

# **EXHIBIT B**

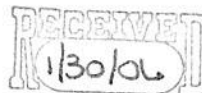
## EXHIBIT B - INDEX

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"HISTORY on the river...AUGUSTA, my old Kentucky home."  
January 26, 2006

Bracken County Water District  
P.O. Box 201  
Brooksville, KY 41004



Dear Commissioners,

Thank you for your most recent request for documentation for the rate increase that we recently submitted to your board. As you are aware Mr. Jim Smith calculates the water rates for us. He accomplishes this by compiling allowable expenses according to our current sales contract.

Last year the plant lost \$80,000.00. Because of the way the current system is setup in regards to the calculation of the rate. We have no control over rate fluctuation. I agree that this is a burden to all. More so to us, the city had to loan the plant money to play bills at the end of the fiscal year last year (almost \$42,000.00). If you recall I wanted to try to establish a more stable rate. I still think that that is the way we should go. I understand there is a trust issue with the city: concerns of over charging, miss use or blatant lack of concern over distribution concerns and issues. I again want to reassure you that this will not happen. The city's concern is for the whole county and the ability produce a quality product.

I would like for nothing more than for us to control our own futures, not the PSC. We have made a major investment in the future of our county and we should control it not Frankfort. I think its time for us to work together and make the county a better place.

Please see the enclosed audit statement from our latest audit prepared by Mr. Smith. I happily provide this information for you in an effort to once again prove Augusta's sincerity and willingness to progress.

Sincerely,

John Laycock, Mayor

City of Augusta

Encl: copy of WTP audit

Mayor  
JOHN F. LAYCOCK

219 MAIN STREET  
P.O. BOX 85  
AUGUSTA, KY 41002

phone  
606-756-2183

fax  
606-756-2185

email  
jlaycock@augustakentucky.com

Equal Opportunity  
Employer & Provider

BRACKEN COUNTY WATER DISTRICT  
1324 BROOKSVILLE GERMANTOWN RD  
P O BOX 201  
BROOKSVILLE KY 41004  
606-735-3513

July 8, 2008

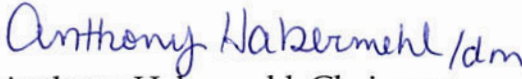
City of Augusta  
Mayor High  
PO Box 85  
Augusta, KY 41002

Wendell,

Paragraph 5 of the Water Purchase Contract Modification Agreement provides for the establishment of a Water Supply Advisory board. The committee was to be established in May. To the best of my knowledge is regarding the board, it has yet to be put into place. We agreed to the back payments, increased rate, etc. with the understanding that the advisory board would be established. With the payment of the June invoice, we have made three payments and the board has yet to be established. If the advisory board is not established we will consider withholding future payments.

We have asked Eddie Kern to represent the water district on the board. We have been checking into a candidate to represent the City of Brooksville. Please contact our office with an expected date that this committee will be in place.

Sincerely,

  
Anthony Habermehl, Chairman

AH/dm

BRACKEN COUNTY WATER DISTRICT  
1324 BROOKSVILLE GERMANTOWN RD  
P O BOX 201  
BROOKSVILLE KY 41004  
606-735-3513

July 18, 2008

City of Augusta  
Mayor Wendell High  
PO Box 85  
Augusta KY 41002

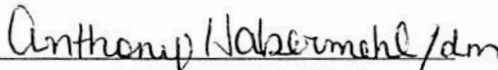
Wendell,

At our regular meeting in June it was discussed that there had been a lightning storm on June 16<sup>th</sup> that caused a malfunction with the telemetry equipment at the treatment plant. Due to the malfunction the pumps at our clear well did not shut down and according to the plant operators approximately 154,000 gallons of water was pumped over the hill. We would like for someone to explain why the plant was not being monitored during a storm. Our board discussed the loss again at our meeting in July and we expect to be credited for the loss.

We also sent you a letter regarding the establishment of the advisory board. Our board made a motion at the meeting that we will be withholding the payments for the undercharge in the amount of \$2,354.17 per month. After the board is put in place we will reconsider starting the payments.

