

DAMON R. TALLEY, P.S.C.

112 N. LINCOLN BLVD.
P.O. BOX 150
HODGENVILLE, KENTUCKY 42748

TEL. (270) 358-3187
FAX (270) 358-9560

ATTORNEY AT LAW

DAMON R. TALLEY

December 7, 2011

Mr. Jeff Derouen
Executive Director
Public Service Commission
PO Box 615
Frankfort, KY 40602

RECEIVED
DEC 08 2011
PUBLIC SERVICE
COMMISSION

RE: Adair County Water District
Financing

Dear Mr. Derouen:

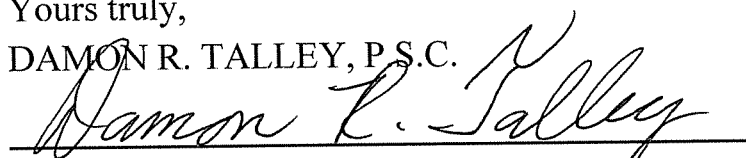
Enclosed for filing are the original and ten (10) copies of the Application of the Adair County Water District for authorization to enter into a KIA Fund F Loan Assistance Agreement.

The deadline is January 6, 2012.

Should you need any additional information, please let me know.

Yours truly,

DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY, ATTORNEY FOR
ADAIR COUNTY WATER DISTRICT

DRT:ms

Enclosures

cc: Adair County Water District

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF THE ADAIR COUNTY)	
WATER DISTRICT FOR AUTHORITY TO)	
EXECUTE AN ASSISTANCE AGREEMENT)	CASE NO.
WITH KIA IN THE PRINCIPAL AMOUNT OF)	2011 - _____
\$4,000,000 PURSUANT TO THE PROVISIONS)	
OF KRS 278.300 AND 807 KAR 5:001)	

RECEIVED

DEC 08 2011

PUBLIC SERVICE
COMMISSION

** *** ***** **

APPLICATION

** *** ***** **

The Applicant, Adair County Water District (the "District"), files this Petition and Application, pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Public Service Commission of Kentucky (the "Commission") enter an Order authorizing the District to execute an Assistance Agreement with the Kentucky Infrastructure Authority (the "KIA") in the principal amount of \$4,000,000. The KIA Fund F Loan will be for a 20-year term and at an interest rate of 1.00%. In support of this Petition and Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

GENERAL INFORMATION

1. The District was established by the Order of the County Court of Adair County entered on October 21, 1971, pursuant to the provisions of KRS Chapter 74. The District is now, and has been since its inception, regulated by the Commission. All records and proceedings of the Commission with reference to the District are incorporated in this Application by reference.

2. The District does not have any Articles of Incorporation since it was created pursuant to KRS Chapter 74.

3. The governing body of the District is its Board of Commissioners. The District is a public body corporate, with power to make contracts in furtherance of its lawful and proper purposes as provided in KRS 74.070 and all other applicable laws.

4. The mailing address of the District is as follows:

Adair County Water District
109 Grant Lane
P.O. Box 567
Columbia, KY 42728
Attn: Lennon D. Stone, Manager
Telephone: (270) 384-2181

5. The Adair County Judge/Executive has entered Orders appointing the present Commissioners, who are residents of the District. The present members of the Board of Commissioners and their respective offices are as follows: Danny Downey, Chairman; Rabon Burton, Vice-Chairman; Rudy

Higginbotham, Secretary-Treasurer; Larry Legg, Commissioner; and Robert Flowers, Commissioner. Each of the five (5) Commissioners has qualified for office.

6. As of December 31, 2010, the District provided retail water service to approximately 7,700 customers in Adair County, Kentucky. It does not presently provide wholesale water service.

7. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2010 which is on file with the Commission. The Annual Report is incorporated herein by reference.

DESCRIPTION AND PURPOSE OF KIA LOAN

8. The District is currently constructing a major hydraulic improvement project to increase water supply and water pressures in the southern portion of Adair County. The project is being constructed pursuant to a Certificate of Public Convenience and Necessity granted by the Commission by Order dated April 29, 2011 in Case No. 2011-00127.

9. The project consists of the construction and installation of approximately 11 miles of water transmission and distribution mains ranging in size from 6-inch to 12-inch, a booster pump station, a 750,000 gallon elevated water tank, and related appurtenances (the "Project").

10. The total Project cost is estimated to be \$4,034,000. Interim financing of the Project is being provided by a local bank.

11. The District has obtained a commitment from the KIA for a 20-year Fund F loan in the amount of \$4,000,000 at an interest rate of 1.00% (the “KIA Fund F Loan”). Proceeds from the KIA Fund F Loan will be utilized to pay the principal and accrued interest of the interim (construction) loan and to provide permanent financing of the Project. The balance of the Project cost (\$34,000) will be funded by the District from its reserve funds. A copy of the KIA commitment letter is attached hereto and incorporated herein by reference as

EXHIBIT 1. The financing sources are summarized as follows:

KIA Fund F Loan	\$4,000,000
District Reserve Funds	<u>34,000</u>
TOTAL	\$4,034,000

12. The original deadline for meeting the conditions set forth in the KIA commitment letter was July 6, 2010. KIA has extended the deadline to **January 6, 2012**. A copy of the July 6, 2011 letter from KIA extending the deadline is attached hereto and incorporated herein by reference as **EXHIBIT 2**.

13. KIA has not yet prepared the Assistance Agreement that the District will be required to execute. Nevertheless, KIA Staff has informed the District that the Assistance Agreement will follow the format of, and contain the standard provisions contained in, KIA’s Standard Form Assistance Agreement

for Fund F Loans, a copy of which is attached hereto and incorporated herein by reference as **EXHIBIT 3**.

14. The KIA Fund F Loan will be amortized over a term of 20 years and will bear interest at the rate of 1 % per annum. In addition, the District must pay a loan servicing fee of 0.25% of the outstanding loan balance (see paragraphs 2, 3, and 6 of **EXHIBIT 1**).

15. The estimated annual debt service payment for the KIA Fund F Loan is **\$231,164**, including principal, interest, and the loan servicing fee.

16. The District represents that executing the KIA Assistance Agreement and obtaining long term financing provided by the KIA Fund F Loan will be in the public interest and is intended to accomplish the purpose of strengthening the financial condition of the District by converting short term interim financing debt to long term debt. This is a lawful object within the corporate purposes of the District's utility operations. Approval and execution of the KIA Fund F Loan is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

FINANCIAL INFORMATION

17. The District's detailed Income Statement and Balance Sheet for the twelve (12) month period ending on December 31, 2010 are attached hereto and incorporated herein by reference as **EXHIBITS 4** and **5** respectively.

18. The remaining financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 6 and Section 11 (2)(a) are contained in the 2010 Annual Report which is on file with the Commission. The Annual Report is incorporated herein by reference.

19. Pursuant to KAR 5:001, the District hereby states as follows:

- A. Section 6(4) Mortgages: The District does not have any mortgages in effect as of the date hereof;
- B. Section 6(6) Notes: The KIA Fund F Loan will be evidenced by an Assistance Agreement and will be secured by a pledge of the revenues of the District's system;
- C. Section 11(2)(b): The District does not have any trust deeds in effect as of the date hereof; and
- D. Section 11(2)(c): A map, plat, and deed of the property acquired by the District for the site of the 750,000 gallon elevated water tank, as well as maps and plans depicting the location of the tank, pump station, and water mains being constructed as part of the Project and permanently financed by the KIA Fund F Loan were filed with the Commission in Case No. 2011-00127. These documents are incorporated herein by reference.

20. A copy of the District's audited financial statements for the years ended December 31, 2010 and 2009 is attached hereto and incorporated herein by reference as **EXHIBIT 6**.

