Bonds	R	-7,282.68

TOTAL 1/1/03 - 8/10/06

-334,947.10

TOTAL INFLOWS
TOTAL OUTFLOWS

0.00
-334,947.10

NET TOTAL

-334,947.10

AMENDED

KENTUCKY PUBLIC SERVICE COMMISSION
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
BUSINESS FOR THE YEAR ENDING DECEMBER 31, 20 05

Southern Water & Sewer District, P.O. Box 610, McDowell, KY 41647
(Utility Reporting) (Address)

FEDIN # (Federal Employer Identification Number)

6 1 - 1 3 6 5 2 5 3

(DO NOT INCLUDE TAXES COLLECTED)

- (1) Gross Revenues of Electric Utility...\$
(2) Gross Revenues of Gas Utility...\$
(3) Gross Revenues of Water Utility...\$ 2,078,870
(4) Gross Revenues of Sewer Utility...\$ 57,249
(5) Other Operating Revenues...\$
*** TOTAL GROSS REVENUES...\$ 2,136,119

OATH

State of... Kentucky...
County of... Floyd... ss.

Robert L. Meyer being duly sworn, states that he/she is
(Officer)

District Manager of the Southern Water & Sewer District that the above
(Official Title) (Utility Reporting)

report of gross revenues is in exact accordance with Southern Water & Sewer District and that such
(Utility Reporting)

books accurately show the gross revenues of: Southern Water & Sewer District, derived from
(Utility Reporting)

Intra-Kentucky business for the calendar year ending December 31, 20 05

[Signature] MANAGER
(Officer) (Title)

This the 21st day of August, 20 06

[Signature] (Notary Public) Floyd (County) 6-3-07 (Commission Expires)

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

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Title Page

	Name of Respondent	Addr. Line 1	Addr. Line 2	City	State	Zip
Water Districts/Associations Annual Report of						
Respondent	Southern Water & Sewer District	P.O. Box 610	245 Ky Rt. 680	McDowell	KY	41647

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Principal Payment and Interest Information

	Amount	Yes/No	PSC Case No.
Amount of Principal Payment During Calendar Year	\$260,875.00		
Is Principal Current?		Y	
Is Interest Current?		Y	
Has all long-term debt been approved by the Public Service Commission?		Y	

Services Performed by Independent CPA

	Yes/No	A/C/R
--	--------	-------

Are your financial statements examined by a Certified Public Accountant?

Enter Y for Yes or N for No

Y

If yes, which service is performed?

Enter an X on each appropriate line

Audit

X

Compilation

Review

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Additional Requested Information

	Name	Electronic Info
Name of Utility and Web Address	Southern Water & Sewer District	
Contact Name and Email Address	Robert L. Meyer	meyerrl@usfilter.com

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Additional Information Required

Case Num	Date	Explain
----------	------	---------

Major Water Projects

Provide details about each major water project which is planned but has not yet been submitted for approval to the Public Service commission.

For the limited purpose of this report, a "Major Project" is defined as one which is not in the ordinary course of business, and will increase your current utility plant by at least 20 percent.

Brief Project Description: (improvement, replacement, building, construction, expansion. If expansion, provide the estimated number of new customers).

The District is completing the design and funding approvals for a major expansion that will serve almost 600 new customers. The project will include construction of over 30 miles of new water mains.

Projected Costs and Funding Sources/Amounts:

Total projected cost for expansions are \$7,779,000. Funding sources: RD Grant \$450,000; RD Loan \$2,515,000; ARC Grant \$434,000; State Funds \$300,000; County Bond Issue \$2,000,000; AML Grant \$980,000; Coal Severance Funds \$1,100,000.

Approval Status: (Application for financial assistance filed, but not approved, or application approved, but have not advertised for construction bids)

Contracts were bid in early 2002, with construction begun in the spring and summer of 2002.

Location: (community, area or nearby roads)

Spurlock Creek; Johns Branch; Frasures Creek; Mink Branch; John Hall Branch; Weeksbury; Keathley Fork; Deadening Branch; Middle Branch; Hunter Branch; Sage Allen Branch; Frasures Branch; and Caleb.

History-Legal Name (Ref Page: 4)

1. Exact name of utility making this report.

(Use the words "The", "Company" or "Incorporated" only when part of the corporate name.)

Southern Water & Sewer District

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

History-Location (Ref Page: 4)

	name	Address	city	state	zip	Phone
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Give the location, including street and number, and TELEPHONE NUMBER of the principal office in KY.

principal office in KY	Southern Water & Sewer District	P.O. Box 610	245 KY RT. 680	McDowell	KY	41647	377-3296
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Give name, title, address and TELEPHONE NUMBER of the officer

to whom correspondence concerning this report should be addressed.	Robert L. Meyer, District Manager	P.O. Box 610	245 Ky Rt. 680	Mcdowell	KY	41647	377-3296
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Location where books are located	Southern Water & Sewer District	P.O. Box 610	245 Ky Rt. 680	McDowell	KY		377-3296
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7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

History-Date Organized (Ref Page: 4)

	Date
--	------

Date of Organization

03/15/2000

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

History-Laws of Organization (Ref Page: 4)

List

If a consolidated or merger company, name all contigent and all merged companies. Give reference to charters or general laws governing each, and all amendments of same

Beaver Elkhorn Water District and Mud Creek Water District merged by PSC Order on March 15, 2000 into Southern Water & Sewer District.

Date and Authority for each consolidation and each merger.

Public Service Commission Case No. 99-375 Dated 12-16-99.

History-Departments (Ref Page: 4)

	1.01
State whether respondent is a water district or association	Water District
Name all operating departments other than water	Sewer Division

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

History - Counties (Ref Page: 5)

Floyd, Knott

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Contacts (Ref Page: 6)

	Title	Last Name	First Name	Bus. Addr.	Salary	Term Expires
Person to send correspondence:	District Manager	Meyer	Robert	McDowell, KY		
Person who prepared this report	CPA	Spears	Michael R.	Prestonsburg, KY 41653		
Officers and Managers						
	Chairperson	Halbert	Hubert	Langley, KY	\$6,000.00	12/16/2005
	Treasurer	Layne	Bert	Eastern, KY	\$6,000.00	12/16/2005
	Secretary	Johnson	Paula G.	Bypro, KY	\$6,000.00	12/16/2005
	Commissioner	Frasure	Palmer	Harold, KY	\$6,000.00	12/16/2005
	Commssioner	Hall	Eula	Grethel, KY	\$6,000.00	12/16/2005

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Balance Sheet - Assets and Other Debits (Ref Page: 7)

	Previous Year	Current Year
UTILITY PLANT		
Utility Plant (101-106)	\$29,345,917.00	\$29,287,671.00
Less: Accumulated Depreciation and Amortization (108-110)	\$7,217,584.00	\$8,246,905.00
Net Plant	\$22,128,333.00	\$21,040,766.00
Utility Plant Acquisition Adjustments (Net) (114-115)		
Other Utility Plant Adjustments (116)		
Total Net Utility Plant	\$22,128,333.00	\$21,040,766.00
OTHER PROPERTY AND INVESTMENTS		
Nonutility Property (121)	\$98,410.00	\$98,410.00
Less: Accumulated Depreciation and Amortization (122)	\$7,381.00	\$9,841.00
Net Nonutility Property	\$91,029.00	\$88,569.00
Investment in Associated Companies (123)		
Utility and Other Investments (124-125)		
Sinking Funds (126)		
Other Special Funds (127)	\$323,882.00	\$492,261.00
Total Other Property and Investments	\$414,911.00	\$580,830.00
CURRENT AND ACCRUED ASSETS		
Cash (131)	\$62,995.00	\$140,372.00
Special Deposits (132)		
Other Special Deposits (133)		
Working Funds (134)		
Temporary Cash Investments (135)		
Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts (141-144)	\$448,269.00	\$529,146.00
Accounts Receivable from Associated Companies (145)		\$3,566,034.00
Notes Receivable from Associated Companies (146)		
Materials and Supplies (151-153)	\$0.00	\$0.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Balance Sheet - Assets and Other Debits (Ref Page: 7)

	Previous Year	Current Year
Stores Expense (161)		
Prepayments (162)		
Accrued Interest and Dividends Receivable (171)		
Rents Receivable (172)		
Accrued Utility Revenues (173)		
Misc. Current and Accrued Assets (174)		
Total Current and Accrued Assets	\$511,264.00	\$4,235,552.00
DEFERRED DEBITS		
Unamortized Debt Discount and Expense (181)		
Extraordinary Property Losses (182)		
Preliminary Survey and Investigation Charges (183)		
Clearing Accounts (184)		
Temporary Facilities (185)		
Misc. Deferred Debits (186)		
Research and Development Expenditure (187)		
Total Deffered Debits		
TOTAL ASSETS AND OTHER DEBITS	\$23,054,508.00	\$25,857,148.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

	Previous Year	Current Year
EQUITY CAPITAL		
Appropriated Retained Earnings (214)		
Retained Earnings From Income before contributions (215.1)	(\$6,270,158.00)	(\$7,240,682.00)
Donated Capital (215.2)	\$21,757,828.00	\$25,290,596.00
Total Equity Capital	\$15,487,670.00	\$18,049,914.00
LONG-TERM DEBT		
Bonds (221)		
Reaquired Bonds (222)	\$2,489,000.00	\$2,687,000.00
Advances from Associated Companies (223)		
Other Long-Term Debt (224)		
Total Long Term Debt	\$3,300,534.00	\$3,248,458.00
	\$5,789,534.00	\$5,935,458.00
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable (231)		
Notes Payable (232)	\$807,770.00	\$1,011,544.00
Accounts Payable to Associated Co. (233)	\$306,190.00	\$154,961.00
Notes Payable to Associated Co (234)		
Customer Deposits (235)		
Accrued Taxes (236)	\$49,351.00	\$59,454.00
Accrued Interest (237)	\$2,216.00	\$3,854.00
Matured Long-Term Debt (239)	\$11,444.00	\$16,578.00
Matured Interest (240)		
Tax Collections Payable (241)		
Misc. Current and Accrued Liabilities (242)		
Total Current and Accrued Liabilities	\$1,176,971.00	\$1,246,391.00
DEFFERRED CREDITS		
Unamortized Premium on Debt (251)		
Advances for Construction (252)	\$423,410.00	\$423,410.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

	Previous Year	Current Year
Other Deferred Credits (253)		
Total Deferred Credits	\$423,410.00	\$423,410.00
OPERATING RESERVES		
Accumulated Provision For:		
Property Insurance (261)		
Injuries and Damages (262)		
Pensions and Benefits (263)		
Miscellaneous Operating Reserves (265)	\$176,923.00	\$201,975.00
Total Operating Reserves	\$176,923.00	\$201,975.00
Total Equity Capital and Liabilities	\$23,054,508.00	\$25,857,148.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Comparative Operating Statement (Ref Page: 11)

	Previous Year	Current Year
UTILITY OPERATING INCOME		
Operating Revenues (400)	\$2,003,152.00	\$2,078,870.00
Operating Expenses (401)	\$1,703,015.00	\$1,718,108.00
Depreciation Expenses (403)	\$898,912.00	\$1,080,111.00
Amortization of Utility Plant Acquisition Adjustment (406)		
Amortization Expense (407)		\$2,460.00
Taxes Other Than Income (408.10-408.13)	\$8,624.00	\$4,953.00
Utility Operating Expenses	\$2,610,551.00	\$2,805,632.00
Utility Operating Income	(\$607,399.00)	(\$726,762.00)
Income From Utility Plant Leased to Others (413)		
Gains (Losses) from Disposition of Utility Property (414)	\$2,152.00	\$13,045.00
Total Utility Operating Income	(\$605,247.00)	(\$713,717.00)
OTHER INCOME AND DEDUCTIONS		
Revenues From Merchandising, Jobbing and contract work (415)		
Costs and Expenses of Merchandising, Jobbing and Contract Work (416)		
Interest and Dividend Income (419)	\$1,548.00	\$1,558.00
Allowance for funds Used During Constructions (420)		
Nonutility Income (421)	\$257,555.00	\$3,752.00
Miscellaneous Nonutility Expenses (426)	\$69,980.00	\$0.00
Total Other Income and Deductions	\$189,123.00	\$5,310.00
TAXES APPLICABLE TO OTHER INCOME		
Taxes Other Than Income (408.20)		
Total Taxes Applic. to Other Income		
INTEREST EXPENSE		
Interest Expense (427)	\$114,431.00	\$237,060.00
Amortization of Debt Discount and Exp. (428)		