Also, since the end of the fiscal year has passed the audit of the treatment plant should be starting soon and we would like for you to keep us updated on the progress.

Sincerely,

  
Anthony Habermehl, Chairman

AH/dm

BRACKEN COUNTY WATER DISTRICT  
1324 BROOKSVILLE GERMANTOWN RD  
P O BOX 201  
BROOKSVILLE KY 41004  
606-735-3513

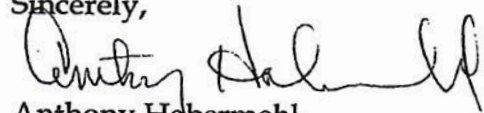
February 23, 2010

City of Augusta  
Mayor Laycock  
PO Box 85  
Augusta KY 41002

Mr. Laycock,

The commissioners would like to know when the advisory board for the treatment plant will be having their next meeting. We have some questions regarding pump run times, etc. and would like to be notified in order for some of us to attend.

Sincerely,



Anthony Habermehl,  
Chairman

CC: Cynthia Thompson

BRACKEN WATER DISTRICT  
PO BOX 201  
BROOKSVILLE, KENTUCKY 41004  
606-735-3513

October 27, 2011

Mayor John Laycock  
City of Augusta  
PO Box 85  
Augusta KY 41002

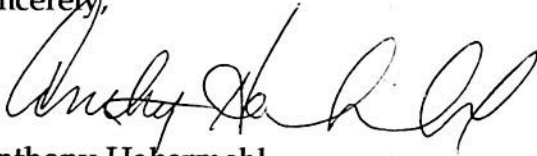
Dear John,

It has recently come to our attention that there is an issue with at least two of the wells that supply the treatment plant. Although we don't understand why you didn't notify us, we are willing to work with the City to get the matter resolved.

We would like to know the balance of the depreciation reserve account and what portion of the repair can be funded by it. We would also like to see some type of maintenance schedule adopted in regards to recharging the wells and pump maintenance.

I would appreciate it if you would keep us up to date regarding this and any other necessary repairs. I think it is in the best interest of all of us to work together. We have some new members on our board that I think would have some useful input. I think it would be a good idea to schedule a meeting to bring everybody up to date on this situation and it would also give our new members the opportunity to tour the plant. Please contact the office to schedule a time that is convenient for you.

Sincerely,



Anthony Habermehl,  
Chairman

AH/dm

BRACKEN WATER DISTRICT  
PO BOX 201  
BROOKSVILLE, KENTUCKY 41004  
606-735-3513

November 21, 2011

Gretchen,

The commissioners would like a copy of the bank statements for the capital cost and depreciation reserve accounts for the past 12 months. Also, copies of any bills that would justify the year end undercharge.

Thanks,  
Diana



BRACKEN WATER DISTRICT  
PO BOX 201  
BROOKSVILLE, KENTUCKY 41004  
606-735-3513

December 21, 2011

Mayor John Laycock  
City of Augusta  
PO Box 85  
Augusta KY 41002

Mayor Laycock,

The district commissioners had our meeting today and we reviewed the rate increase and the bill from the City of Augusta for the undercharge for FY2010-2011 and the Capital cost from May through October 2011. Enclosed you will find a check in the amount of \$38,508.75. This check will cover the Capital cost from May 2011 through November 2011. My commissioners and I are in agreement that the year end undercharge and the depreciation reserve funds will not be paid until we have been given the opportunity to review all bills that contributed to the rate increase. We feel that not only does the Water Purchase Contract Modification Agreement of 2008 provide for copies of all monthly expenditures for the plant to be provided to us, the fact that we fund 75% of those expenses should entitle us to those receipts without question.

Our attorney has been contacted by your attorney and she has informed him that copies of bills can be provided, however, we will have to reimburse the City of Augusta for copy expenses. Nowhere does the contract state that we will have to reimburse the city for copies, but if that is an issue, we will suggest that since a portion of your office staff salary is partially funded through the plant, you could send someone to the treatment plant to use the copy machine there to send us our copies.