RATE ADJUSTMENT

21. A rate adjustment will be necessary to enable the District to pay the annual debt service payments (approximately \$231,164) for the proposed KIA Fund F Loan and still maintain a debt service coverage ratio of 1.20 as required

by the District's bond covenants.

22. Meanwhile, the District has also obtained a commitment from the United States Department of Agriculture, Rural Development (the "USDA-RD") for a \$1,459,000 loan and a \$595,000 grant to finance additional improvements to its system. A rate adjustment will also be required as a result of the proposed USDA-RD Loan.

23. Combining the two (2) rate adjustments into a single rate adjustment has these advantages: (a) it will save the District substantial legal, accounting, and other professional fees; (b) a single rate adjustment can be implemented more quickly; (c) it will be less confusing to the District's customers; (d) it, hopefully, will reduce the number of customer complaints; and (e) it will reduce the amount of resources and staff time that the Commission would otherwise be required to devote to the District.

24. Therefore, the District has elected to combine the rate adjustments necessitated by both the KIA Fund F Loan and the new USDA-RD Loan rather than file two (2) separate rate cases with the Commission.

25. The rates set forth in the amended USDA-RD Letter of Conditions dated November 15, 2011 will enable the District to pay the annual debt service on both the KIA Fund F Loan and the new USDA-RD Loan and maintain its required debt service ratio of 1.20.

26. In January, 2012, the District plans to file an application, pursuant to KRS 278.023, seeking: (a) a Certificate of Public Convenience and Necessity authorizing construction of certain improvements to its system; (b) approval of the proposed USDA-RD Loan; and (c) approval to adjust its rates as required by USDA-RD.

27. Therefore, no rate adjustment is being sought in this proceeding whereby the District is seeking Commission authorization to execute the proposed KIA Fund F Assistance Agreement.

DEVIATION REQUEST

28. The District hereby requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the Application. The District states that there has been no material change in the financial condition or operation of the District since December 31, 2010. The financial data filed with this Application is for the twelve (12) month period ending December 31, 2010. This is the most recent published financial data available.

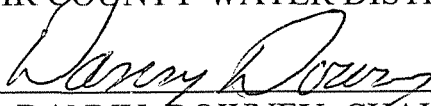
29. The District believes that the financial information submitted with this Application is sufficient to enable the Commission to adequately, effectively and efficiently review this Application to approve the District's execution of the proposed KIA Fund F Assistance Agreement.

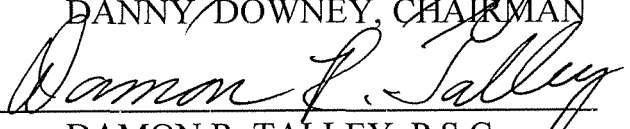
WHEREFORE, the District respectfully requests that the Commission take the following actions:

1. Place this Application at the head of the docket as provided by KRS 278.300(2);
2. Authorize the District to execute an Assistance Agreement with KIA as requested in the Application prior to the deadline of **January 6, 2012**;
3. Grant the District a deviation, to the extent necessary, from 807 KAR 5:001, Section 6 to allow the submission of the District's Audit for the twelve (12) month period ending December 31, 2010 in lieu of more recent financial data;
4. Process this Application without a formal hearing in order to save time and expense. The District will promptly respond to any inquiries or information requests by the Commission's staff; and
5. Grant the District any and all other appropriate relief.

This December 7, 2011.

Respectfully submitted,
ADAIR COUNTY WATER DISTRICT

BY: 
DANNY DOWNEY, CHAIRMAN

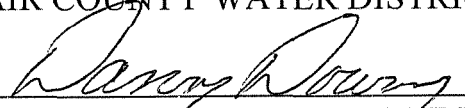

DAMON R. TALLEY, P.S.C.
Counsel for Applicant
PO Box 150
Hodgenville, KY 42748-0150
(270)358-3187 Fax (270)358-9560
drtalley@windstream.net

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF ADAIR)

The undersigned, DANNY DOWNEY, being first duly sworn, deposes and states that he is the Chairman of the Adair County Water District; that he has read the foregoing Application and has noted the contents thereof; and that the statements of fact set forth therein are true and correct.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this December 7, 2011.

ADAIR COUNTY WATER DISTRICT

BY: 
DANNY DOWNEY, CHAIRMAN

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF ADAIR)

Subscribed and sworn to before me by Danny Downey, in his capacity as
Chairman of the Adair County Water District, on this December 7, 2011.


NOTARY PUBLIC, STATE AT LARGE
MY COMMISSION EXPIRES: 6-9-2015

EXHIBIT LIST

ADAIR COUNTY WATER DISTRICT

1. KIA Commitment Letter
2. KIA Letter of July 6, 2011 Extending Deadline
3. KIA Standard Form Assistance Agreement
4. Income Statement
5. Balance Sheet
6. 2010 Audit

EXHIBIT 1

KIA COMMITMENT

LETTER



KENTUCKY INFRASTRUCTURE AUTHORITY

1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601
Phone (502) 573-0260
Fax (502) 573-0157
<http://kia.ky.gov>

Steven L. Beshear
Governor

John E. Covington III
Executive Director

July 6, 2010

Mr. Danny Downey, Chairman
Adair County Water District
109 Grant Lane, P.O. Box 567
Columbia, KY 42728

2010 JUL 28 A 10:21

RECEIVED
KENTUCKY INFRASTRUCTURE
AUTHORITY

**KENTUCKY INFRASTRUCTURE AUTHORITY
FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND
CONDITIONAL COMMITMENT LETTER (F10-01)**

Dear Chairman Downey:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. On July 1, 2010, the Authority approved your loan for the Sparksville Water Transmission and Water Storage Tank project subject to the conditions stated below. The total cost of the project shall not exceed \$4,133,000 of which the Authority loan shall provide \$4,000,000 of the funding. Other anticipated funding for the project is reflected in Attachment A. The final loan amount will be equal to the Authority's portion of estimated project cost applied to the actual project cost. Attachment A incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between the Authority and the Adair County Water District upon satisfactory performance of the conditions set forth in this letter. A period of twelve months from the date of this letter (7/6/2011) will be allowed for you to meet the conditions set forth in this letter and enter into an Assistance Agreement. A one-time extension of up to six months may be granted for applicants that experience extenuating circumstances. Funds will be available for disbursement only after execution of the Assistance Agreement.

The Assistance Agreement and this commitment shall be subject, but not limited to, the following terms:

1. The Authority project loan shall not exceed \$4,000,000.

2. The loan shall bear interest at the rate of 1.0% per annum commencing with the first draw of funds.
3. The loan shall be repaid over a period not to exceed 20 years from the date the loan is closed.
4. Interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1 or December 1 immediately succeeding the date of the initial draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1 or December 1 which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid.
5. Full principal payments will commence on the appropriate June 1 or December 1 within twelve months from initiation of operation. Full payments will be due each six months thereafter until the loan is repaid.
6. A loan servicing fee of 0.25% of the annual outstanding loan balance shall be payable to the Authority as a part of each interest payment.
7. Loan funds will be disbursed after execution of the Assistance Agreement as project costs are incurred.
8. The Authority loan funds must be expended within six months of the official date of initiation of operation.
9. Fund "F" loan funds are considered to be federal funds. OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations, requires that all recipients and subrecipients **expending \$500,000 or more in a year in federal awards must have a single or program-specific audit conducted for that year** in accordance with the Circular. If the federal amount expended plus all other federal funds expended exceeds the threshold, you are required to arrange for an A-133 audit to be performed by an independent, licensed CPA, or in special cases, the Auditor of Public Accounts of the Commonwealth of Kentucky. The Authority requires an annual audit to be preformed for the life of the loan.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. The Authority to Award (bid) package must be submitted to the Division of Water for approval within 14 days of bid opening.
2. The Assistance Agreement must be executed within six (6) months from bid opening.
3. The Borrower must agree to expend all Authority loan funds within six months of the date of initiation of operation.
4. Documentation of final funding commitments from all parties other than the Authority as reflected in the credit analysis shall be provided prior to preparation of the Assistance Agreement and disbursement of the loan monies. Rejections of any anticipated project funding shall be immediately reported and may cause this loan to be subject to further consideration.
5. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the state's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. At this time we know of no further submission required for their review; however, they may request information as needed.
6. Any required adjustment in utility service rates shall be adopted by ordinance, municipal order or resolution by the appropriate governing body of the Borrower. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance, order, or resolution. Any required approvals by the Kentucky Public Service Commission shall be obtained.
7. All easements or purchases of land shall be completed prior to commencement of construction. Certification of all land or easement acquisitions shall be provided to the Division of Water.
8. The Borrower must complete and return to the Authority the attached "Authorization For Electronic Deposit of Vendor Payment" Form.
9. The Authority to Award Package documentation shall be submitted to and approved by DOW.
10. An environmental review shall be conducted by the Division of Water for all construction projects receiving DWSRF funds, within the term of this binding commitment and prior to project bid.