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Comparative Operating Statement (Ref Page: 11)

	Previous Year	Current Year
Amortization of Premium on Debt (429)		
Total Interest Expense	\$114,431.00	\$237,060.00
EXTRAORDINARY ITEMS		
Extraordinary Income (433)		
Extraordinary Deductions (434)		
Total Extraordinary Items		
NET INCOME BEFORE CONTRIBUTIONS	(\$530,555.00)	(\$945,467.00)

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Statement of Retained Earnings 2002 (Ref Page: 12)

Description	Total
Appropriated Retained earnings (214)	
(state balance and purpose of each appropriated amount at year end.)	
Total Appropriated Retained Earnings	
Retained Earnings From Income Before Contributions (215.1)	
Balance beginning of year	(\$6,270,158.00)
Balance transferred from Net Income Before Contributions (435)	(\$945,467.00)
Changes to account:	
Appropriations of Retained Earnings (436)	(\$25,057.00)
Adjustments to Retained Earnings (439)	
(requires Commission approval prior to use):	
Credits	
Debits	
Balance End of Year	(\$7,240,682.00)

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Statement of Retained Earnings (cont. 215.2) (Ref Page: 12)

Description	Tapping Fees	Grants	Other	Total
Donated Capital (215.2)				
Balance Beginning of the Year	\$1,338,028.00	\$13,446,975.00	\$6,972,825.00	\$21,757,828.00
Credits				
Proceeds from capital contributions (432)	\$0.00	\$3,532,768.00	\$0.00	\$3,532,768.00
Other Credits (explain)				
Debits (explain - requires Commission Approval)				
Balance End of Year	\$1,338,028.00	\$16,979,743.00	\$6,972,825.00	\$25,290,596.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Net Utility Plant (Accts. 101-106) (Ref Page: 13)

	Total
Utility Plant in Service (101)	\$29,174,792.00
Utility Plant Leased to Others (102)	
Property Held for Future Use (103)	
Utility Plant Purchased or Sold (104)	
Construction Work in Progress (105)	\$112,879.00
Completed Construction Not Classified (106)	
Total Utility Plant	\$29,287,671.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Accumulated Depreciation (Acct. 108) (Ref Page: 13)

Description	Total
Balance First of Year	\$7,217,584.00
Credit during year	
Accruals Charged to Account 108.1	\$1,080,111.00
Accruals Charged to Account 108.2	
Accruals Charged to Account 108.3	
Accruals Charged to Other Accounts (specify)	
(specify)	
Salvage Value Recovered on Plant Retired	
Other Credits	
(specify)	
Total Credits	\$1,080,111.00
Debits during year:	
Book Cost of Plant Retired	\$50,790.00
Cost of Removal	
Other Debits	
(specify)	
Total Debits	\$50,790.00
Balance at End of Year	\$8,246,905.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Utility Plant Accounts (Ref Page: 14)

	Prev Year (c)	Additions (d)	Retirement (e)	Current Yr (f)	Intangible Plant (g)	Supply & Pump	Water Treatmnt.	Trans. and Distr.	General Plant
Organization (301)	\$2,450.00	\$0.00	\$0.00	\$2,450.00	\$2,450.00	\$0.00	\$0.00	\$0.00	\$0.00
Franchises (302)	\$1,250.00	\$0.00	\$0.00	\$1,250.00	\$1,250.00	\$0.00	\$0.00	\$0.00	\$0.00
Land and Land Rights (303)	\$163,338.00	\$0.00	\$0.00	\$163,338.00	\$0.00	\$55,030.00	\$25,600.00	\$82,208.00	\$500.00
Structures and Improvements (304)	\$6,982,389.00	\$0.00	\$0.00	\$6,982,389.00	\$6,960,830.00	\$0.00	\$0.00	\$0.00	\$21,559.00
Collecting and Impounding Reservoirs (305)	\$11,996.00	\$0.00	\$0.00	\$11,996.00	\$11,996.00	\$0.00	\$0.00	\$0.00	\$0.00
Lakes, Rivers and Other Intakes (306)	\$147,466.00	\$0.00	\$0.00	\$147,466.00	\$147,466.00	\$0.00	\$0.00	\$0.00	\$0.00
Wells and Springs (307)	\$3,304.00	\$0.00	\$0.00	\$3,304.00	\$3,304.00	\$0.00	\$0.00	\$0.00	\$0.00
Infiltration Galleries and Tunnels (308)									
Supply Mains (309)									
Power Generation Equipment (310)	\$4,373.00	\$0.00	\$0.00	\$4,373.00	\$4,373.00	\$0.00	\$0.00	\$0.00	\$0.00
Pumping Equipment (311)	\$1,963,418.00	\$0.00	\$0.00	\$1,963,418.00	\$1,963,418.00	\$0.00	\$0.00	\$0.00	\$0.00
Water Treatment Equipment (320)	\$443,094.00	\$0.00	\$0.00	\$443,094.00	\$0.00	\$0.00	\$443,094.00	\$0.00	\$0.00
Distribution Reservoirs and Standpipes (330)	\$229,888.00	\$0.00	\$0.00	\$229,888.00	\$0.00	\$0.00	\$0.00	\$229,888.00	\$0.00
Transmission and Distribution Mains (331)	\$13,971,773.00	\$3,484,856.00	\$0.00	\$17,456,629.00	\$0.00	\$0.00	\$0.00	\$17,456,629.00	\$0.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Utility Plant Accounts (Ref Page: 14)

	Prev Year (c)	Additions (d)	Retirement (e)	Current Yr(f)	Infinite Plant (g)	Supply & Pump	Water Treatmnt.	Trans. and Distr.	General Plant
Services (333)	\$594,824.00	\$0.00	\$0.00	\$594,824.00	\$0.00	\$0.00	\$0.00	\$594,824.00	\$0.00
Meters and Meter Installations (334)	\$648,491.00	\$0.00	\$0.00	\$648,491.00	\$0.00	\$0.00	\$0.00	\$648,491.00	\$0.00
Hydrants (335)	\$252,794.00	\$0.00	\$0.00	\$252,794.00	\$0.00	\$0.00	\$0.00	\$252,794.00	\$0.00
Backflow Prevention Devices (336)									
Other Plant and Misc. Equipment (339)									
Office Furniture and Equip. (340)	\$21,292.00	\$0.00	\$0.00	\$21,292.00	\$0.00	\$0.00	\$0.00	\$0.00	\$21,292.00
Transportation Equipment (341)	\$224,983.00	\$19,453.00	\$51,044.00	\$193,392.00	\$0.00	\$0.00	\$0.00	\$0.00	\$193,392.00
Stores Equipment (342)									
Tools, Shop and Garage Equip (343)	\$14,874.00	\$0.00	\$0.00	\$14,874.00	\$0.00	\$0.00	\$0.00	\$0.00	\$14,874.00
Laboratory Equipment (344)	\$15,997.00	\$0.00	\$0.00	\$15,997.00	\$0.00	\$0.00	\$0.00	\$0.00	\$15,997.00
Power Operated Equipment (345)	\$12,489.00	\$0.00	\$0.00	\$12,489.00	\$0.00	\$0.00	\$0.00	\$0.00	\$12,489.00
Communication Equipment (346)	\$4,041.00	\$0.00	\$0.00	\$4,041.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,041.00
Miscellaneous Equipment (347)	\$5,892.00	\$0.00	\$0.00	\$5,892.00	\$0.00	\$0.00	\$0.00	\$0.00	\$5,892.00
Other Tangible Plant (348)	\$1,111.00	\$0.00	\$0.00	\$1,111.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,111.00
Total Water Plant	\$25,721,527.00	\$3,504,309.00	\$51,044.00	\$29,174,792.00	\$9,095,087.00	\$55,030.00	\$468,694.00	\$19,264,834.00	\$291,147.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Analysis of Accumulated Depreciation and Amortization by Primary Acct (Ref Page: 15)

	Balance Beg. Yr (c)	Cr-Chg Dep Exp (d)	Other Credits (e)	Charge Plant Ret (f)	Other Charges (g)	Balance End Yr (h)
Organization (301)						
Franchises (302)						
Land and Land Rights (303)						
Structures and Improvements (304)	\$1,363,789.00	\$250,493.00	\$0.00	\$0.00	\$0.00	\$1,614,282.00
Collecting and Impounding Reservoirs (305)	\$7,316.00	\$240.00	\$0.00	\$0.00	\$0.00	\$7,556.00
Lake, River and Other Intakes (306)	\$89,559.00	\$2,949.00	\$0.00	\$0.00	\$0.00	\$92,508.00
Wells and Springs (307)	\$3,304.00	\$0.00	\$0.00	\$0.00	\$0.00	\$3,304.00
Infiltration Galleries and Tunnels (308)						
Supply Mains (309)						
Power Generating Equipment (310)	\$1,585.00	\$87.00	\$0.00	\$0.00	\$0.00	\$1,672.00
Pumping Equipment (311)	\$588,839.00	\$89,376.00	\$0.00	\$0.00	\$0.00	\$678,215.00
Water Treatment Equipment (320)	\$185,140.00	\$16,376.00	\$0.00	\$0.00	\$0.00	\$201,516.00
Distributions Reservoirs and Standpipes (330)	\$126,525.00	\$4,737.00	\$0.00	\$0.00	\$0.00	\$131,262.00
Transmission and Distribution Mains (331)	\$3,994,720.00	\$661,934.00	\$0.00	\$0.00	\$0.00	\$4,656,654.00
Services (333)	\$190,953.00	\$22,214.00	\$0.00	\$0.00	\$0.00	\$213,167.00
Meters and Meter Installations (334)	\$306,428.00	\$19,630.00	\$0.00	\$0.00	\$0.00	\$326,058.00
Hydrants (335)	\$85,034.00	\$5,056.00	\$0.00	\$0.00	\$0.00	\$90,090.00
Backflow Prevention Devices (336)						

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Analysis of Accumulated Depreciation and Amortization by Primary Acct (Ref Page: 15)

	Balance Beg Yr (c)	Cr Chg Dep Exp (d)	Other Credits (e)	Charges Plant Ret (f)	Other Charges (g)	Balance End Yr (h)
Other Plant and Miscellaneous Equipment (339)						
Office Furniture and Equip. (340)	\$21,112.00	\$0.00	\$0.00	\$0.00	\$0.00	\$21,112.00
Transportation Equipment (341)	\$199,956.00	\$6,328.00	\$0.00	\$50,790.00	\$0.00	\$155,494.00
Stores Equipment (342)						
Tools, Shop and Garage Equip (343)	\$15,883.00	\$37.00	\$0.00	\$0.00	\$0.00	\$15,920.00
Laboratory Equipment (344)						
Power Operated Equipment (345)	\$37,441.00	\$654.00	\$0.00	\$0.00	\$0.00	\$38,095.00
Communication Equipment (346)						
Miscellaneous Equipment (347)						
Other Tangible Plant (348)						
Totals	\$7,217,584.00	\$1,080,111.00	\$0.00	\$50,790.00	\$0.00	\$8,246,905.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Accumulated Amortization (Acct. 110) (Ref Page: 16)

Description	Total
Balance First of Year	\$7,381.00
Credit during year:	
Accruals Charged to Account 110.1	\$2,460.00
Accruals Charged to Account 110.2	
Other Credits	
(specify)	
Total Credits	\$2,460.00
Debits during year:	
Book Cost of Plant Retired	
Other Debits	
(specify)	
Total Debits	
Balance end of Year	\$9,841.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Utility Plant Acquisition Adjustments (Accts. 114-115) (Ref Page: 16)

Description	Total
Acquisition Adjustments (114)	
(specify)	
Total Plant Acquisition Adjustments	
Accumulated Amortization (115)	
(specify)	
Total Accumulated Amortization	
Net Acquisition Adjustments	

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Investments and Special Funds (Ref Page: 17)