We want copies of all bills for chemicals and repairs, both major and minor, for FY2009-2010, FY2010-2011 to current. We also want copies of approval from Rural Development for all major repairs. We want copies of original statements from US Bank showing deposits and withdraws from the bond reserve account and the depreciation reserve account. We also want a report on the number of gallons treated and sold to both the City of Augusta and the Bracken County Water District. We understand that Caustic soda is once again being added to the water, but the district has not been purchasing as much water recently, so chemical costs, in reality, should be reduced.

On behalf of the water district board, the chairman instructed Diana to contact Gretchen to request copies of invoices that would substantiate this increase. She was further instructed


to contact Penny Stanfield. As you may know, Penny has been the district auditor for several years and we have a pleasant rapport with her. We asked Diana to talk to Penny for some type of insight to this increase. At no time whatsoever did we question the accuracy of the audit, as was indicated by your attorney.

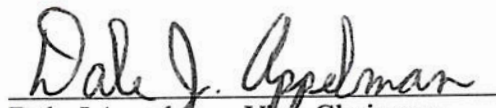
We also want to draw your attention to paragraph 3 of the Contract Agreement , which states that no funds shall be withdrawn nor any check written on the depreciation reserve account without the signature of both the Mayor of Augusta and the Chairman of the Bracken County Water District. On April 21, 2011 we have a copy of a transfer on that account for \$36,228.86, which was not authorized by either party. If the signatures were in place as they were supposed to be, some of these questions regarding the increase would already be answered.

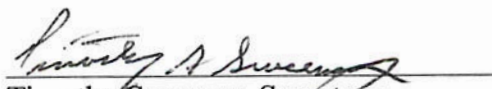
We have made several good faith attempts to work with the Mayor of Augusta, both past and present. We have sent letters asking that you keep us posted on issues involving the plant. If you would attempt to work with us we could possibly get the plant maintenance back on schedule and potentially keep from increasing the rates so drastically.

Upon receipt and review of the requested documents we will be in contact with you. We may have our attorney request a joint meeting with the Advisory Board, the mayor, district board members and the attorney's for both the district and the city.

Sincerely,  
Bracken County Water District Board of Commissioners

  
Anthony Habermehl, Chairman

  
Dale J Appelman, Vice-Chairman

  
Timothy Sweeney, Secretary

  
Baxter Courts, Treasurer

  
Eddie Kern, Commissioner

BRACKEN COUNTY WATER DISTRICT  
PO BOX 201  
BROOKSVILLE KENTUCKY 41004  
606-735-3513

January 10, 2012

City of Augusta  
Mayor John Laycock  
PO Box 85  
Augusta KY 41002

Mayor Laycock,

We wanted to follow-up on a phone call that we received from Gretchen yesterday. We understand that the audit was reviewed and that there had been some capital cost included in the rate. Gretchen explained that the rate was overstated by nine cents per thousand and wanted to know if we wanted the rate adjusted or if we wanted to put the additional funds into the depreciation reserve account. I have discussed it with the board members and we have decided that we want you to contact the PSC and have the rate lowered.

In reviewing the plant budget it has created a few concerns. From what we can see, chemicals were budgeted at \$50,000 for this year. They have been averaging \$8,000 per month from August through November. If the cost continues throughout the year, chemicals will be nearly \$100,000. We want to review all chemical bills. Please have Gretchen fax or e-mail copies of all bills to match the ledger from July 1, 2010 through present.

We also have some questions regarding the office health insurance. There is \$14,654 budgeted for this year. That equals \$1,221 per month. Is this a family plan? Is the entire office salary and health insurance for one employee being charged to the plant? We were previously told that only a portion of the salary was charged to the plant. This issue needs to be addressed. We have also been told that Bob Hitt has retired and there is no plan to replace him. If this is so, we should notice a reduction in the salaries next year.

We also have an issue with the depreciation reserve account. As requested, we did receive a copy of the bank statement. We notice that there has been nothing deposited in the account from September 27, 2011 through December 23, 2011. What is the general practice for deposits? We realize that we were holding our portion, but what about Augusta's portion? We don't see any deposits from

Augusta going into the reserve account, yet you want to charge us a penalty for not sending in our portion. Two parties signed the contract. The City of Augusta and the water district. It seems that you think that the water district is the only one that is bound by the contract. We strongly disagree. We want to see copies of the bank statement for the past 24 months.