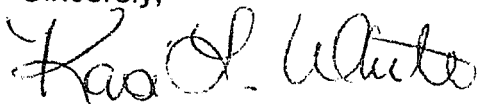
Chairman Downey
7/6/2010
Page 4

11. Technical plans and specifications and a complete DWSRF specifications checklist shall be approved by the Division of Water prior to project bid.
12. A clear site certificate shall be obtained and DOW representatives shall be notified for attendance of the pre-construction conference.
13. Project changes or additions shall require a complete environmental and change order review before they can be included in the DWSRF loan project.
14. The project shall use federal wage rates as described in the Davis/Bacon Act.

Any special conditions listed below and/or stated in Attachment A must be resolved.

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,



Kasi L. White
Financial Analyst

Attachments

cc: Lennon Stone, Adair County Water District
David M. Bowles, P.E., Monarch Engineering, Inc.
Division of Water
Dirk Bedarff, Peck, Shaffer & Williams LLP
State Local Debt Office, DLG
Borrower File - Adair County Water District - F10-01

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms. Also attach the completed "Authorization For Electronic Deposit of Vendor Payment" Form.


Accepted

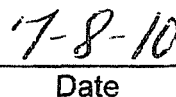

Date

EXHIBIT 2



EXHIBIT 2

Steven L. Beshear
Governor

KENTUCKY INFRASTRUCTURE AUTHORITY

1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601
Phone (502) 573-0260
Fax (502) 573-0157
<http://kia.ky.gov>

John E. Covington III
Executive Director

July 6, 2011

Mr. Danny Downey, Chairman
Adair County Water District
109 Grant Lane, P.O. Box 567
Columbia, KY 42728

**KENTUCKY INFRASTRUCTURE AUTHORITY
FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND
CONDITIONAL COMMITMENT LETTER (F10-01)
EXTENSION REQUEST**

Dear Chairman Downey:

The Kentucky Infrastructure Authority (the "Authority") has received the district's request for an extension of the Drinking Water State Revolving Fund (DWSRF) loan F10-01 for the Sparksville Water Transmission and Water Storage Tank project. The Authority has extended the deadline for the district to meet the conditions set forth in the conditional commitment letter for six (6) months. The original expiration date was July 6, 2011. The new expiration date will be January 6, 2012. If the project does not meet the conditions by the new expiration date, no additional extensions will be considered and the commitment will be rescinded.

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,

John E. Covington, III
Executive Director
Attachments

cc: Lennon Stone, Adair County Water District
David M. Bowles, P.E., Monarch Engineering, Inc.
Division of Water
Dirk Bedarff, Peck, Shaffer & Williams LLP
State Local Debt Office, DLG
Borrower File - Adair County Water District - F10-01

EXHIBIT 3

STANDARD FORM

KIA FUND F

ASSISTANCE AGREEMENT

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

FUND F

PROJECT NUMBER: F__ - __

BORROWER: _____

BORROWER'S ADDRESS: _____

DATE OF ASSISTANCE AGREEMENT: _____ 1, 200_

CFDA NO.: 66.468

ASSISTANCE AGREEMENT

TABLE OF CONTENTS

ARTICLE I

DEFINITIONS

ARTICLE II

REPRESENTATIONS AND WARRANTIES

SECTION 2.1. Representations and Warranties of Authority 6
SECTION 2.2. Representations and Warranties of the Governmental Agency 6

ARTICLE III

AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

SECTION 3.1. Determination of Eligibility 9
SECTION 3.2. Principal Amount of Loan Established; Loan Payments;
Disbursement of Funds 9
SECTION 3.3. Governmental Agency's Right to Prepay Loan 9
SECTION 3.4. Subordination of Loan 9

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT;
REQUISITION FOR FUNDS

SECTION 4.1. Covenants of Governmental Agency and Conditions of Loan 11
SECTION 4.2. Additional Conditions to Disbursement Required
Under the Federal Agreement 13
SECTION 4.3. Disbursements of Loan; Requisition for Funds 15

ARTICLE V

CERTAIN COVENANTS OF THE GOVERNMENTAL AGENCY;
PAYMENTS TO BE MADE BY GOVERNMENTAL AGENCY TO THE AUTHORITY

SECTION 5.1. Imposition of Service Charges 16
SECTION 5.2. Governmental Agency's Obligation to Repay Loan 16
SECTION 5.3. Covenant to Adjust Service Charges 16
SECTION 5.4. Adequacy of Service Charges 16
SECTION 5.5. Covenant to Establish Maintenance and Replacement Reserve 17
SECTION 5.6. Covenant to Charge Sufficient Rates; Reports; Inspections 17
SECTION 5.7. Segregation of Funds 17

ARTICLE VI

OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

SECTION 6.1.	Further Assurance.....	18
SECTION 6.2.	Completion of Project.....	18
SECTION 6.3.	Establishment of Completion Date.....	18
SECTION 6.4.	Commitment to Operate	18
SECTION 6.5.	Continue to Operate.....	18
SECTION 6.6.	Tax Covenant.....	18
SECTION 6.7.	Accounts and Reports.....	18
SECTION 6.8.	Financial Statements.....	19
SECTION 6.9.	General Compliance With All Duties.....	19
SECTION 6.10.	General.....	19
SECTION 6.11.	Further Covenants Under the Federal Agreement.....	19
SECTION 6.12.	Continuing Disclosure Obligation	21

ARTICLE VII

MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

SECTION 7.1.	Maintenance of System.....	22
SECTION 7.2.	Additions and Improvements.....	22
SECTION 7.3.	System Not to be Disposed of	22
SECTION 7.4.	Compliance with State and Federal Standards	22
SECTION 7.5.	Access to Records.....	22
SECTION 7.6.	Covenant to Insure - Casualty.....	22
SECTION 7.7.	Authority as Named Insured.....	23
SECTION 7.8.	Covenant to Insure - Liability.....	23
SECTION 7.9.	Covenant Regarding Workers' Compensation.....	23
SECTION 7.10.	Application of Casualty Insurance Proceeds	23
SECTION 7.11.	Eminent Domain.....	23
SECTION 7.12.	Flood Insurance	24

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

SECTION 8.1.	Events of Default Defined	25
SECTION 8.2.	Remedies on Default.....	25
SECTION 8.3.	Appointment of Receiver.....	26
SECTION 8.4.	No Remedy Exclusive	26
SECTION 8.5.	Consent to Powers of Authority Under Act.....	26
SECTION 8.6.	Waivers	26
SECTION 8.7.	Agreement to Pay Attorneys' Fees and Expenses.....	26