Description (a)	Face or Par Value (b)	Year End Book Cost
Investment in Associated Companies (123)		
Total Investment in Associated Companies		
Utility Investments (124)		
Total Utility Investments		
Other Investments (125)		
Total Other Investments		
Sinking Funds (126)		
Total Sinking Funds		
Other Special Funds (127)		
Escrow - KIA	\$45,545.00	\$45,545.00
Escrow KIA Repair and Maintenance	\$188,267.00	\$188,267.00
Escrow - RD Account	\$246,175.00	\$246,175.00
Escrow - Depreciation Reserve	\$12,274.00	\$12,274.00
Total Other Special Funds	\$492,261.00	\$492,261.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Description	Total
Accounts and Notes Receivable	
Customer Accounts Receivable (141)	\$529,146.00
Other Accounts Receivable (142)	
	\$0.00
Total Other Accounts Receivable	\$0.00
Notes Receivable (144)	
Total Notes Receivable	
Total Accounts and Notes Receivable	\$529,146.00
Accumultated Provision for Uncollectible Accounts (143)	
Balance First of Year	
Add:	
Provision for uncollectibles for current year	
Collections of accountst previously written off	
Other	
(specify)	
Total Additions	
Deduct accounts written off during year:	
Other	
(specify)	
Total Deductions	
Balance end of Year:	
Total Accounts and Notes Receivable - Net	\$529,146.00

Materials and Supplies (151-153) (Ref Page: 19)

	Total
Plant Materials and Supplies (151)	
Merchandise (152)	
Other Materials and Supplies (153)	
Total Materials and Supplies	

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Prepayments (Acct. 162) (Ref Page: 19)

Description	Total
Prepaid Insurance	
Prepaid Rents	
Prepaid Interest	
Prepaid Taxes	
Other Prepayments	
(Specify)	
Total Prepayments	

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Miscellaneous Deferred Debits (Acct. 186) (Ref Page: 20)

	Total
Miscellaneous Deferred Debits (186)	
Deferred Rate Case Expense (186.1)	
Other Deferred Debits (186.2)	
Regulatory Assets (186.3)	
Total Miscellaneous Deferred Debits	

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Unamortized Debt Discount and Expense and Premium on Debt (Accts 181 and 251) (Ref Page: 20)

Description	Amt Written Off during year	Year End Balance
Unamortized Debt Discount and Expense (181)		
Total Unamortized Debt Discount and Expense		
Unamortized Premium on Debt (251)		
Total Unamortized Premium on Debt		

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Extraordinary Property Losses (Acct. 182) (Ref Page: 21)

	Description	Total
Extraordinary Property Losses (182)		
(Specify)		
Total Extraordinary Property Losses		

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Advances for Construction (Acct. 252) (Ref Page: 21)

	Total
Balance First of Year	\$423,410.00
Add credits during year	
Deduct charges during year	
Balance end of year	\$423,410.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Long Term Debt (Ref Page: 22)

Description of Obligation (a)	Issue Date (b)	Mature Date (c)	Interest Expense for Year Rate (d)	Interest Expense for Year Amount (e)	Principal per Balance Sheet Date (f)
Kentucky Infrastructure Authority	12/31/94	2023	3.0000	\$35,106.00	\$957,280.00
Kentucky Infrastructure Authority	12/19/97	2027	3.0000	\$81,622.00	\$2,228,404.00
Kentucky Infrastructure Authority	2005	2035	3.0000	\$0.00	\$62,774.00
Total			0.0000	\$116,728.00	\$3,248,458.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Bonds - Account 221 (Ref Page: 23)

Par Value of Actual Issue (1)	Cash Realized on Actual Issue (2)	Par Value (Amt. Held by or for Respondent) (3)	Actually Outstanding at Close of Year (4)	Interest During Year Accrued (5)	Interest During Year Actually Paid (6)
\$2,515,000.00	\$2,515,000.00	\$0.00	\$2,462,000.00	\$112,005.00	\$0.00
\$225,000.00	\$225,000.00	\$0.00	\$225,000.00	\$4,781.00	\$0.00
\$2,740,000.00	\$2,740,000.00	\$0.00	\$2,687,000.00	\$116,786.00	\$0.00
Total					

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Schedule of Bond Maturities (Ref Page: 23)

Bond Numbers (7)	Maturity Date (8)	Interest Rate (9)	Principal Amt (10)	Amounts Paid (11)	Remaining Bonds Outstanding (12)
1	2042	4.5000	\$2,515,000.00	\$53,000.00	\$2,462,000.00
2	2044	4.2500	\$225,000.00	\$0.00	\$225,000.00
Total			\$2,740,000.00	\$53,000.00	\$2,687,000.00

(The total of Column 12 must agree with the total of col 4)

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Notes Payable (Accts 232 and 234) (Ref Page: 24)

Description	Nominal Date of Issue	Date of Maturity	Int. Rate	Int. Payment	Principal Amt Per Bal Sheet
Account 232 - Notes Payable					
KIA	12/31/94	2023	3.0000	\$29,612.00	\$39,603.00
KIA - III	12/19/97	2027	3.0000	\$68,549.00	\$75,246.00
KIA NEW	2005	2035	3.0000	\$651.00	\$3,076.00
First Guaranty Bank Interim Financing	05/02/04	05/02/05	6.1500	\$0.00	\$37,036.00
Total Account 232				\$98,812.00	\$154,961.00
Account 234 - Notes Payable to Associated Companies					
				0	
Total Account 234					

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Accounts Payable to Associated Companies (Acct. 233) (Ref Page: 24)

Description	Total
-------------	-------

Show Payable to Each Associated Company Separately

(Specify)

Total

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Taxes Accrued (Acct. 236) (Ref Page: 25)

	Total
Balance First of Year	\$2,216.00
Accruals Charged:	
Utility regulatory assessment fees (408.10)	\$3,292.00
Property taxes (408.11)	
Payroll taxes (employer's portion) (408.12)	\$1,661.00
Other taxes and licenses (408.13)	
Taxes other than income, other income and deductions (408.20)	
Total taxes accrued	\$4,953.00
Taxes paid during year:	
Utility regulatory assessment fees (408.10)	\$3,292.00
Property taxes (408.11)	
Payroll taxes (employer's portion) (408.12)	\$23.00
Other taxes and licenses (408.13)	
Taxes other than income, other income and deductions (408.20)	
Total Taxes Paid	\$3,315.00
Balance end of year	\$3,854.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Accrued Interest (Account 237) 2002 (Ref Page: 25)

Description of Debt (a)	Balance Beg. of Year (b)	Interest Accrued (c)	Interest Paid (d)	Balance End of Year (e)
Long Term Debt:				
Bonds		\$116,786.00	\$112,005.00	\$4,781.00
Notes Payable:				
Meter Deposits	2914.0000	\$3,546.00	\$2,914.00	\$3,546.00
KIA	2588.0000	\$35,107.00	\$35,203.00	\$2,492.00
KIA III	5942.0000	\$81,621.00	\$81,804.00	\$5,759.00
KIA NEW		\$0.00	\$0.00	\$0.00
First Guaranty Bank		\$0.00	\$0.00	\$0.00
Customer Deposits:				
Other				
Total Acct. No 237	11444.0000	\$237,060.00	\$231,926.00	\$16,578.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Miscellaneous Current and Accrued Liabilities (Acct. 242) (Ref Page: 26)

	Description	Balance End Year
Total Miscellaneous Current and Accrued Liabilities		

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Regulatory Commission Expense(Acct 666 and 667) (Ref Page: 26)

Description of Case (Detail No.) (a)	Total Incurred During Year (b)	Amt Transferred to Acct 666 (c)	Expensed During Year Acct 667 (d)	Expensed During Year Amount (e)
Total				

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Operating Revenue (Ref Page: 27)

	Beginning Year Customers	Year End Customers	Amount
Operating Revenues			
Unmetered Water Revenue (460)			
Metered Water Revenue (461)			
Sales to Residential Customers (461.1)	5,885	6,036	\$1,846,746.00
Sales to Commercial Customers (461.2)	131	124	\$101,584.00
Sales to Industrial Customers (461.3)			
Sales to Public Authorities (461.4)			
Sales to Multiple Family Dwellings (461.5)			
Sales through Bulk Loading Stations (461.6)			
Total Metered Sales	6,016	6,160	\$1,948,330.00
Fire Protection Revenue (462)			
Public Fire Protection (462.1)			
Private Fire Protection (462.2)			
Total Fire Protection Revenue			
Other Sales to Public Authorities (464)			
Sales to Irrigation Customers (465)			
Sales for Resale (466)	1	1	\$37,790.00
Interdepartmental Sales (467)			
Total Sales of Water	6,017	6,161	\$1,986,120.00
Other Water Revenues			
Guaranteed Revenues (469)			
Forfeited Discounts (470)			\$46,021.00
Miscellaneous Service Revenues (471)			\$46,729.00
Rents from Water Property (472)			
Interdepartments Rents (473)			
Other Water Revenues (474)			
Total Other Water Revenues			\$92,750.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Operating Revenue (Ref Page: 27)

	Beginning Year Customers	Year End Customers	Amount
Total Water Operating Revenues			\$2,078,870.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Utility Expense Accounts (Ref Page: 28)

	Current Year (c)	Supply and Exp-Op (d)	Supply and Exp-Maint (e)	Water Treatm-Exp-Op (f)	Water Treatm-Exp-Maint (g)	Trans and Dist-Exp-Op (h)	Trans and Dist-Exp-Maint (i)	Customer Accts-Exp (j)	Admin and Gen-Exp
Salaries and Wages-Employees (601)									
Salaries and Wages-Officers, Directors and Majority Stockholders (603)	\$30,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$30,000.00
Employee Pensions and Benefits (604)									
Purchased Water (610)	\$177,468.00	\$177,468.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Purchased Power (615)									
Fuel for Power Production (616)	\$162,133.00	\$162,133.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Chemicals (618)									
Materials and Supplies (620)	\$32,301.00	\$561.00	\$0.00	\$0.00	\$0.00	\$9,664.00	\$0.00	\$0.00	\$22,076.00
Contractual Services - Eng. (631)									
Contractual Services - Acct. (632)	\$16,395.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$16,395.00
Contractual Services - Legal (633)									
Contractual Services - Management Fees (634)	\$1,280,292.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,280,292.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Utility Expense Accounts (Ref Page: 28)

	Current Year (c)	Supply and Exp-Op (d)	Supply and Exp-Maint (e)	Water Treatment Exp-Op (f)	Water Treatment Exp-Maint (g)	Trans and Dist Exp-Op (h)	Trans and Dist Exp-Maint (i)	Customer Accts Exp (j)	Admin and Gen Exp
Contractual Serves - Water Testing (635)									
Contractual Services - Other (636)	\$787.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$787.00
Rental of Bld./Real Property (641)									
Rental of Equipment (642)									
Transportation Expenses (650)	\$1,831.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,831.00
Insurance - Vehicle (656)	\$14,717.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$14,717.00
Insurance - General Liability (657)									
Insurance - Worker's Compensation (658)									
Insurance - Other (659)									
Advertising Expenses (660)									
Regulatory Commission Exp.									
- Amortization of Rate Case (666)									
-Other (667)									

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Utility Expense Accounts (Ref Page: 28)

	Current Year (c)	Supply and Exp-Op. (d)	Supply and Exp-Maint. (e)	Water Treatment Exp-Op. (f)	Water Treatment Exp-Maint. (g)	Trans and Dist. Exp-Op. (h)	Trans and Dist. Exp-Maint. (i)	Customer Acctg. Exp. (j)	Admin and Gen Exp.
Water Resource Conservation Expense (668)									
Bad Debt (670)									
Miscellaneous Expenses (675)	\$2,184.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,184.00
Total	\$1,718,108.00	\$340,162.00	\$0.00	\$0.00	\$0.00	\$9,664.00	\$0.00	\$0.00	\$1,368,282.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Pumping and Water Statistics - part one (Ref Page: 29)