Upon receipt of the requested items and after having a chance to review, we will be in contact. We will be remitting payment for water purchases and capital costs only. It will be at the reduced rate. There also seems to be some sort of issue with the meter for the plant usage. The month of December was double our average. We will remit our normal payment for plant usage. After you have the meter checked you can inform us of your findings. If the meter is calibrated correctly, we will remit any additional charges.

Please have Gretchen send us a copy of the letter that is remitted to the PSC regarding the adjusted rate.

Sincerely

A handwritten signature in black ink, appearing to read "Anthony Habermehl", written in a cursive style.

Anthony Habermehl  
Chairman

AH/dm



**BCWD Letter**

Thursday, January 12, 2012 8:01 PM

**From:** "John Laycock" <[REDACTED]>  
**To:** "Cynthia Thompson" <[REDACTED]>, "Gretchen England" <[REDACTED]>, "Mike Clark" <[REDACTED]>

I got another letter from the Bracken Co Water District. This letter is my end. I am done with trying to have any type of workable relationship with the district. This letter is mean-spirited and petty. I am ready to petition the court system to relieve the city of its current contract obligations with the water district and ask for a determine ownership of the plant. After this determination a new contract can be negotiated if the other party wishes to purchase from water from the other. If any of you can come up with any other workable solution I will listen. If not I will assume that we are going to court.

Gretchen please scan and email the letter from the district to Mike and Cynthia.

Thanks  
John

BRACKEN COUNTY WATER DISTRICT  
1324 BROOKSVILLE GERMANTOWN RD  
P O BOX 201  
BROOKSVILLE KY 41004  
606-735-3513

August 1, 2013

Gretchen England  
PO Box 85  
Augusta KY 41002

Dear Gretchen,

In the past we have asked that we be sent copies of the bank statements for the accounts that are in connection with the treatment plant. We have been advised by our auditor to request that the statements be faxed or mailed to us on a quarterly basis.

We appreciate your prompt attention to this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Anthony Habermehl".

Anthony Habermehl  
Chairman

AH/dm



**STOLL  
KEENON  
OGDEN**  
PLLC

2000 PNC PLAZA  
500 WEST JEFFERSON STREET  
LOUISVILLE, KY 40202-2828  
MAIN: (502) 333-6000  
FAX: (502) 333-6099

**GERALD WUETCHER**  
DIRECT DIAL: (859) 231-3017  
DIRECT FAX: (859) 258-3517  
gerald.wuetcher@skofirm.com

January 12, 2015

Honorable Mary Zeigler  
Mayor  
City of Augusta  
P.O. Box 85  
Augusta, Kentucky 41002

Re: Request for Substantiation of Undercharges

Dear Mayor Zeigler:

On behalf of Bracken County Water District (“Bracken District”), I request substantiation of reported undercharges of \$19,696.17 for water provided by the City of Augusta (“Augusta”) to Bracken District for the period from July 1, 2013 to June 30, 2014.

The water purchase contract between Augusta and Bracken District, as amended, establishes a wholesale rate with three components: cash operation and maintenance expense, capital cost, and capital cost replacement. The “cash operation and maintenance expense” component is designed to recover the operating expenses of Augusta water treatment plant. Each year Augusta must engage an auditor to determine the water treatment plant’s total operating expenses for the completed fiscal year. These expenses are allocated between Augusta and Bracken District based upon each party’s usage of the water treatment plant’s total output for the period. Bracken District’s allocated level of expenses is then divided by its total water purchases to produce the “cash operation and maintenance expense” rate. This rate applies prospectively to Bracken District’s water purchases for the following year. At the end of this period, another audit is conducted. Within 30 days of receipt of the report of the later audit’s findings, Augusta is required to adjust the previous year’s billings to reflect the water treatment plant’s actual operating expenses for the completed fiscal year.

On January 6, 2015, Augusta presented Bracken District with an invoice for \$19,696.17 for “Year-end undercharge for fiscal year 2013-2014.” It did not provide any audit report or other evidence to support the reported undercharge. Subsequently Augusta notified Bracken District of a proposed increase in its wholesale water service rate to \$1.95 per 1,000 gallons and provided a one-page summary statement of the operating costs of Augusta’s water treatment plant for fiscal year 2013-2014.