ARTICLE IX

MISCELLANEOUS PROVISIONS

SECTION 9.1.	Approval not to be Unreasonably Withheld	27
SECTION 9.2.	Approval	27
SECTION 9.3.	Effective Date	27
SECTION 9.4.	Binding Effect.....	27
SECTION 9.5.	Severability	27
SECTION 9.6.	Assignability	27
SECTION 9.7.	Execution in Counterparts	27
SECTION 9.8.	Applicable Law.....	27
SECTION 9.9.	Captions	27
SIGNATURES		28
EXHIBIT A - PROJECT SPECIFICS		A-1
EXHIBIT B - REQUISITION FORM.....		B-1
EXHIBIT C - SCHEDULE OF SERVICE CHARGES		C-1
EXHIBIT D – MUNICIPAL ORDER/RESOLUTION.....		D-1
EXHIBIT E - LEGAL OPINION		E-1
EXHIBIT F - SCHEDULE OF PAYMENTS		F-1
EXHIBIT G - ADDITIONAL COVENANTS AND AGREEMENTS.....		G-1

ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of the date set forth on the cover page hereof (the "Assistance Agreement") by and between the KENTUCKY INFRASTRUCTURE AUTHORITY, a body corporate and politic, constituting a public corporation and governmental agency and instrumentality of the Commonwealth of Kentucky (the "Authority") and the Governmental Agency identified on the cover of this Assistance Agreement (the "Governmental Agency"):

W I T N E S S E T H

WHEREAS, the General Assembly of the Commonwealth of Kentucky, being the duly and legally constituted legislature of Kentucky at its 1988 Regular Session, enacted House Bill 217 amending Chapter 224A of the Kentucky Revised Statutes (the "Act"), creating the "Kentucky Infrastructure Authority" to serve the public purposes identified in the Act; and

WHEREAS, the Authority has established its Program as hereinafter defined, for the purpose of providing financial assistance to Governmental Agencies, as defined in the Act, in connection with the acquisition and construction of Projects, as defined in the Act, in order to preserve, protect, upgrade, conserve, develop, utilize and manage the resources of the Commonwealth of Kentucky (the "Commonwealth") for the protection and preservation of the health, safety, convenience, and welfare of the Commonwealth and its citizens, and in that respect to assist and cooperate with Governmental Agencies in achieving such purposes; and

WHEREAS, the Program is funded in part, pursuant to the Capitalization Grant Operating Agreement between the Authority and the U.S. Environmental Protection Agency dated as of November 1, 1998, as amended, supplemented or restated from time to time (the "Federal Agreement"), under which the Authority is responsible for providing certain "match funding" described in the Federal Agreement; and

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of February 1, 2000 (the "Indenture") between the Authority and U.S. Bank, National Association, as lawful successor in interest to National City Bank of Kentucky (the "Trustee"), in order to provide the "match funding" for the Program; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to finance the acquisition and construction of the Project, as hereinafter defined, and the Authority has determined that the Project is a Project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Authority; and

WHEREAS, the Governmental Agency desires to enter into this Assistance Agreement with the Authority for the purpose of securing from the Authority the repayable Loan hereinafter identified; and

WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency

herein contained to repay the Loan and the interest thereon from the sources herein provided, all as hereinafter more specifically provided; and

WHEREAS, the Authority and the Governmental Agency have determined to enter into this Assistance Agreement pursuant to the terms of the Act and the Indenture and to set forth their respective duties, rights, covenants, and obligations with respect to the acquisition, construction and financing of the Project and the repayment of the Loan and the interest thereon;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

ARTICLE I

DEFINITIONS

All of the terms utilized in this Assistance Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Assistance Agreement by reference, the same as if set forth hereby verbatim; provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"*Act*" shall mean Chapter 224A of the Kentucky Revised Statutes, as amended.

"*Administrative Fee*" means the charge of the Authority for the servicing of the Loan, which is the annual percentage charged against the unpaid principal balance of the Loan as identified in the Project Specifics.

"*Architects*" means the firm of consulting architects employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"*Assistance Agreement*" shall mean this agreement made and entered into by and between a Governmental Agency and the Authority, as authorized by the Act, providing for a Loan to the Governmental Agency by the Authority, and for the repayment thereof to the Authority by the Governmental Agency.

"*Authority*" shall mean the Kentucky Infrastructure Authority created by the Act, a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the Commonwealth of Kentucky, or such other designation as may be effected by future amendments to the Act.

"*Bond*" or "*Bonds*" or "*Revenue Bonds*" shall mean any Kentucky Infrastructure Authority Bond or Bonds, or the issue of such Bonds, as the case may be, authenticated and delivered under the Indenture.

"*Business Day*" shall mean any day other than a Saturday, Sunday or other legal holiday on which the general offices of the Commonwealth are closed.

"*Cabinet*" means the Energy and Environment Cabinet of the Commonwealth.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"*Commonwealth*" shall mean the Commonwealth of Kentucky.

"*Construction*" shall mean construction as defined in the Act.

"*Debt Obligations*" shall mean those outstanding obligations of the Governmental Agency identified in the Project Specifics outstanding as of the date of this Assistance

Agreement or issued in the future in accordance with the terms hereof, payable from the income and revenues of the System.

"Drinking Water Supply Project" shall mean the planning, design and construction of drinking water treatment and distribution systems, including expenditures to address Federal Act health goals, or to address situations where compliance standards have been exceeded or to prevent future violations of rules, and may further include drinking water treatment plants, including basins for rapid mix, flocculation, coagulation, filtration, pre-treatment disinfection, and disinfection prior to entry to the distribution system; distribution systems; storage tanks; intake lines and short-term water storage; clearwells; drilled wells and wellhead areas; and any other structure or facility considered necessary by the Cabinet to the efficient and sanitary operation of a public water system and complies with the requirements of the Federal Act.

"Engineers" means the firm of consulting engineers employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"Federal Act" shall mean the Federal Safe Drinking Water Act, as amended, 42 U.S.C. Section 1401, et seq.

"Governmental Agency" shall mean any incorporated city or municipal corporation, or other agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct, and operate infrastructure projects, including specifically but not by way of limitation, incorporated cities, counties, including any counties containing a metropolitan sewer district, sanitation districts, water districts, sewer construction districts, metropolitan sewer districts, sanitation taxing districts, and any other agencies, commissions, districts, or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Assistance Agreement shall mean the Governmental Agency identified in the Project Specifics.

"Indenture" shall mean the General Trust Indenture dated as of February 1, 2000 between the Authority and the Trustee.

"Interagency Agreement" means the Memorandum of Understanding dated as of July 1, 1999 between the Authority and the Cabinet, as the same may be amended or supplemented from time to time.

"Loan" shall mean the loan effected under this Assistance Agreement from the Authority to the Governmental Agency in the principal amount set forth in the Project Specifics, for the purpose of defraying the costs incidental to the Construction of the Project.

"Loan Rate" means the rate of interest identified in the Schedule of Payments.

"Person" shall mean any individual, firm, partnership, association, corporation or Governmental Agency.

"Program" shall mean the program authorized by KRS 224A.1115 and the Indenture as the "federally assisted drinking water revolving fund" for financing Projects through Loans by

the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

"*Project*" shall mean, when used generally, a Drinking Water Supply Project, and when used in specific reference to the Governmental Agency, the Project described in the Project Specifics.

"*Project Specifics*" means those specific details of the Project identified in Exhibit A hereto, all of which are incorporated by reference in this Assistance Agreement.

"*Requisition for Funds*" means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Authority as the Construction of the Project progresses.

"*Resolution*" means the resolution of the Governmental Agency in the form attached hereto as Exhibit D authorizing the execution of this Assistance Agreement.

"*Schedule of Payments*" means the principal and interest requirements of the Loan as set forth in Exhibit F hereto, to be established and agreed to upon or prior to the completion of the Project.