	Water Purchased For Reuse (Omit 000 s) (b)	Water Pumped from Wells (Omit 000 s) (c)	Total Water Pumped and Purchased (Omit 000 s) (d)	Water Sold To Customers (Omit 000 s) (e)
January	8,262	45,760	54,022	31,777
February	8,262	39,050	47,312	26,439
March	7,756	42,220	49,976	26,367
April	7,315	43,240	50,555	29,040
May	8,082	47,000	55,082	28,223
June	8,706	45,355	54,061	28,563
July	8,356	47,223	55,579	33,922
August	12,432	47,223	59,655	29,447
September	8,931	45,819	54,750	28,751
October	7,321	47,574	54,895	29,137
November	8,204	44,325	52,529	26,292
December	8,204	43,164	51,368	29,686
Total for the year	101,831	537,953	639,784	347,644

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Pumping and Water Statistics - part two (Ref Page: 29)

	Gallons	Date
Maximum Gallons pumped by all methods in any one day (Omit 000's)	2,000	05/14/2005
Minimum Gallons pumped by all methods in any one day (Omit 000's)	810	08/05/2005

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Pumping and Water Statistics - part three (Ref Page: 29)

[Redacted]

If water is purchased indicate the following:

Vendor

Point of Delivery

If water is sold to other water utilities for redistribution,

list names of such utilities below:

City of Hindman

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Sales For Resale (466) (Ref Page: 30)

	Company	Gallons (0m/1,000's)	Avg. Rate Per 1000 Gallons (Cents)	Amount
	City of Hindman	18,895	\$2.00	\$37,790.00
Total		18,895		\$37,790.00

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Statistics (Ref Page: 30)

	Gallons (Unit: 100,000)	Percent
1. Water Produced, Purchased and Distributed		
2. Water Produced	537,953	
3. Water Purchased	101,831	
4. Total Produced and Purchased	639,784	
6. Water Sales:		
7. Residential	292,291	
8. Commercial	36,458	
9. Industrial		
10. Bulk Loading Stations		
11. Resale	18,895	
12. Other Sales		
13. Total Water Sales	347,644	
15. Other Water Used		
16. Utility/water treatment plant	56,777	
17. Wastewater plant		
18. System flushing	24,000	
19. Fire department	6,600	
20. Other		
21. Total Other Water Used	87,377	
23. Water Loss:		
24. Tank Overflows		
25. Line Breaks	204,763	
26. Line Leaks		
27. Other		
28. Total Line Loss	204,763	
Note: Line 13 + Line 21 + Line 28 must equal Line 4		
32. Water Loss Percentage		

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Water Statistics (Ref Page: 30)

	Gallons (000,000)	Percent
--	-------------------	---------

33. Line 28 divided by Line 4

32.0050

7000900 Southern Water & Sewer District Water Division 01/01/2005 - 12/31/2005

Plant Statistics (Ref Page: 31)

Give the following information	
Number of fire hydrants, by size	329 - 4 3/4" & 153 - 5 1/4"
Number of private fire hydrants, by size	7 - 4 3/4"
If produced whether water supply is river, impounded streams, well, springs, artificial lake, or collector well	Surface water from the Levisa Fork of the Big Sandy River.
If produced whether supply is by gravity, pumping or a combination	Supply/distribution system both gravity as well as pump stations.
Type, capacity, and elevation of reservoirs at overflow and ground level	See attached list.
Miles of main by size and kind	4.7 Miles - 12"; 12.4 Miles - 10"; 66.4 Miles - 8"; 58.3 Miles 6"; 54.0 Miles -4"; 12.4 Miles - 3".
Types of filters: gravity or pressure, number of units and total rated in capacity in gal. per min.	Gravity 3 Units: 2,803 GPM
Type of disinfectant, number of units and capacity in pounds per 24 hours	Sodium hypochlorite (via metered pump); maximum feed rate is 984 lb./day. No chlorine boosters in the distribution system.
Station Equipment. List each pump, giving type and capacity, HP of driving unit and character of driving unit (steam/electric/int. combustion) also whether pump is high/ low duty	See Attached List
Quantity of fuel used: coal in lbs., gas in cu. ft., oil in gals., and electric in KWH	Total amount of KWH used in 2005 was _____
Give description and total cost of any sizable additions or retirements to plant and service outside the normal system of growth for the period covered by this report	No major additions or retirements during 2005.
Capacity of clear well	216,000 Gallons
Peak month, in gallons of water sold	June 2005 - 33,922,000 gallons
Peak day, in gallons of water sold	May 14, 2005 - 2,000,000 gallons

Plant Statistics - Part B (Ref Page: 31)

Type	
------	--

Choose one to indicate the type of Water Supply

Combination

Plant Statistics - Part C (Ref Page: 31)



Choose one to indicate the type of Water Supply Method

Combination

SOUTHERN WATER & SEWER DISTRICT

PUMP STATION DATA

Map Ref	Name	Pump Type	H.P.	Flow Rate (GPM)	Latitude	Longitude	Ground Elev.
P1	Arkansas Creeek	Peerless	5	80	N37°33'38"	W82°43'31"	693
P2	Brush Creek	Carver	15	225	N37°31'49"	W82°51'41"	729
P3	Wilson Creek	Carver	40	350	N37°31'44"	W82°48'03"	670
P4	Fisher Hollow	Peerless	40	600	N37°32'14"	W82°44'52"	660
P5	Trace Branch	Red Jacket	2	24	N37°30'34"	W82°41'23"	767
P6	Branham Creek #1	Red Jacket	10	150	N37°29'38"	W82°39'15"	677
P7	Bill Hall Branch	Grundfos	7.5	80	N37°26'56"	W82°42'54"	795
P8	Mink Branch	Grundfos	7.5	80	N37°26'41"	W82°39'32"	787
P9	Morg Branch	Goulds	20	68	N37°25'46"	W82°38'36"	831
P10	Soewing Camp	Carver	40	350	N37°25'48"	W82°44'04"	726
P11	Ligon (Reynolds Br)	Goulds	7.5	56	N37°22'46"	W82°41'29"	1010
P12	Buckingham	Carver	25	300	N37°23'19"	W82°43'50"	815
P13	Wheelwright	Peerless	10	200	N37°21'18"	W82°43'02"	939
	Jacks Creek	Grundfos	30	148	N37°20'19"	W82°44'31"	1040
	Branham Creek #2	Grundfos	15	100	N37°27'30"	W82°37'50"	770
	Branham Creek #3	Berkley	5	38	N37°25'37"	W82°36'42"	990
	Abner Mountain #1	Grundfos	20	60	N37°21'03"	W82°40'57"	1075
	Abner Mountain #2	Grundfos	5	35	N37°21'15"	W82°39'05"	1705

TANK DATA

Map Ref	Name	Capacity (1,000 gal)	Diam.	Type	Latitude	Longitude	Ground Elev.	Overflow Elev.
T1	Arkansas Creeek	43	20	Glass	N37°33'29"	W82°43'14"	961	980
T2	Martin	400	44	Steel	N37°33'37"	W82°45'51"	830	865
T3	Allen Central	209	31	Glass	N37°31'12"	W82°48'32"	938	976
T4	Brush Creek	60	16	Steel	N37°32'24"	W82°52'15"	1065	1105
T5	Lackey	200	32	Steel	N37°28'09"	W82°49'59"	892	926
T6	Minnie	246	45	Glass	N37°28'26"	W82°45'42"	895	916
T7	Trace Fork	1	6	Glass	N37°30'24"	W82°42'13"	991	996
T8	Little Mud	50	20	Steel	N37°30'38"	W82°41'11"	879	900
T9	Toler	100	28	Steel	N37°28'04"	W82°36'27"	878	900
T10	Branham Crk #1	20	13	Steel	N37°28'51"	W82°38'01"	879	900
T11	Morg Branch	150	31	Steel	N37°26'38"	W82°39'13"	874	900
T12	Mink Branch	10	12	Steel	N37°26'40"	W82°39'44"	1080	1092
T13	Sterling Hamilton	100	28	Steel	N37°25'21"	W82°25'21"	1296	1318
T14	Tinker	25	15	Steel	N37°24'12"	W82°24'12"	1288	1307
T15	Tackett	25	15	Steel	N37°23'07"	W82°38'57"	1289	1307
T16	Ligon (MC)	25	15	Steel	N37°22'26"	W82°41'22"	1289	1307
T17	Ligon (BE)	25	16	Glass	N37°22'36"	W82°40'24"	1308	1324
T18	Melvin	105	24	Glass	N37°21'23"	W82°41'57"	1206	1237
T19	Buckingham	209	29	Steel	N37°22'16"	W82°44'31"	1098	1139
T20	Price	100	27	Steel	N37°23'36"	W82°44'39"	961	985
T21	Bill Hall Branch	25	21	Steel/Skid.	N37°27'05"	W82°42'00"	1150	1160
T22	Branham Crk #2	20	13	Steel	N37°26'07"	W82°37'14"	1118	1137
T23	Pikeville/Mud Creek	200	33	Steel	N37°26'59"	W82°35'21"	1130	1161
	Jacks Creek	54	17	Glass	N37°18'28"	W82°44'49"	1490	1523
	Branham Creek	27	14	Glass	N37°26'07"	W82°37'14"	1119	1143
	Abner Mountain	24	17	Glass	N37°21'15"	W82°39'05"	1755	1770

OATH

Commonwealth of Kentucky

County of Floyd

Robert L. Meyer makes oath and says

(Insert here the name of the affiant)

that he is District Manager of

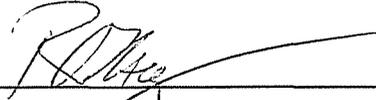
(Insert here the official title of the affiant)

Southern Water and Sewer District

(Insert here the exact legal title or name of the respondent)

that it is his duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky, effective during the said period; that he has carefully examined the said report and to the best of his knowledge and belief the entries contained in the said report have, so far as they relate to matters of account, been accurately taken from the said books of account and are in exact accordance therewith; that he believes that all other statements of fact contained in the said report are true; and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including

January 1, 2005 to and including December 31, 2005



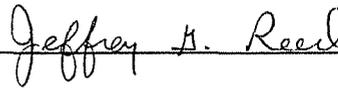
(Signature of affiant)

Subscribed and sworn to before me, a Notary Public in and for the

State and County above named, this 21st day of August, 2006

(Apply Seal)
(Here)

My commission expires 6-3-07



(Signature of officer authorized to administer oaths)

KENTUCKY PUBLIC SERVICE COMMISSION
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
BUSINESS FOR THE YEAR ENDING DECEMBER 31, 20 05

Southern Water & Sewer District, P.O. Box 610, McDowell, KY 41647

(Utility Reporting)

(Address)

FEDIN # (Federal Employer Identification Number)

Table with 10 columns containing the number 61-1365253

(DO NOT INCLUDE TAXES COLLECTED)

- (1) Gross Revenues of Electric Utility...\$
(2) Gross Revenues of Gas Utility...\$
(3) Gross Revenues of Water Utility...\$ 2,078,870
(4) Gross Revenues of Sewer Utility...\$ 57,249
(5) Other Operating Revenues...\$
*** TOTAL GROSS REVENUES...\$ 2,136,119

OATH

State of... Kentucky...)
County of... Floyd...) ss.

Robert L. Meyer being duly sworn, states that he/she is
(Officer)

District Manager of the Southern Water & Sewer District that the above
(Official Title) (Utility Reporting)

report of gross revenues is in exact accordance with Southern Water & Sewer District and that such
(Utility Reporting)

books accurately show the gross revenues of: Southern Water & Sewer District, derived from
(Utility Reporting)

Intra-Kentucky business for the calendar year ending December 31, 20 05

[Signature] (Officer) [Signature] (Title)

This the 21st day of August, 20 06

Jeffrey A. Reed (Notary Public) Floyd (County) 6-3-07 (Commission Expires)

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

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Title Page

	Name of Respondent	Addr Line 1	Addr Line 2	City	State	Zip
Sewer Utilities						
Annual Report of						
Respondent	Southern Water & Sewer District	P.O. Box 610	245 Ky Rt. 680	McDowell	KY	41647

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Principal Payment and Interest Information

	Amount	Yes/No
Amount of Principal Payment During Calendar Year	\$0.00	
Is Principal Current?		Y
Is Interest Current?		Y

Services Performed by Independent CPA

	Yes/No	A/C/R
Are your financial statements examined by a Certified Public Accountant?		
Enter Y for Yes or N for No	Y	
If yes, which service is performed?		
Enter an X on each appropriate line		
Audit		X
Compilation		
Review		

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Additional Information Required

Case Num	Date	Explain
----------	------	---------

General Information 1. (Ref Page: 1)



Exact name of utility making this report.