Honorable Mary Zeigler  
January 12, 2015  
Page 2

The enclosure to this letter lists the information that Bracken District believes is necessary to confirm the amount of any undercharges and to reduce the likelihood of any controversy regarding Augusta's proposed wholesale rate adjustment. Bracken District requests that Augusta provide this information within 10 days of its receipt of this letter. Until Bracken District receives and has a reasonable opportunity to review this information, it will not take any action to pay the reported undercharges.

If you have questions regarding this letter or the requested information, please contact me.

Very truly yours,

Stoll Keenon Ogden PLLC

A handwritten signature in black ink, appearing to read "Gerald Wuetcher". The signature is fluid and cursive, with a prominent initial "G" and "W".

Gerald Wuetcher

GEW  
Enclosure

CF: Cynthiana Thompson, Esq.  
Gretchen England-Usleaman



**REQUESTED INFORMATION TO VERIFY REPORTED  
UNDERCHARGES**

1. Provide a copy of the Audited Basic Financial Statements and Required Supplementary Information for Year Ended June 30, 2014 for the City of Augusta, Kentucky (“2013-2014 Audit Report”).
2. Provide for each category listed in the summary statement of the operating costs (except salaries and benefits) an itemized listing of purchases or expenditures in each category that indicates the amount, payee, date and nature of each expense/purchase.
3. Provide the following information for each Augusta employee whose wages and salaries, or a portion of, are included in the water treatment plant’s operating costs
  - a. The employee’s total salary or wages (including benefits)
  - b. The portion of the employee’s salary or wages (including benefits) included in the water treatment plant’s operating costs
  - c. The employee’s job or position title
  - d. A job or position description for each employee
  - e. Confirmation as to whether the employee performed services for other city departments, including Augusta’s water distribution system
  - f. If the employee performed services for other city departments, the percentage of the employee’s total work time dedicated to those services.
4. Provide a description of how Augusta allocated any common costs or expenditures between the water treatment plant and other city departments.
5. Provide a copy of all standard operating procedures, internal policy guidelines or guidance, and internal memorandum establishing the method for allocating common costs between city departments, including the water treatment plant.
6. Provide for each month of Fiscal Year 2013-2014 the volume of water treated at the Augusta water treatment plant.
7. Provide for each month of Fiscal Year 2013-2014 the volume of water delivered to Augusta’s water distribution system from the Augusta water treatment plant.
8. State whether the volume of water delivered to Augusta’s water distribution system is metered. If this volume of water is metered, provide the daily meter readings. (If daily readings are not available, provide the meter readings based upon the frequency that Augusta used to measure and track such water deliveries.)

9. Provide for each month of the period from July 1, 2013 to June 30, 2014 Augusta's total retail water sales in gallons.
10. Provide an itemized statement of the disbursements or withdrawals from and deposits to the water treatment plant's Depreciation Reserve Fund since May 2008. This list should include the amount of the disbursement or deposit, the date of disbursement or deposit, the use of the withdrawn or disbursed funds, the source of the deposited funds, and the total balance of the fund after the disbursement or deposit. For each fund withdrawal, provide a copy of the certification that Augusta submitted to Rural Development for the withdrawal and written evidence of Rural Development's approval of the withdrawal.
11. Provide the calculations used to determine the Capital Cost Charge for Fiscal Year 2013-2014.
12. Provide for each month in fiscal year 2013-2014 the total payments made by Bracken County Water District, excluding capital cost charges, to Augusta for water. These amounts should include any amounts paid for water used at the water treatment plant.
13. Provide invoices for all purchases of chemicals and all testing expenditures for Fiscal Year 2013-2014.
14. Describe how the Auditor determined that the Augusta water treatment plant produced 214,160,700 gallons of treated water in the fiscal year 2013-2014.
15. Describe how the Auditor determined that Augusta used 50,026,000 gallons of water from the Augusta water treatment plant during Fiscal Year 2013-2014.