"*Schedule of Service Charges*" shall mean those general charges to be imposed by the Governmental Agency for services provided by the System, as set forth in Exhibit C hereto, and such other revenues identified in Exhibit C hereto from which the Loan is to be repaid, which Schedule of Service Charges shall be in full force and effect to the satisfaction of the Authority prior to the disbursement of any portion of the Loan hereunder.

"*Service Charges*" shall mean any monthly, quarterly, semi-annual, or annual charges, surcharges or improvement benefit assessments to be imposed by a Governmental Agency, or by the Authority, in respect of the System, which Service Charges arise by reason of the existence of, and requirement of, any Assistance Agreement and for the purposes of this Assistance Agreement said Service Charges shall be no less than those set forth in the Schedule of Service Charges.

"*System*" shall mean the water system owned and operated by the Governmental Agency of which the Project shall become a part and from the earnings of which (represented by the Service Charges) the Governmental Agency shall repay the Authority the Loan hereunder.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Authority. The Authority represents and warrants for the benefit of the Governmental Agency as follows:

(A) The Authority is a body corporate and politic constituting a governmental agency and instrumentality of the Commonwealth, has all necessary power and Authority to enter into, and perform its obligations under, this Assistance Agreement, and has duly authorized the execution and delivery of this Assistance Agreement.

(B) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing.

(C) To the knowledge of the Authority, there is no litigation or proceeding pending or threatened against the Authority or any other person affecting the right of the Authority to execute or deliver this Assistance Agreement or to comply with its obligations under this Assistance Agreement. Neither the execution and delivery of this Assistance Agreement by the Authority, nor compliance by the Authority with its obligations under this Assistance Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(D) The authorization, execution and delivery of this Assistance Agreement and all actions of the Authority with respect thereto, are in compliance with the Act and the Federal Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of the Governmental Agency. The Governmental Agency hereby represents and warrants for the benefit of the Authority as follows:

(A) The Governmental Agency is a duly organized and validly existing Governmental Agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Assistance Agreement and consummate the transactions contemplated hereby.

(B) The negotiation, execution and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action of the governing body of the Governmental Agency.

(C) This Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability hereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

(D) To the knowledge of the Governmental Agency, there is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Assistance Agreement or to proceed with the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Assistance Agreement or the Construction of the Project, or in any way contesting or affecting the validity of this Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Assistance Agreement.

(E) The authorization and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Assistance Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

(G) All actions taken by the Governmental Agency in connection with this Assistance Agreement and the Loan described herein and the Project have been in full compliance with the provisions of the Kentucky Open Meeting Law, KRS 61.805 to 61.850.

(H) The Governmental Agency has all licenses, permits and other governmental approvals (including but not limited to all required approvals of the Kentucky Public Service Commission) required to own, occupy, operate and maintain the Project, to charge and collect the Service Charges and to enter into this Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Project, and has full right, power and authority to perform the acts and things as provided for in this Assistance Agreement.

(I) Legal counsel to the Governmental Agency has duly executed and delivered the opinion of legal counsel substantially in the form set forth in Exhibit E hereto.

(J) The Governmental Agency is in full compliance with all federal and state labor and procurement laws in connection with the planning, design, acquisition and construction of the Project.

(K) Project is consistent with the water supply plan developed pursuant to 401 KAR 4:220 for the county in which the Governmental Agency is located.

ARTICLE III

AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility. Pursuant to the terms of the Act and the Indenture, the Authority has determined that the Governmental Agency's Project is a Drinking Water Supply Project under the Act and the Governmental Agency is entitled to financial assistance from the Authority in connection with financing the Construction of the Project.

Section 3.2. Principal Amount of Loan Established; Loan Payments; Disbursement of Funds. The principal amount of the Loan shall be the Loan Amount as identified in the Project Specifics, subject to such adjustments as may be set forth in the Schedule of Payments. Principal payments shall be made semiannually in the amounts and on the dates to be established by the Schedule of Payments, which Schedule of Payments shall provide for approximately level debt service payments over the Repayment Term set forth in the Project Specifics, commencing with the Amortization Commencement Date set forth in the Project Specifics.

The Loan shall bear interest, payable semiannually, at the Loan Rate identified in the Project Specifics, and after the Amortization Commencement Date, in the amounts (based on such Loan Rate) and on the dates set forth in the Schedule of Payments; provided that, should an Event of Default occur, such payments of interest shall be made on the first day of each month during the continuation of such Event of Default.

The Authority shall advance the proceeds of the Loan as Construction of the Project progresses upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto. Each disbursement under a Requisition for Funds representing a portion of the principal amount of the Loan shall bear interest at the Loan Rate from the date of the disbursement; and shall be subject to the further requirements set forth in Article IV hereof.

Payments of principal and interest on the Loan shall be made at the principal office of the Authority or the Trustee, as designated by the Authority.

Section 3.3. Governmental Agency's Right to Prepay Loan. The Governmental Agency shall have the right to prepay and retire the entire amount of the Loan at any time without penalty upon written notice to the Authority no less than five (5) Business Days in advance of said prepayment.

Notwithstanding the foregoing, upon the determination by the Authority that it intends to issue revenue bonds secured by a pledge of the payments on the Loan, the Authority shall advise the Governmental Agency (i) of its intention to proceed with the authorization of such bonds (ii) of the limitation on prepayments after such bonds are issued and (iii) that the Governmental Agency has thirty (30) days from its receipt of said notice to exercise its option to prepay the Loan. Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Loan shall be limited to the terms described in such notice.

Section 3.4. Subordination of Loan. The Authority hereby agrees that, subject to compliance by the Governmental Agency with any covenants and conditions set forth in Exhibit G hereto, the source of payment for the Loan shall be inferior and subordinate to the security

interest and source of payment for the Debt Obligations of the Governmental Agency payable from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics and all such Debt Obligations that may hereafter be issued on a parity with the Debt Obligations identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.6 (D) hereof.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan. By the execution of this Assistance Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Loan made hereunder, the Governmental Agency shall supply the Authority and the Cabinet appropriate documentation, satisfactory to the Authority indicating the following:

(A) That the Authority and the Cabinet and any appropriate regulatory agency of the Commonwealth as may be designated by the Authority or the Cabinet, and their respective duly authorized agents, shall have the right at all reasonable times, subject to prior notice to the Governmental Agency, to examine and inspect the Project.

(B) All real estate and interest in real estate and all personal property constituting the Project and the sites of the Project heretofore or hereafter acquired shall at all times be and remain the property of the Governmental Agency and constitute a part of the System.

(C) In the event the Governmental Agency is required to provide financing for the Project from sources other than the Authority (as described in the Project Specifics) the Authority shall have the right to receive such reasonable proofs as it may require of the ability of the Governmental Agency to finance the costs of the Construction of the Project over and above the Loan, prior to the disbursement by the Authority of any portion of the Loan.

(D) The Governmental Agency shall do all things necessary to acquire all proposed and necessary sites, easements and rights of way necessary or required in respect of the Project and demonstrate its ability to construct the Project in accordance with the plans, design and specifications prepared for the Governmental Agency by the Engineers.

(E) Actual construction and installation incident to the Project shall be performed by either the lump-sum (fixed price) or unit price contract method, and adequate legal methods of obtaining public, competitive bidding will be employed prior to the awarding of the construction contract for the Project in accordance with Kentucky law.

(F) Unless construction of the Project has already been initiated as of the date of this Assistance Agreement, pursuant to due compliance with state law and applicable regulations, the Project will not be advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals has been received by the Governmental Agency and furnished to the Cabinet.

(G) Duly authorized representatives of the Cabinet and such other agencies of the Commonwealth as may be charged with responsibility will have reasonable access to the construction work whenever it is in preparation or progress, and the Governmental Agency will assure that the contractor or contractors will provide facilities for such access and inspection.