(Use the words "The", "Company" or "Incorporated" only when part of the corporate name.)

Southern Water & Sewer Division

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

General Information 2 - 3 (Ref Page: 1)

	name	Address	city	state	Phone
--	------	---------	------	-------	-------

Give the location, including street and number, and TELEPHONE NUMBER of the principal office in KY.

principal office in KY	Southern Water & Sewer District	P.O. Box 610	245 Ky Rt. 680	McDowell	KY 41647
------------------------	---------------------------------	--------------	----------------	----------	----------

Name, title, address and telephone number with area code of the person to be contacted concerning this report

	Robert L. Meyer	P.O. Box 610	245 Ky Rt. 680	McDowell	KY
--	-----------------	--------------	----------------	----------	----

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

General Information 4 (Ref Page: 1)

List

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

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

General Information 5. (Ref Page: 1)

Date

Date sewer utility began operations

08/01/2005

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

General Information 6. (Ref Page: 1)

City or Town	Community or Subdivision	County
Wayland		Floyd

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

General Information 7. (Ref Page: 1)

	Count
Number of Full-time employees	0
Number of Part-time employees	0

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Principal Officers (Ref Page: 1)

Title	Last Name	First Name	Bus. Address	Salary or Fee
Chairperson	Halbert	Hubert	Langley, KY	\$6,000.00
Treasurer	Layne	Bert	Eastern, KY	\$6,000.00
Secretary	Johnson	Paula G.	Bypro, KY	\$6,000.00
Commissioner	Frasure	Palmer	Harold, KY	\$6,000.00
Commissioner	Hall	Eula	Grethel, KY	\$6,000.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Balance Sheet - Assets and Other Debts (Ref Page: 2)

	Balance First of Yr	Balance End of Yr
UTILITY PLANT		
Utility Plant (101-109)		\$3,562,511.00
less: Accum. Prov. for Depr., Depletion and Amortization (110)		\$329.00
Net Utility Plant		\$3,562,182.00
OTHER PROPERTY AND INVESTMENTS		
Non-Utility Property (121)		
less: Accum. Prov for Depr. and Amort. of Non-Utility Property (122)		
Net non-Utility Property		
Other Investments (124)		
Special Funds (125)		
Total Other Property and Investments		
CURRENT AND ACCRUED ASSETS		
Cash and Working Funds (131)		
Temporary Cash Investments (132)		
Notes Receivable (141)		
Customer Accounts Receivable (142)		\$10,617.00
Other Accounts Receivable (143)		\$5,000.00
Accum. Prov. For Uncollectible Accts - CR (144)		
Notes Receivable from Assoc. Companies (145)		
Accounts Receivable from Assoc Companies (146)		
Materials and Supplies (150)		
Prepayments (166)		
Other Current and Accrued Assets (170)		
Total Current and Accrued Assets		\$15,617.00
DEFERRED DEBITS		
Unamortized Debt Expense (181)		

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Balance Sheet - Assets and Other Debts (Ref Page: 2)

	Balance First of Yr	Balance End of Yr
Extraordinary Property Losses (182)		
Other Deferred Debits (183)		
Total Deferred Debits		
TOTAL ASSETS AND OTHER DEBITS		\$3,577,799.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Balance Sheet - Liabilities and Other Credits (Ref Page: 3)

	Balance First of Yr.	Balance End of Yr.
EQUITY CAPITAL		
Common Capital Stock (201)		
Preferred Capital Stock (204)		
Other Paid-In Capital (207)		
Discount on Capital Stock (213)		
Capital Stock Expense (214)		
Appropriated Retained Earnings (215)		
Unappropriated Retained Earnings (216)		\$4,826.00
Non-Corporate Proprietorship (218)		
Total Equity Capital		\$4,826.00
LONG-TERM DEBT		
Bonds (221)		
Advances From Associated Companies (223)		
Other Long-Term Debt (224)		
Total Long-Term Debt		
CURRENT AND ACCRUED LIABILITIES		
Notes Payable (231)		
Accounts Payable (232)		\$6,939.00
Notes Payable to Associated Companies (233)		
Accounts Payable to Associated Companies (234)		\$3,566,034.00
Customer Deposits (235)		
Taxes Accrued (236)		
Interest Accrued (237)		
Other Current and Accrued Liabilities (238)		
Total Current and Accrued Liabilities		\$3,572,973.00
DEFERRED CREDITS		
Advances for Construction (252)		

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Balance Sheet - Liabilities and Other Credits (Ref Page: 3)

	Balance First of Yr.	Balance End of Yr.
Other Deferred Credits (253)		
Accum. Deferred Investment Tax Credits (255)		
Total Deferred Credits		
Operating Reserves (261-265)		
Contributions in Aid of Construction (271)		
ACUMULATED DEFERRED INCOME TAXES		
Accum. Def. Income Taxes-Accel. Amort (281)		
Accum. Def. INcome Taxes-Lib. Depr. (282)		
Accum. Def. Income Taxes-Other (283)		
Total Accum. Deferred Income Taxes		
TOTAL LIABILITIES AND OTHER CREDITS		\$3,577,799.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Summary of Utility Plant (Ref Page: 4)

	Amount
UTILITY PLANT	
In Service:	
Plant in Service Classified (from pg 5 line 40) (101)	\$3,562,511.00
Completed Construction Not Classified (102)	
Utility Plant in Process of Reclassification (103)	
Utility Plant Purchased or Sold (106)	\$0.00
Total In Service	\$3,562,511.00
Utility Plant Leased to Others (104)	
Property Held for Future Use (105)	
Construction Work in Progress (107)	
Utility Plant Acquisition Adjustments (108)	
Other Utility Plant Adjustments (109)	
Total Utility Plant (to pg 2 line 4)	\$3,562,511.00
Less:	
Accumulated Provision for Depreciation and Amort. of Utility Plant (to pg 2 line 6) (110)	\$329.00
Net Utility Plant (to pg 2 line 7)	\$3,562,182.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005
 Accum. Prov. for Depreciation and Amortization of Utility Plant (Ref Page: 4)

Item	Amount
Balance Beginning of Year	
Accruals for Year:	\$329.00
Depreciation	
Amortization	
Other Accounts (detail)	
Total Accruals for Year	\$329.00
Credit Adjustments (describe)	
Total Credits for Year	
Net Charges for Plant Retired:	
Book Cost of Plant Retired (same as pg 5 line 40)	
Add: Cost of Removal	
Less: Salvage	
Net Charges for Plant Retired	
Debit Adjustments (describe)	
Total Debit Adjustments for Year	
Balance End of Year	\$329.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Utility Plant In Service (Ref Page: 5)

	Depr Rate	Balance Beg of Year	Additions	Retirements	ReClass (Debit-Credit)	Balance End of Year
INTANGIBLE PLANT						
Organization (301)						
Franchises and Consents (302)						
Misc. Intangible Plant (303)						
Total Intangible Plant						
LAND AND STRUCTURES						
Land and Land Rights (310)						
Structures and Improvements (311)			\$90,000.00	\$0.00	\$0.00	\$90,000.00
Total Land and Structures			\$90,000.00	\$0.00	\$0.00	\$90,000.00
COLLECTION PLANT						
Collection Sewers - Force (352.1)						
Collection Sewers - Gravity (352.2)						
Other Collection Plant Facilities (353)						
Services to Customers (354)						
Flow Measuring Devices (355)						
Total Collection Plant						
PUMPING PLANT						
Receiving Wells and Pump Pits (362)						
Pumping Equipment - Electric (363A)			\$658,200.00	\$0.00	\$0.00	\$658,200.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Utility Plant In Service (Ref Page: 5)

	Depr. Rate	Balance Beg of Year	Additions	Retirements	ReClass (Debit-Credit)	Balance End of Year
Pumping						
Equipment-Diesel (363B)						
Pumping Equipment - Other (363C)						
Total Pumping Plant (364)			\$658,200.00	\$0.00	\$0.00	\$658,200.00
TREATMENT AND DISPOSAL PLANT						
Oxidation Lagoon (372)						
Treatment and Disposal Equipment (373)						
Plant Sewers (374)						
Outfall Sewer Lines (375)			\$2,320,894.00	\$0.00	\$0.00	\$2,320,894.00
Other Treatment and Disposal Plant Equip. (376)			\$493,417.00	\$0.00	\$0.00	\$493,417.00
Total Treatment and Disposal Plant (371)			\$2,814,311.00	\$0.00	\$0.00	\$2,814,311.00
GENERAL PLANT (372)						
Office Furniture and Equipment (391)						
Transportation Equipment (392)						
Stores Equipment (393A)						
Tools, Shop and Garage Equipment (393B)						
Laboratory Equipment (393C)						
Power Operated Equipment (393D)						
Communication Equipment (393E)						

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Utility Plant In Service (Ref Page: 5)

	Depr Rate	Balance Beg of Year	Additions	Retirements	ReClass (Debit/Credit)	Balance End of Year
Other Tangible Property (393F)						
Total General Plant						
TOTAL SEWER PLANT IN SERVICE			\$3,562,511.00	\$0.00	\$0.00	\$3,562,511.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Capital Stock (Ref Page: 6)

Class and Series (a)	No. of Shares Auth. (b)	Par Val per Share of Par	Stated Val Per Share of	Outstanding Shares (c)	Outstanding Amount (f)
Total					

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Long-Term Debt (Ref Page: 6)

Class and Series	Orig/Issue Amt	Date of Issue (b)	Date of Maturity (c)	Outstanding Balance	Interest Rate (e)	Interest Amt (f)
				0		
				0		

List each Original
Issue Amount Class
and Series of
Obligation

Total

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Notes Payable (Ref Page: 6)

Name of Payee (a)	Date of Note (b)	Date of Maturity (c)	Interest Rate (d)	Balance End of Year (e)
(Include Notes Payable to Associated Companies Under This Heading)				
				0
Total				0

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Interest Accrued (Ref Page: 6)

Description of Obligation (a)	Int. Accr. Balance First of Yr.	Int. Accr. During Yr (c)	Int. Paid During Yr (d)	Int. Accr. Balance End of Yr.
Total				

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Other Current and Accrued Liabilities (Ref Page: 7)

	Description	Amount
Total (must agree with pg 3 Acct 238)		

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Statement of Retained Earnings For the Year (Ref Page: 7)

Item (a)	This Year (b)	Last Year (c)
UNAPPROPRIATED RETAINED EARNINGS (216)		
Balance Beginning of Year		
Balance Transferred From Income (435)	\$4,826.00	
Appropriations of Retained Earnings (436)		
Dividends Declared-Preferred Stock (437)		
Dividends Declared-Common Stock (438)		
Adjustments to Retained Earnings (439)		
Balance End of Year	\$4,826.00	

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Statement of Income for the Year (Ref Page: 8)

Description	Number Customers (b)	Amount (c)
OPERATING REVENUES		
Flat Rate Revenues-General Customers:		
Residential Revenues (521.1)	155	\$57,249.00
Commercial Revenues (521.2)		
Industrial Revenues (521.3)		
Revenues From Public Authorities (521.4)		
Total (521)	155	\$57,249.00
Measured Revenues - General Customers: (483)		
Residential Revenues (522.1)		
Commercial Revenues (522.2)		
Industrial Revenues (522.3)		
Revenues From Public Authorities (522.4)		
Total (522)		
Revenues From Public Authorities (523)		
Revenues From Other Systems (524)		
Miscellaneous Sewage Revenues (526)		
Total Sewage Service Revenues (521-526)	155	\$57,249.00
OTHER OPERATING REVENUES		
Customers Forfeited Discounts (532)		
Miscellaneous Operating Revenues (536)		
Total Other Operating Revenues		
Total Operating Revenues		\$57,249.00
OPERATING EXPENSES		
Total Sewer Operation and Maint. Expenses (from pg 9)		\$52,094.00
Depreciation Expense (403)		\$329.00
Amortization Expense (from pg 10) (404-407)		