(H) The construction contract or contracts shall require the contractor to comply with all provisions of federal and state law legally applicable to such work, and any amendments or modifications thereto, together with all other applicable provisions of law, to cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and to be responsible for the submission of any statements required of subcontractors thereunder.

(I) A work progress schedule utilizing a method of standard acceptance in the engineering community shall be prepared prior to the institution of construction in connection with each construction contract, or, if construction has already been initiated as of the date of this Assistance Agreement, at the earliest practicable date, to indicate the proposed schedule as to completion of the Project, and same shall be maintained monthly thereafter to indicate the actual construction progress of the Project.

(J) Prior to the award of the construction contract and prior to the commencement of construction, the Governmental Agency will arrange and conduct a conference as to the Project said conference to include representatives of the Authority, the Governmental Agency, the Cabinet and any other participating federal or state agency, the Engineers, and all construction contractors, such conference to be held in accordance with guidelines established by the Authority and the Cabinet. A written brief of said conference summarizing the construction schedule, fund requirements schedule, payment authorizations, responsible parties for approval of all facets of the construction work and payment therefor, and other pertinent matters shall be prepared and distributed to each agency involved, and all construction contractors and Engineers. Provided, however, that in the event construction shall have been initiated as of the date of this Assistance Agreement, this provision may be waived.

(K) All construction contracts will be so prepared that federal participation costs, if any, and state participation costs may be readily segregated from local participation costs, if any, and from each other, and in such manner that all materials and equipment furnished to the Governmental Agency may be readily itemized.

(L) Any change or changes in a construction contract will be promptly submitted to the Cabinet and any state or federal agencies.

(M) The Construction, including the letting of contracts in connection therewith, will conform in all respects to applicable requirements of federal, state and local laws, ordinances, rules and regulations.

(N) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers for the Governmental Agency and approved by state and federal agencies.

(O) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Authority and the United States Environmental Protection Agency noting the participation of the Authority and the U.S. Government, respectively, in the financing of the Project.

(P) Except as otherwise provided in this Assistance Agreement, the Governmental Agency shall have the sole and exclusive charge of all details of the Construction.

(Q) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the Project sites and the costs of Construction. The Governmental Agency shall permit the Authority and the Cabinet, acting by and through their duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Authority and the Cabinet such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state assistance.

(R) The Governmental Agency shall require that each construction contractor or contractors furnish a performance and a payment bond in an amount at least equal to one hundred percent (100%) of the contract price or the portion of the Project covered by the particular contract as security for the faithful performance of such contract.

(S) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Authority. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Authority, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

(T) The Governmental Agency shall provide and maintain competent and adequate resident engineering services covering the supervision and inspection of the development and construction of the Project, and bearing the responsibility of assuring that Construction conforms to the approved plans, specifications and designs prepared by the Engineers. Such resident engineer shall certify to the Cabinet, any involved state or federal agencies, and the Governmental Agency at the completion of construction that construction is in accordance with the approved plans, specifications and designs, or, approved amendments thereto.

(U) The Governmental Agency shall demonstrate to the satisfaction of the Authority the legal capability of the Governmental Agency to enact, adopt, levy, charge, collect, enforce and remit to the Authority and the Cabinet the Service Charges of the Governmental Agency described in the Schedule of Service Charges attached to and made a part of this Assistance Agreement as Exhibit C and submit proof satisfactory to the Authority that the Service Charges are in full force and effect as of the date of submission of the initial Requisition for Funds.

Section 4.2. Additional Conditions to Disbursement Required Under the Federal Agreement. The Governmental Agency, in order to comply with the terms and conditions of the Federal Agreement, further covenants and further agrees to additional conditions to disbursement, as follows:

(A) Notwithstanding any other agreements contained herein regarding the maintenance of books and records, that it shall maintain Project accounts in accordance with

generally accepted governmental accounting standards, as required by the Federal Agreement. The Governmental Agency shall retain such records for no less than three (3) years following the final payment by the Governmental Agency under this Assistance Agreement or if any portion of the Project is disposed of, until at least three (3) years after such disposition; provided that if any litigation, claim, appeal or audit is commenced prior to the end of such period such records shall be maintained until the completion of such action or until three (3) years after such commencement, whichever is later.

(B) That it has not and will not apply any other federal funding to the Project in a manner that would cause it to receive "double benefits" as described in Section 603 of the Water Quality Act of 1987.

(C) That all property required for the completion of the Project shall be obtained, by easement, purchase or other means acceptable to the Authority, prior to commencement of construction and that the relocation of any Person resulting therefrom be in accordance with 49 CFR24 for Uniform Relocation Assistance and Real Property Acquisition Act of 1970.

(D) That all Project contractors shall be required to retain Project records for the periods established for the retention of the Governmental Agency's records in Section 4.2(A).

(E) That no more than fifty percent (50%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the final plan for operation for the Project.

(F) That, as required by 40 CFR 35.2218, all engineering services regarding construction and regarding the first year of operation of the Project shall be provided for, including the following:

- (1) The operation of the Project and the revision of the operations and maintenance manual as necessary to accommodate actual operating experience;
- (2) The training of operating personnel, including preparation of curricula and training material for operating personnel; and
- (3) Advice as to whether the Project is meeting the Project performance standards (including three quarterly reports and one project performance report).

(G) That it shall advise the Cabinet and the Authority in writing of the date for initiation of operation of the Project.

(H) That one year after operation is initiated, it shall certify to the Cabinet and the Authority that the Project is capable of meeting the Project performance standards.

(I) That it shall provide that qualified inspectors are present at the construction site. A summary of such inspector's qualifications and experience shall be submitted to the Cabinet and the Authority.

(J) That it shall notify the Authority and the Cabinet of the completion date of the Project.

(K) That it agrees to the terms and conditions of its application for assistance and the Authority's commitment to provide assistance, the terms of which are incorporated herein by reference.

(L) That all measures required to minimize water pollution to affected waters shall be employed in the Project including compliance with Section 404 of PL 92-500, as amended, it being understood that approval of the Project does not constitute sanction or approval of any changes or deviations from established water quality standards, criteria implementation dates, or dates established by enforcement proceedings.

Section 4.3. Disbursements of Loan; Requisition for Funds. The Governmental Agency shall submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) and the Cabinet a Requisition for Funds prior to the fifth day of each month (or such other designated period as is acceptable to the Authority), in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

(A) A full and complete accounting of the costs of the Project to be obligated by contract or otherwise during the month in question, or already obligated and not included in any previous accounting;

(B) A full and complete accounting of any costs of the Project paid by the Governmental Agency from its own funds with the approval of the Authority and not included in any previous accounting for which it seeks reimbursement;

(C) A full and complete accounting of any costs of the Project paid or requisitioned under any other financing, loan, bond, grant or similar agreement or paid from its own funds for which it does not seek reimbursement and which have not been identified in any previous requisition form.

(D) The Contractor's estimate of work performed during the preceding month pursuant to construction contracts for the Project and payment thereunder due, together with the Engineer's and Governmental Agency's approval thereof for disbursement by the Authority.

Upon the Authority's receipt of the Requisition for Funds, and such additional documentation as it may require, and subject to certification by the Cabinet, the Authority may direct the Trustee to remit the amount requested to the Governmental Agency as a draw upon the Loan.