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Statement of Income for the Year (Ref Page: 8)

Description	Number Customers (b)	Amount (c)
Taxes Other Than Income taxes (from pg 10) (408.1)		
Total Income Taxes-Utility Operations (from pg 10)		
Total Sewage Operating Expenses		\$52,423.00
Net Operating Income		\$4,826.00
OTHER INCOME		
Income from NonUtility Operations (417)		
Interest and dividend income (419)		
Miscellaneous Nonoperating Income (421)		
Other Accounts (Specify Acct. No & Title)		
Total Other Income		
OTHER DEDUCTIONS		
Interest on Long-Term Debt (427)		
Amortization of Debt Discount and Expense (428)		
Interest on Debt to Associated Companies (430)		
Other Interest Expense (431)		
Taxes Other than income Taxes 408.2 (from pg 10)		
Total Income Taxes-Nonutility Operations (from pg 10)		
Other Accounts (Specify Acct. No. and Title)		
Total Other Deductions		
Net Income		\$4,826.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Operation and Maintenance Expenses (Ref Page: 9)

	Amount (b)
OPERATION EXPENSES	
Supervision and Engineering (700) :	
Owner/Manager-Management Fee (700-A)	\$52,094.00
Other Expenses (700-B)	
Labor and Expenses (701):	
Collection System-Labor, Materials and Expenses (701-A)	
Pumping System-Labor, Materials and Expenses (701-B)	
Treatment System (701-C) :	
Sludge Hauling	
Utility Service - Water Cost	
Other-Labor, Materials and Expense	
Rents (702)	
Fuel and Power Purchased for Pumping and Treatment (703)	
Chemicals (704)	
Miscellaneous Supplies and Expenses (705):	
Collection System (705-A)	
Pumping System (705-B)	
Treatment and Disposal (705-C)	
Total Operation Expenses	\$52,094.00
MAINTENANCE EXPENSES	
Supervision and Engineering (710) :	
Routine Maintenance Service Fee (710-A)	
Internal Supervision and Engineering (710-B)	
Maintenance of Structures and Improvements (711)	
Maintenance of Collection Sewer system (712)	
Maintenance of Pumping System (713)	
Maintenance of Treatment and Disposal Plant (714)	

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Operation and Maintenance Expenses (Ref Page: 9)

	Amount (b)
Maintenance of Other Plant Facilities (715)	
Total Maintenance Expenses	
CUSTOMER ACCOUNTS EXPENSES	
Supervision (901)	
Meter Reading Expenses and Flat Rate Inspections (902)	
Customer Records and Collection Expenses (903):	
Agency Collection Fee (903-A)	
Internal Labor, Materials and Expenses (903-B)	
Uncollectible Accounts (904)	
Miscellaneous Customer Accounts Expenses (905)	
Total Customer Accounts Expenses	
ADMINISTRATIVE AND GENERAL EXPENSES	
Administrative and General Salaries (920)	
Office Supplies and Other Expenses (921)	
Outside Services Employed (923)	
Insurance Expenses (924)	
Employee Pensions and Benefits (926)	
Regulatory Commission Expense (928)	
Transportation Expenses (929)	
Miscellaneous General Expenses (930)	
Rents (931)	
Maintenance of General Plant (932)	
Total Administrative and General Expenses	
TOTAL SEWER OPERATION AND MAINTENANCE EXPENSES (to pg 8)	\$52,094.00

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Taxes Other Than Income Taxes (Ref Page: 10)

Item (a)	Amount (b)
Payroll Taxes	
Property Taxes	
Utility Regulatory Commission Assessment	
Other (specify)	
Total (Same as Page 8 line 27 plus 44)	

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Operating and Non-Operating Income Taxes (Ref Page: 10)

	Amount (b)
Income Taxes-Federal (409.1)	
Income Taxes - State (409.1)	
Income Taxes - Other (409.1)	
Provisions for Deferred Income Taxes (410.1)	
Income Taxes Deferred in Prior Years - Credit (411.1)	
Investment Tax Credits - Net (412.0)	
Total Income Taxes - Util. Operating Income (to pg 8 line 28)	
Income Taxes - Federal (409.2)	
Income Taxes - State (409.2)	
Income Taxes - Other (409.2)	
Provisions for Deferred Income (410.2)	
Income Taxes Deferred in Prior Years - Credit (411.2)	
Investment Tax Credits - Net (412.4)	
Total Inc. Taxes - Nonutil. Op. Income (to pg 8 line 45)	

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Amortization Expense (Ref Page: 10)

Amount (b)

Amortization of Limited - Term Utility Plant (404)

Amortization of Other Utility Plant (405)

Amortization of Utility Plant Acquisition Adjustments (406)

Amortization of Property Losses (407)

Amortization of Rate Case Expense

Total Amortization Expense (to pg 8 line 26)

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Plant Statistics - Plant Valuation 1 - 3 (Ref Page: 11)

Description	Percentage
What method of valuation was used with reference to Sewer Utility Plant in Service Appearing on page two line four: Original Cost, Estimated Cost, Original Cost Study?	Original Cost
What percentage of Sewer Utility Plant in Service was recovered, by the developer of hte subdivision, through the sale of lots?	0
If less than one-hundred percent of the utility plant was recovered, please designate what portion (collection lines, treatment plant, etc.) of the plant that represents non-contributed plant	0

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Plant Statistics - Plant Valuation 4. (Ref Page: 11)

	Last Name	First Name	date
--	-----------	------------	------

By whom were the books of account audited?

What was the date of the last audit?

	Spears	Michael R.	12/31/2005
--	--------	------------	------------

If unaudited in the past twelve months, when and

by whom is the next audit anticipated?

--

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Plant Statistics - Physical Data of Sewer Plant (Ref Page: 11)

Date of Construction of original Plant	03/01/2005
Type of treatment process	Extended Aeration
Date and additional GPD Capacity of subsequent additions to plant	N/A
Population for which plant is designed including population equivalent of industrial waste load	500

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005
 Sewer Plant Statistics - Treatment Plant Operating Statistics (Ref Page: 11)

	Total	Cost
Total gallons received during the year	4,881,027	
Total gallons received on maximum day	48,692	
Maximum G.P.D. Capacity of the sewage treatment plant	100,000	
Routine maintenance service fee		\$0.00
Cost per month		
Contract Expires		
Sludge hauling		
Cost per load		\$0.00
Average number of gallons per load		
Number of loads this year		

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Plant Statistics - Customer Statistics End of Year (Ref Page: 12)

Type	Num of Customers	Bi Month or Month Billing	Number of bills
Residential			
Single Family	155	Monthly	155
Apartments/Condominiums			
Commercial			
Industrial			
Other			
Total	155		155

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Plant Statistics - Industrial Customers Served (Ref Page: 12)

Name	Type of Industry	Gallons	Pretreatment of Wastes
------	------------------	---------	------------------------

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Plant Statistics - Pumping Stations (Ref Page: 12)

Location	Size of Motor	Type of Motor	Gals per Day
Pumpkin Center	20 HP	Myers Pump	0
Estill Hill	15 HP	Myers Pump	0
Estill Bottom	15 HP	Myers Pump	0
Wayland	20 HP	Myers Pump	0

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Plant Statistics - Mains (Feet) (Ref Page: 12)

Kind of Pipe	Diameter	Num of Feet	additions	removed	Feet End of Year
Gravity Line	8"	12,095	0	0	12,095
SDR 17 Force Main	6"	11,595	0	0	11,595
SDR 17 Force Main	3"	380	0	0	380
SDR 17 Force Main	2"	2,081	0	0	2,081
SDR 11 Force Main	1 1/4"	5,583	0	0	5,583
PVC Laterals	4"	6,804	0	0	6,804

22270009 Southern Water & Sewer District Sewer Division 01/01/2005 - 12/31/2005

Sewer Plant Statistics - Service Laterals and Stubs (Ref Page: 12)

	Count
Number of service laterals owned by the utility at end of year	155
Number of stubs as of end of year	0
Number of service laterals owned by others	0

OATH

Commonwealth of Kentucky

County of Floyd

Robert L. Meyer makes oath and says

(Insert here the name of the affiant)

that he is District Manager of

(Insert here the official title of the affiant)

Southern Water and Sewer District

(Insert here the exact legal title or name of the respondent)

that it is his duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky, effective during the said period; that he has carefully examined the said report and to the best of his knowledge and belief the entries contained in the said report have, so far as they relate to matters of account, been accurately taken from the said books of account and are in exact accordance therewith; that he believes that all other statements of fact contained in the said report are true; and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including

January 1, 2005 to and including December 31, 2005



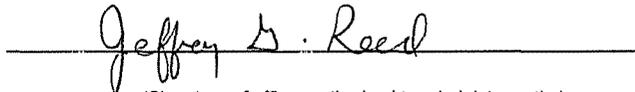
(Signature of affiant)

Subscribed and sworn to before me, a Notary Public in and for the

State and County above named, this 21st day of August, 2006

(Apply Seal)
(Here)

My commission expires _____



(Signature of officer authorized to administer oaths)

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Michael R. Spears, C.P.A., P.S.C.
Certified Public Accountant

Independent Auditor's Report

The Board of Commissioners
Southern Water And Sewer District
McDowell, Kentucky

We have audited the accompanying financial statements of the Southern Water and Sewer District, as of and for the years ended December 31, 2005 and December 31, 2004 as listed in the table of contents. These financial statements are the responsibility of the Southern Water and Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Southern Water and Sewer District, as of December 31, 2005 and December 31, 2004, and respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2006, on our consideration of Southern Water and Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



Michael R. Spears, CPA, PSC
August 10, 2006

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2005 and 2004

This discussion and analysis of the Southern Water and Sewer District's financial performance provides an overview of the District's financial activities for the years ended December 31, 2005 and December 31, 2004. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The District assets exceeded its liabilities at the end of the year by \$18,680,130. This was an increase of \$2,592,127 from the year ended December 31, 2004.
- At December 31, 2005, the District had \$25,868,913 in assets and \$7,188,783 in liabilities. The invested in capital assets, net of related debt, balance at this date was \$18,601,099. The restricted for capital projects balance was \$246,174. The restricted for maintenance balance was \$188,267. The restricted for debt service balance was \$44,788. The unrestricted balance was (\$400,198).
- The District had a net income of \$2,592,127 for the year ended December 31, 2005. For the year ended December 31, 2004 the net income was \$944,627.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial statements. The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private – sector business.

The balance sheets present information on all of the District's assets and liabilities, in a comparative format showing the balances as of December 31, 2005 and December 31, 2004. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statements of revenues, expenses and changes in retained earnings present information showing the District's net income or (loss) for the years then ended.

The statements of cash flows shows the increase or decrease in the cash and cash equivalents for the years ended by the different types of activities.

The financial statements can be found on pages 7 through 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 12 through 18 of this report.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2005 and 2004

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$18,680,130 at the close of the most recent year.

Southern Water and Sewer District's Net Assets

		2005
Current assets	\$	685,135
Restricted assets		492,261
Fixed assets		24,602,948
Other assets		88,569
 Total assets		 25,868,913
 Current liabilities		 1,253,315
Long-term liabilities		5,935,468
 Total liabilities		 7,188,783
 Net assets:		
Investment in		
Capital Assets		18,601,099
Restricted		479,229
Unrestricted		(400,198)
 Total net assets	 \$	 18,680,130

By far the largest portion of the District's net assets reflects its investment in fixed assets (e.g., land, water lines, tanks), less any related debt used to acquire those assets still outstanding.