ARTICLE V

CERTAIN COVENANTS OF THE GOVERNMENTAL AGENCY; PAYMENTS TO BE MADE BY GOVERNMENTAL AGENCY TO THE AUTHORITY

Section 5.1. Imposition of Service Charges. The Governmental Agency hereby irrevocably covenants and agrees to comply with all of the terms, conditions and requirements of this Assistance Agreement, pursuant to which the Loan is to be made by the Authority to the Governmental Agency as specified herein and in the Act and the Indenture. The Governmental Agency hereby further irrevocably covenants and agrees that it already has, or will, to the extent necessary, immediately impose Service Charges upon all persons, firms and entities to whom or which services are provided by the System, such Service Charges to be no less than as set forth in Exhibit C annexed hereto. If so required, such Service Charges shall be in addition to all other rates, rentals and service charges of a similar nature of the Governmental Agency now or hereafter authorized by law, and now or hereafter being levied and collected by the Governmental Agency and shall be levied and collected solely for the purpose of repaying to the Authority all sums received from the Authority as representing the Loan in respect of the Project.

Section 5.2. Governmental Agency's Obligation to Repay Loan. The obligation of the Governmental Agency to repay to the Authority the amount of the Loan from the Service Charges shall not be revocable, and in the event that services supplied by the Project shall cease, or be suspended for any reason, the Governmental Agency shall continue to be obligated to repay the Loan from the Services Charges. In the event the Governmental Agency defaults in the payment of any Service Charges to the Authority, the amount of such default shall bear interest at the per annum rate equal to the Default Rate set forth in the Project Specifics, from the date of the default until the date of the payment thereof.

Section 5.3. Covenant to Adjust Service Charges. In the event, for any reason, the Schedule of Service Charges shall prove to be insufficient to provide to the Authority the minimum sums set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, the Governmental Agency hereby covenants and agrees that it will, upon notice by the Authority, to the full extent authorized by law, both federal and state, immediately adjust and increase such Schedule of Service Charges, or immediately commence proceedings for a rate adjustment and increase with all applicable regulatory authorities, so as to provide funds sufficient to pay to the Authority the minimum sums set forth in the Schedule of Payments, to provide for the operation of the System as required under this Assistance Agreement and to make the required deposits to the Maintenance and Replacement Reserve.

Section 5.4. Adequacy of Service Charges. The Service Charges herein covenanted to be imposed by the Governmental Agency shall be fixed at such rate or rates (and it is represented that the Schedule set forth in Exhibit C hereto so qualifies), as shall be at least adequate to make the payments at the times and in the amounts set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, subject to necessary governmental and regulatory approvals.

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment

period set forth in the Project Specifics, and shall be remitted to the Authority by the Governmental Agency with a report showing collections and any delinquencies.

Section 5.5. Covenant to Establish Maintenance and Replacement Reserve. The Governmental Agency shall establish a special account identified as a "Maintenance and Replacement Reserve". The Governmental Agency shall deposit into the Maintenance and Replacement Reserve an amount equal to the amount set forth in the Project Specifics at the times set forth in the Project Specifics. Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project.

Section 5.6. Covenant to Charge Sufficient Rates; Reports; Inspections. The Governmental Agency hereby irrevocably covenants and agrees with the Authority:

(A) That, as aforesaid, it will at all times impose, prescribed, charge and collect the Service Charges set forth in Exhibit C as shall result in net revenues to the Governmental Agency at least adequate to provide for the payments to the Authority required by this Assistance Agreement, to provide for the operation of the System and to make the required deposits to the Maintenance and Replacement Reserve.

(B) That it will furnish to the Authority and the Cabinet not less than annually reports of the operations and income and revenues of the System, and will permit authorized agents of the Authority to inspect all records, accounts and data of the System at all reasonable times.

(C) That it will collect, account for and promptly remit to the Authority those specific revenues, funds, income and proceeds derived from Service Charges incident to this Assistance Agreement.

(D) That it will notify the Authority in writing of its intention to issue bonds or notes payable from the revenues of the System not less than thirty (30) days prior to the sale of said obligations. It further covenants that it will not issue any notes, bonds or other obligations payable from the revenues of the System, if the pledge of the revenues of the System to the repayment of such obligations is to rank on a parity with, or superior to, the pledge of the revenues of the System for the repayment of the Loan granted under this Assistance Agreement, unless the Governmental Agency has secured the consent of the Authority not less than fifteen (15) days prior to the issuance of such obligations.

Section 5.7. Segregation of Funds. The Governmental Agency shall at all times account for the income and revenues of the System and distinguish same from all other revenues, moneys and funds of the Governmental Agency, if any.

ARTICLE VI

OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

Section 6.1. Further Assurance. At any time and all times the Governmental Agency shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 6.2. Completion of Project. The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency.

Section 6.3. Establishment of Completion Date. The completion date for the Project shall be evidenced to the Authority by a certificate signed by the Engineer and an authorized representative of the Governmental Agency stating that, except for amounts retained by the Authority for costs of the Project not then due and payable, (i) the Construction has been completed and all labor, services, materials, supplies, machinery and equipment used in such Construction have been paid for, (ii) all other facilities necessary in connection with the Project have been acquired, constructed, equipped and installed and all costs and expenses incurred in connection therewith have been paid, (iii) the Project and all other facilities in connection therewith have been acquired, constructed, equipped and installed to his satisfaction.

Section 6.4. Commitment to Operate. The Governmental Agency hereby covenants and agrees to commence operation of the Project immediately on completion of construction and not to discontinue operations or dispose of such Project without the approval of the Authority.

Section 6.5. Continue to Operate. The Governmental Agency hereby covenants and agrees to continuously operate and maintain the Project in accordance with applicable provisions of federal and state law and to maintain adequate records relating to said operation; said records to be made available to the Authority upon its request at all reasonable times.

Section 6.6. Tax Covenant. In the event the Authority issues Bonds which are intended to be excludable from gross income for federal income tax purposes to provide the funds for the Loan, the Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Authority in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Authority. The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 6.7. Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in accordance with the "Uniform System of

Accounts" established by the Commonwealth, in which complete and accurate entries shall be made of all its transactions relating to the System and which shall at all reasonable times be subject to the inspection of the Authority.

Section 6.8. Financial Statements. Within one hundred eighty (180) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principles on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity. All recipients and subrecipients expending \$500,000 or more in a year in Federal awards must have a single or program-specific audit conducted for that year in accordance with OMB Circular A-133.

Section 6.9. General Compliance With All Duties. The Governmental Agency shall faithfully and punctually perform all duties with reference to the Project and the System required by the Constitution and laws of the Commonwealth, and by the terms and provisions of this Assistance Agreement and any other Debt Obligations.

Section 6.10. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act, the Federal Act and this Assistance Agreement in accordance with the terms of such provisions including the Additional Covenants and Agreements, if any, set forth in Exhibit G hereto.

Section 6.11. Further Covenants under the Federal Agreement. The Governmental Agency shall comply with all further requirements or conditions which may arise from time to time in order to assure compliance with the Federal Act, and with the agreements of the Authority set forth in the Federal Agreement, including but not limited to the following:

(A) The Governmental Agency shall provide all information requested of it by the Authority or the Cabinet so that (i) the Grants Information Control System, referred to in the Federal Agreement, can be maintained, (ii) the accounting and auditing procedures required by the Federal Act can be maintained and (iii) the Authority can furnish the information required of its under the Federal Agreement.

(B) Qualified operating personnel, properly certified by the Cabinet, shall be retained by the Governmental Agency to operate the Project during the entire term of this Assistance Agreement. An approved plan of operating and an operations and maintenance manual for the Project shall be provided by the Governmental Agency to the Cabinet and the Authority. The Project shall be operated and maintained in an efficient and effective manner.

(C) All residents in the service area of the Project must be offered the same opportunity to become users of the Project regardless of race, creed, color, or level of income.

(D) The Governmental Agency shall comply with provisions contained in the following federal regulations, orders, acts and circulars and the following statutes and regulations of the Commonwealth.