Grant income was \$3,532,768 during the year. Grant monies and customer contributions accounted for this increase. These monies were used for water line expansions.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2005 and 2004

Southern Water and Sewer District's Statements of Revenues, Expenses, and Changes in Retained Earnings

	2005
Revenues:	
Water sales	\$ 2,043,369
Solid waste revenue	732,104
Penalties and service charges	92,751
Other	3,753
Total revenues	2,871,977
Expenses:	
Management fees	1,332,386
Flood damage expense	0
Depreciation and amortization	1,082,900
Purchased water	177,468
Solid Waste payments	732,104
Power for pumping	162,133
Outside services	17,182
Miscellaneous	14,183
Insurance	14,719
Distribution supplies and expense	9,664
Taxes and other	4,953
Customer accounts expense	17,878
Wages	18,000
Rents	4,198
Training	1,139
Transportation expense	694
Pumping supplies and expense	561
Total operating expenses	3,590,162
Net operating income	(718,185)
Non-operating income (expense)	
Grants income	3,532,768
Capital contributions, other	0
Interest income	1,558
Interest expense	(237,059)
Forgiveness of debt	0
Gain (loss) on sale of asset	13,045
Total non-operating (expense)	3,310,312
Net income (loss) before contributions and transfers	2,592,127
Total net assets, beginning	16,088,003
Total net assets, ending	18,680,130

Operations. The District showed a net income of \$2,592,127.

Key elements of this income are as follows:

- Depreciation for the year was \$1,082,900. This was a result of moving \$7,047,367 of construction projects to utility plant during the year and starting depreciation on these assets.
- Grant income of \$3,532,768 was received during the year.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2005 and 2004

Southern Water and Sewer District Budget Comparison

	Actual Amounts	Original Budget Amounts	Variance Positive (Negative) 2005
	2005	2005	
Revenues:			
Water sales	\$ 2,043,369	\$ 2,325,883	\$ (282,514)
Solid waste revenue	732,104	0	732,104
Penalties and service charges	92,751	91,681	1,070
Other	3,753	0	3,753
Total revenues	<u>2,871,977</u>	<u>2,417,564</u>	<u>454,413</u>
Expenses:			
Management fees	1,332,386	1,394,196	61,810
Flood damage expense	0	0	0
Depreciation and amortization	1,082,900	92,434	(990,466)
Purchased water	177,468	186,000	8,532
Solid Waste payments	732,104	0	(732,104)
Power for pumping	162,133	150,000	(12,133)
Outside services	17,182	16,000	(1,182)
Miscellaneous	14,183	15,650	1,467
Insurance	14,719	32,643	17,924
Distribution supplies expense	9,664	0	(9,664)
Taxes and other	4,953	8,340	3,387
Customer accounts expense	17,878	0	(17,878)
Wages	18,000	18,000	0
Rents	4,198	0	(4,198)
Training	1,139	0	(1,139)
Transportation expense	694	0	(694)
Pumping supplies expense	561	0	(561)
Total operating expenses	<u>3,590,162</u>	<u>1,913,263</u>	<u>(1,676,899)</u>
Net operating income	(718,185)	504,301	(1,222,486)
Non-operating income (expense)			
Grant income	3,532,768	0	3,532,768
Capital contributions, other	0	0	0
Interest income	1,558	0	1,558
Interest expense	(237,059)	0	(237,059)
Forgiveness of debt	0	0	0
Gain (loss) on sale of asset	13,045	0	13,045
Total non-operating income	<u>3,310,312</u>	<u>0</u>	<u>3,310,312</u>
Net income (loss)	2,592,127	504,301	2,087,826
Total net assets, beginning	16,088,003		
Total net assets, ending	<u>\$ 18,680,130</u>	<u>\$ _____</u>	<u>\$ _____</u>

Budget Comparisons

- Revenues were \$454,413 more than budgeted as a result of not budgeting for solid waste revenue and various other differences. Operating expenses were \$1,676,899 more than budgeted as a result of not budgeting for depreciation and amortization, solid waste payments, and various other expenses.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2005 and 2004

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Capital Assets

The District's investment in utility plant as of December 31, 2005 amounts to \$24,602,948 (net of accumulated depreciation). The investment in utility plant includes the expansion of the water system. The increase in the District's investment in utility plant (net of accumulated depreciation) for the current year was 11.2% percent, before current depreciation.

Additional information on the District's utility plant can be found in Note (2) of the financial statements.

Debt Administration

At the end of the current fiscal year, the District had total debt outstanding of \$6,090,419. Additional information on the District's long-term debt can be found in Note (4) and Note (5) of the financial statements.

Fiscal Year 2005 - Final Comments

For the year ended December 31, 2004, the Southern Water and Sewer District became GASB 34 compliant. The changeover includes a new more detailed and departmentalized chart of accounts, a new look in financial statements, and a slightly different methodology of accounting. This compliance increases the accountability of our financial decisions to users, vendors and financial partners.

Contacting the District's Financial Management

This financial report is designed to provide our customers, creditors, and other users with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Manager, at the Southern Water and Sewer District, P.O. Box 610, McDowell, KY 41647, telephone number (606) 377-9296.

Southern Water and Sewer District
 STATEMENTS OF NET ASSETS
 December 31, 2005 and 2004

ASSETS	2005	2004
Current assets		
Cash	\$ 140,372	\$ 62,994
Accounts receivable, customer water	396,514	307,844
Accounts receivable, Solid Waste	132,632	120,679
Accounts receivable, sewer	10,617	0
Grant receivable	0	19,747
Accounts receivable, CDBG Grant	5,000	0
Total current assets	685,135	511,264
Restricted Assets	492,261	323,882
Total restricted assets	492,261	323,882
Capital assets		
Land and construction in progress	279,917	3,786,428
Other capital assets, net of accumulated depreciation	24,323,031	18,341,905
Total capital assets	24,602,948	22,128,333
Other assets		
Prepaid interest	98,410	98,410
Less: accumulated amortization	(9,841)	(7,381)
Total other assets	88,569	91,029
Total assets	\$ 25,868,913	\$ 23,054,508

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

Southern Water and Sewer District
 STATEMENTS OF NET ASSETS (CONT.)
 December 31, 2005 and 2004

LIABILITIES

	<u>2005</u>	<u>2004</u>
Current liabilities		
Accounts payable	\$ 525,887	\$ 464,335
Accounts payable - Solid Waste	489,514	345,651
Customer deposits	59,445	49,352
Notes payable, current	154,951	306,190
Accounts payable - construction in progress	6,939	0
Accrued interest	<u>16,579</u>	<u>11,444</u>
Total current liabilities	1,253,315	1,176,972
Long-term liabilities		
Notes payable, long-term	3,248,468	3,300,533
Bonds payable, long-term	<u>2,687,000</u>	<u>2,489,000</u>
Total long-term liabilities	<u>5,935,468</u>	<u>5,789,533</u>
Total liabilities	<u>7,188,783</u>	<u>6,966,505</u>

NET ASSETS

Invested in capital assets, net of related debt	18,601,099	16,123,639
Restricted for capital projects	246,174	102,286
Restricted for maintenance	188,267	179,052
Restricted for debt service	44,788	34,014
Unrestricted (deficit)	<u>(400,198)</u>	<u>(350,988)</u>
Total net assets	<u>\$ 18,680,130</u>	<u>\$ 16,088,003</u>

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

Southern Water and Sewer District
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 for the years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues		
Water sales	\$ 2,043,369	\$ 1,885,617
Solid Waste revenue	732,104	722,370
Penalties and service charges	92,751	63,324
Other	<u>3,753</u>	<u>49,573</u>
Total operating revenues	<u>2,871,977</u>	<u>2,720,884</u>
Operating expenses		
Management fees	1,332,386	1,277,370
Flood damage expense	0	69,982
Depreciation and amortization	1,082,900	898,911
Purchased water	177,468	198,660
Solid Waste payments	732,104	722,370
Power for pumping	162,133	146,050
Outside services	17,182	17,897
Miscellaneous and commissioners expenses	14,183	12,854
Insurance	14,719	16,441
Distribution supplies and expenses	9,664	1,048
Taxes and other	4,953	8,624
Customer accounts expense	23,214	13,889
Wages	18,000	18,000
Transportation expense	695	470
Pumping supplies and expenses	<u>561</u>	<u>337</u>
Total operating expenses	<u>3,590,162</u>	<u>3,402,903</u>
Net operating income	(718,185)	(682,019)
Non-operating income (expense)		
Grants income	3,532,768	1,471,581
Capital contributions, other	0	3,601
Interest income	1,558	1,549
Interest expense	(237,059)	(114,431)
Forgiveness of debt	0	257,555
Gain (loss) on sale of asset	<u>13,045</u>	<u>6,791</u>
Total non-operating income (expense)	<u>3,310,312</u>	<u>1,626,646</u>
Net income (loss) before contributions and transfers	2,592,127	944,627
Capital contributions, other	<u>0</u>	<u>0</u>
Change in net assets	2,592,127	944,627
Total net assets, beginning	<u>16,088,003</u>	<u>15,143,376</u>
Total net assets, ending	<u>\$18,680,130</u>	<u>\$16,088,003</u>

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

Southern Water and Sewer District
 STATEMENTS OF CASH FLOWS
 for the years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	\$ 2,773,926	\$ 2,657,542
Cash payments to suppliers for goods and services	(2,055,388)	(2,523,820)
Cash paid for interest	(234,385)	(170,811)
Cash received for customer deposits	10,093	8,711
Cash received for interest income	1,558	1,549
 Total cash (used) provided by operating activities:	 495,804	 (26,829)
 Cash flow from capital and related financing activities:		
(Increase) decrease in restricted asset accounts	(168,379)	277,223
Loan proceeds	316,076	194,710
Bond proceeds	225,000	0
Interest paid on notes	(237,059)	(114,431)
Contributed capital - customers	0	3,601
Principle paid on notes	(519,380)	(108,210)
Purchase of utility plant in service	(7,066,820)	(5,102,803)
Principle paid on bonds	(27,000)	(26,000)
Retirement of utility plant in service, net	254	0
Grant proceeds	3,532,768	1,471,581
Decrease (increase) in construction in progress	3,511,511	3,196,712
 Net cash (used) provided by capital and related financing activities	 (433,029)	 (207,617)
 Cash flows from investing activities:		
Interest income	1,558	1,549
Forgiveness of debt	0	257,555
Gain (loss) on sale of asset	13,045	6,791
 Net cash flows from investing activities	 14,603	 265,895
 Net increase (decrease) in cash and cash equivalents	 77,378	 31,449
 Cash and cash equivalents, beginning of year	 62,994	 31,545
 Cash and cash equivalents, end of year	 \$ 140,372	 \$ 62,994

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

Southern Water and Sewer District
 STATEMENTS OF CASH FLOWS (CONT.)
 for the years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (718,185)	\$ (682,019)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,082,900	898,911
(Increase) decrease in		
Accounts receivable	(111,240)	(61,793)
Inventory	0	35,278
Prepaid expenses	0	0
Contract receivable	14,747	0
Increase (decrease) in		
Accounts payable	212,354	(169,537)
Customer deposits	10,093	8,711
Accrued interest	<u>5,135</u>	<u>(56,380)</u>
Total cash (used) provided by operating activities:	<u>\$ 495,804</u>	<u>\$ (26,829)</u>

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

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005 & 2004

1. Summary of Significant Accounting Policies

Southern Water and Sewer District was created and organized as a public body corporate in Floyd County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, to operate a water distribution system.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Southern Water and Sewer District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The entities included in the financial statements are the general operations of the District.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

B. Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

C. Inventory

Inventory consists primarily of materials and supplies and is stated at the lower of cost or market. Cost is determined by use of the first-in, first-out method. The cost of inventory is recorded as expenditures/expenses when consumed rather than when purchased.

D. Property, Plant, and Equipment

Additions to the utility plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterment are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives range from 7 to 50 years.

E. Deferred Expense

Deferred regulatory expenses are rate case expenses required to be deferred to conform to accounting policies and procedures as set forth by the Public Service Commission of Kentucky.

F. Uncollectible Accounts

Accounts receivable are written off as bad debts in the year in which they become uncollectible. In the District's opinion, any accounts receivable at year-end that may become uncollectible would not materially affect the financial position of the results of operations for the year then ended.

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005 & 2004

G. Cash and Cash Equivalents

Cash and cash equivalents for the purposes of the cash flow statement consist of cash on hand and cash in bank.

H. Use of Estimates

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

2. Capital Assets

The following summarized the changes to capital assets during 2005.

December 31, 2005	Balance at January 1, 2005	Increase	Decrease	Balance at December 31, 2005
Capital assets not being depreciated:				
Land	\$ 162,038	\$ 5,000		\$ 167,038
Construction in progress	3,624,390	3,535,856	(7,047,367)	112,879
	3,786,428	3,540,856	(7,047,367)	279,917
Capital assets being depreciated:				
Pumping and Distribution System	25,213,156	7,042,367		32,255,523
Trans. Equipment	260,133	19,452	(51,042)	228,543
Furniture, fixtures and equipment	86,200			86,200
	25,559,489	7,061,819	(51,042)	32,570,266
Total Capital Assets	29,345,917	10,602,675	(7,098,409)	32,850,183
Less accumulated depreciation	7,217,584	1,082,900	(53,249)	8,247,235
Net capital assets	\$ 22,128,333	\$ 9,519,775	\$ (7,045,160)	\$ 24,602,948

The following summarized the changes to capital assets during 2004.

December 31, 2004	Balance at January 1, 2004	Increase	Decrease	Balance at December 31, 2004
Capital assets not being depreciated:				
Land	\$ 129,805	\$ 32,233		\$ 162,038
Construction in progress	6,821,102	1,906,091	(5,102,803)	3,624,390
	6,950,907	1,938,324	(5,102,803)	3,786,428
Capital assets being depreciated:				
Pumping and Distribution System	20,157,764	5,102,803	(47,411)	25,213,156
Trans. Equipment	280,107		(19,974)	260,133
Furniture, fixtures and equipment	86,200			86,200
	20,524,071	5,102,803	(67,385)	25,559,489
Total Capital Assets	27,474,978	7,041,127	(5,170,188)	29,345,917
Less accumulated depreciation	6,356,284	898,911	(37,611)	7,217,584
Net capital assets	\$ 21,118,694	\$ 6,142,216	\$ (5,132,577)	\$ 22,128,333

SOUTHERN WATER AND SEWER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2005 & 2004

3. Reserves for Notes

Repair and Maintenance Reserve

Phase I

The District entered into a loan agreement with the Kentucky Infrastructure Authority on February 21, 1995, bearing interest at the rate of 3%. The note calls for 60 semi-annual payment of \$34,607, commencing June 1, 1995.

The note dated February 21, 1995 requires the District to maintain the following reserve:

Repair and Maintenance Reserve – The sum of \$3,600 is to be transferred semi-annually until there is accumulated in such repair and maintenance fund the sum of \$68,143.50. The balance of this reserve at December 31, 2005 was \$67,187.14. The cash balance at December 31, 2005 for this reserve was \$65,856.35. As of the issuance of this report this reserve was fully funded.

Phase III

The District entered into a loan agreement with the Kentucky Infrastructure Authority on February 21, 1995, bearing interest at the rate of 3%. The note calls for 60 semi-annual payments of \$71,897, commencing June 1, 1998.

The note dated February 21, 1995 requires the District to maintain the following reserve:

Repair and Maintenance Reserve – The sum of \$7,800 is to be transferred semi-annually until there is accumulated in such repair and maintenance fund the sum of \$141,568. The balance of this reserve at December 31, 2005 was \$120,808.80. The cash balance at December 31, 2005 for this reserve was \$122,410.65. As of the issuance of this report this reserve was fully funded.

4. Notes Payable

The District had the following notes payable at December 31, 2005:

Description and purpose	January 1, 2005	Issued	Retired	December 31, 2005	Within one year
3% installment note payable to Kentucky Infrastructure Authority, dated March 15, 1993, due in 60 semi-annual installments of \$34,607 including interest, beginning June 1, 1995.	\$ 1,035,326	\$ 0	\$ 38,442	\$ 996,884	\$ 39,604
6.15% line of credit to First Guaranty National Bank, dated May 2, 2004, due May 2, 2005, including interest, unsecured loan.	194,709	248,700	406,373	37,036	37,036
1% installment note payable to Kentucky Infrastructure Authority, dated January 1, 2005, due in 40 semi-annual installments of \$1,863 including interest, beginning December 1, 2005.	0	67,376	1,526	65,850	3,075
3% installment note payable to Kentucky Infrastructure Authority, dated February 21, 1995, due in 60 semi-annual installments of \$71,898 including interest, beginning June 1, 1998.	2,376,688	0	73,039	2,303,649	75,236
Total notes payable	\$ 3,606,723	\$ 316,076	\$ 519,380	\$ 3,403,419	\$ 154,951

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005 & 2004

Maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	
2007	\$ 121,427	\$ 95,310	
2008	125,034	91,702	
2009	128,751	87,986	
2010	132,578	84,159	
2011	136,520	80,216	
2012-2016	746,015	337,669	
2017-2021	863,959	219,724	
2022-2026	853,551	86,113	
2027-2030	140,623	3,173	
	<u>\$ 3,248,458</u>	<u>\$ 1,086,052</u>	

5. Bonds Payable

The District had the following bonds payable at December 31, 2005:

<u>Description and purpose</u>	<u>January 1, 2005</u>	<u>Issued</u>	<u>Retired</u>	<u>December 31, 2005</u>	<u>Within one year</u>
The 4.5% revenue bonds issued December 12, 2002 in the original amount of \$2,515,000 for the Rural Development Project are payable to the Rural Development in semi-annual installments to the year 2042. The bonds are secured by a pledge of all water revenues from the system.	\$ 2,489,000	\$	\$ 27,000	\$ 2,462,000	\$ 0
The 4.25% revenue bonds issued November 3, 2005 in the original amount of \$225,000 for the Rural Development Project are payable to the Rural Development in semi-annual installments to the year 2044. The bonds are secured by a pledge of all water revenues from the system.	0	225,000	0	225,000	0
Total bonds payable	<u>\$ 2,489,000</u>	<u>\$ 225,000</u>	<u>\$ 27,000</u>	<u>\$ 2,687,000</u>	<u>\$ 0</u>

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005 & 2004

Maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 31,500	\$ 120,353
2008	32,500	118,941
2009	33,500	117,485
2010	36,000	115,984
2011	37,000	114,371
2012-2016	212,500	545,400
2017-2021	264,000	493,406
2022-2026	327,500	428,799
2027-2031	407,500	348,525
2032-2036	509,500	248,526
2037-2041	633,000	123,769
2042-2044	162,500	8,634
	<u>\$ 2,687,000</u>	<u>\$ 2,784,193</u>

6. Restricted Cash Accounts

The District had the following restricted cash accounts as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
KIA Project	\$ 45,545	\$ 42,544
Repair and maintenance reserve fund	188,267	179,052
Bond depreciation reserve	12,275	0
RD Construction Account	246,174	102,286
	<u>\$ 492,261</u>	<u>\$ 323,882</u>

7. Contributed Capital and Net Assets

Changes in contributed capital and net assets during the years ended December 31, 2005 and December 31, 2004.

	<u>Contributed Capital</u>	<u>Reserves</u>	<u>Net Assets (Deficit)</u>	<u>Total</u>
Balance, January 1, 2004	\$ 20,706,057	\$ 154,122	\$ (5,716,803)	\$ 15,143,376
Customer contributions/refunds	3,601			3,601
Grant in aid – FEMA	34,704			34,704
Grant in aid – PRIDE (Wayland Sewer)	769,358			769,358
Grant in aid – AML (Right Beaver)	8,640			8,640
Grant in aid – ARC	3,256			3,256
Other contribution – Miscellaneous	11,867			11,867
State Contribution – DOT	180,832			180,832
Local contribution – Coal Severance	462,924			462,924
Net income (loss)			(530,555)	(530,555)
Transfer		22,800	(22,800)	0
Balance, December 31, 2004	<u>\$ 22,181,239</u>	<u>\$ 176,922</u>	<u>\$ (6,270,158)</u>	<u>\$ 16,088,003</u>
Local contribution	2,500,000			2,500,000
Grant in aid – FEMA	26,105			26,105
Grant in aid – PRIDE (Wayland Sewer)	250,642			250,642
Local contribution – Floyd County Fiscal	90,600			90,600
Grant in aid – State Grant Funds	187,500			187,500
State contribution – DOT	26,097			26,097
Local contribution – Coal Severance	449,997			449,997
Other contribution – Miscellaneous	1,828			1,828
Transfer		11,074	(11,074)	0
Net income (loss)			(940,642)	(940,642)
Balance, December 31, 2005	<u>\$ 25,714,008</u>	<u>\$ 187,996</u>	<u>\$ (7,221,874)</u>	<u>\$ 18,680,130</u>

SOUTHERN WATER AND SEWER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2005 & 2004

8. Commitments and Contingencies

Per the District's counsel, there is no pending litigation against the District as of the issuance of this audit report.

9. Construction in Progress

Southern Water and Sewer District has overseen several construction projects. As of December 31, 2005, the following projects were in progress:

RD Project	\$	22,380
Emergency Grant Repairs		90,499
Total	\$	<u>112,879</u>

In addition to the above construction in progress, the District capitalized \$7,047,367 on various expansion projects during the year ended December 31, 2005.

10. Deposits with Financial Institutions

At December 31, 2005, the carrying amount of the District's deposits with financial institutions was \$765,353 and the bank balance, per statements was \$764,799. The bank balance is categorized as follows:

Amount insured by the FDIC	\$	423,676
Amount collateralized by securities held by the third party trust company in the District's name		<u>341,123</u>
Total Bank Balance	\$	<u>764,799</u>

Pledged collateral was obtained for amounts up to \$1,000,000 for money on deposit at First Guaranty Bank in the name of Southern Water and Sewer District.

11. Solid Waste Agreement

On July 1, 2001, the District entered into an agreement with the Floyd County Fiscal Court to bill and collect garbage fees from the District's customers and remits the amount received to the Court on a monthly basis. The December 31, 2005 and December 31, 2004 Accounts Receivable – Solid Waste balances were \$132,633 and \$120,679, respectively. The December 31, 2005 and December 31, 2004 Accounts Payable – Solid Waste balances were \$489,514 and \$345,651, respectively. These two accounts were a result of this agreement. The Solid Waste revenue and expenses for the year ended December 31, 2005 are equal due to the fact that this is pass-through agreement only.

12. Management

The District entered into a management agreement with U. S. Filter Operations after the merger of Beaver Elkhorn Water District and Mud Creek Water District. U.S. Filter Operations handles the daily management of the District and also supplies the workforce for a monthly management fee. The management fees for the years ended December 31, 2005 and 2004, were \$1,332,386 and \$1,277,370, respectively. The term of this agreement is 20 years starting May of 2000 with yearly increases in the fee based upon the Consumer Price Index in effect for that year. As of March 1, 2004, U.S. Filter Operations was reorganized as Veolia Water North American Operating Services, LLC.

SOUTHERN WATER AND SEWER DISTRICT
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13. Prepaid Interest

The note payable to ABN-AMRO was refinanced with the \$2,515,000 Bond Issue at December 31, 2002. As a result of this refinancing and subsequent payoff of the ABN-AMRO note, there was a prepaid interest charge of \$98,410. The District is amortizing this prepaid interest for 40 years, the life of the Bond Issue. As of December 31, 2005 the amortization expense was \$9,841.

14. Change in financial statement presentation

For the year ended December 31, 2004 the District has implemented GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include *basic financial statements prepared on an accrual basis of accounting*.

15. Commitments and Contingencies

The District has been committed to several construction projects that have not been either started or completed as of the date of this report.

16. Forgiveness of debt

This forgiveness of debt arose as a result of the City of Pikeville forgiving an old accounts payable for the purchase of water by the Mud Creek Water District. The Mud Creek Water District and Beaver Elkhorn Water District merged into Southern Water and Sewer District on March 15, 2000. The amount of the accounts payable as of the date of the merger was \$257,555. This amount was written off by the City of Pikeville on December 13, 2004.

17. Subsequent event

As of February 28, 2006 the management agreement between the District and Veolia Water North American Operating Services, LLC was terminated and the District resumed management of daily operations. The District bought out the remaining contract for \$600,000.

Michael R. Spears, C.P.A., P.S.C.

Certified Public Accountant

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

Board of Commissioners
Southern Water and Sewer District
McDowell, Kentucky

We have audited the financial statements of Southern Water and Sewer District as of and for the years ended December 31, 2005 and December 31, 2004, and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southern Water and Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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

This report is intended solely for the information and use of the audit committee, management, and others within the organization, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Michael R. Spears, CPA

Michael R. Spears, CPA, PSC
August 10, 2006