(1) Federal Cross-Cutters

Environmental Authorities

- (a) Archeological and Historic Preservation Act of 1974, Pub. L. 86-523, as amended
- (b) Clean Air Act, Pub. L. 84-159, as amended
- (c) Coastal Barrier Resources Act, Pub. L. 97-348
- (d) Coastal Zone Management Act, Pub. L. 93-583, as amended
- (e) Endangered Species Act, Pub. L. 93-205, as amended
- (f) Environmental Justice, Executive Order 12898
- (g) Floodplain Management, Executive Order 11988 as amended by Executive Order 12148
- (h) Protection of Wetlands, Executive Order 11990
- (i) Farmland Protection Policy Act, Pub. L. 97-98
- (j) Fish and Wildlife Coordination Act, Pub. L. 85-624, as amended
- (k) National Historic Preservation Act of 1966, PL 89-665, as amended
- (l) Safe Drinking Water Act, Pub. L. 93-523, as amended
- (m) Wild and Scenic Rivers Act, Pub. L. 90-542, as amended

Economic and Miscellaneous Authorities

- (a) Demonstration Cities and Metropolitan Development Act of 1966, Pub. L. 89-754, as amended, Executive Order 12372
- (b) Procurement Prohibitions under Section 306 of the Clean Air Act and Section 508 of the Clean Water Act, including Executive Order 11738, Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants, or Loans.
- (c) Uniform Relocation and Real Property Acquisition Policies Act, Pub. L. 91-646, as amended
- (d) Debarment and Suspension, Executive Order 12549

Social Policy Authorities

- (a) Age Discrimination Act of 1975, Pub. L. 94-135
- (b) Title VI of the Civil Rights Act of 1964, Pub. L. 88-352
- (c) Section 13 of the Federal Water Pollution Control Act Amendments of 1972, Pub. L. 92-500 (the Clean Water Act)
- (d) Section 504 of the Rehabilitation Act of 1973, Pub. L. 93-112 (including Executive Orders 11914 and 11250)
- (e) Equal Employment Opportunity, Executive Order 11246
- (f) Women's and Minority Business Enterprise, Executive Orders 11625, 12138, and 12432

- (g) Section 129 of the Small Business Administration Reauthorization and Amendment Act of 1988, Pub. L. 100-590

- (2) State:
 - (a) KRS 224
 - (b) KRS 224A.1115 Federally Assisted Drinking Water Revolving Fund
 - (c) KRS Chapter 337, Labor Laws
 - (d) 401 KAR Chapter 5

Section 6.12. Continuing Disclosure Obligation. The Governmental Agency covenants and agrees that notwithstanding any other provision of this Assistance Agreement to the contrary, upon written notice from the Authority that the Schedule of Payments provides ten percent (10%) or more of the debt service requirements on an issue of the Authority's Bonds and that compliance by the Governmental Agency with the requirements of Securities and Exchange Commission Rule 15c2-12, as amended (the "SEC Rule") is required in connection with the Authority's Bonds, the Governmental Agency shall provide to the Authority such information as may be required by the Rule, within the time periods set out in such notice by the Authority, to enable the Authority to establish to the satisfaction of prospective purchasers of the Authority's Bonds that the requirements of the SEC Rule will be satisfied in connection with the issuance of the Authority's Bonds. The Governmental Agency further understands and agrees that the Authority shall act as the Governmental Agency's disclosure agent for purposes of compliance with the SEC Rule and that upon a failure by the Governmental Agency to provide the information required to be provided under the SEC Rule within the time frame specified in such notice, the Authority and/or the beneficial owners and holders of the Authority's Bonds shall be specifically granted the right of enforcing the provisions of this Section 6.12 by an action in mandamus, for specific performance, or similar remedy to compel performance.

ARTICLE VII

MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

Section 7.1. Maintain System. The Governmental Agency agrees that during the entire term of this Assistance Agreement, it will keep the Project, including all appurtenances thereto, and the equipment and machinery therein, in good and sound repair and good operating condition at its own cost so that the completed Project will continue to provide the services for which the System is designed.

Section 7.2. Additions and Improvements. The Governmental Agency shall have the privilege of making additions, modifications and improvements to the sites of the Project, and to the Project itself from time to time provided that said additions, modifications and improvements do not impair the operation or objectives of the Project. The Cost of such additions, modifications and improvements shall be paid by the Governmental Agency, and the same shall be the property of the Governmental Agency and shall be included under the terms of this Assistance Agreement as part of the site of the Project, or the Project, as the case may be. Nothing herein contained shall be construed as precluding the Authority and the Governmental Agency from entering into one or more supplementary Assistance Agreements providing for an additional Loan or Loans in respect of additional Projects undertaken by the Governmental Agency.

Section 7.3. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not, without the prior written consent of the Authority, which consent shall not be unreasonably withheld, sell, mortgage, or in any manner dispose of, or surrender control or otherwise dispose of any of the facilities of the System or any part thereof (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 7.4. Compliance with State and Federal Standards. The Governmental Agency agrees that it will at all times provide operation and maintenance of the Project to comply with the water quality standards, if any, established by any state or federal agency. The Governmental Agency agrees that qualified operating personnel properly certified by the Commonwealth will be retained to operate the Project during the entire term of this Assistance Agreement.

Section 7.5. Access to Records. The Governmental Agency agrees that it will permit the Authority and any state or federal agency and their respective agents to have access to the records of the Governmental Agency pertaining to the operation and maintenance of the Project at any reasonable time following completion of construction of the Project, and commencement of operations thereof.

Section 7.6. Covenant to Insure - Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.

Section 7.7. Authority as Named Insured. Any insurance policy issued pursuant to Section 7.5 hereof, shall be so written or endorsed as to make losses, if any, payable to the Governmental Agency, and to the Authority, as their interests may appear.

Section 7.8. Covenant to Insure - Liability. The Governmental Agency agrees that it will carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in the Commonwealth, insuring against such risks (including but not limited to personal injury, death and property damage) and in such amounts as are set forth in the Project Specifics, and naming the Authority as an additional insured.

Section 7.9. Covenant Regarding Worker's Compensation. Throughout the entire term of this Assistance Agreement, the Governmental Agency shall maintain worker's compensation coverage, or cause the same to be maintained.

Section 7.10. Application of Casualty Insurance Proceeds. If, prior to the completion of the term of this Assistance Agreement, the Project shall be damaged or partially or totally destroyed by fire, windstorm or other casualty, there shall be no abatement or reduction in the amount payable by the Governmental Agency pursuant to the terms of this Assistance Agreement and the Governmental Agency will (1) promptly repair, rebuild or restore the Project damaged or destroyed; and (2) apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for such losses, as well as any additional moneys of the Governmental Agency necessary therefor. All net proceeds of insurance resulting from claims for such losses shall be paid to the Governmental Agency, and shall be promptly applied as herein provided.

Section 7.11. Eminent Domain. In the event that title to, or the temporary use of, the Project, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the minimum amounts payable by the Governmental Agency to the Authority pursuant to the terms of this Assistance Agreement, and any and all net proceeds received from any award made in such eminent domain proceedings shall be paid to and held by the Governmental Agency in a separate condemnation award account and shall be applied by the Governmental Agency in either or both of the following ways, as shall be determined by the Governmental Agency in its sole discretion:

(A) The restoration of the improvements located on the Project sites to substantially the same condition as prior to the exercise of said power of eminent domain; or

(B) The acquisition of additional property, if necessary, and the acquisition of additional facilities by construction or otherwise, equivalent to the Project facilities, which property and facilities shall be deemed to be a part of the Project sites and a part of the Project facilities and to be substituted for Project facilities so taken by eminent domain, without the payment of any amount other than herein provided, to the same extent as if such property and facilities were specifically described herein.

Any balance of the net proceeds of the award in such eminent domain proceedings after the carrying out of the mandatory proceedings stipulated in (A) and (B) of this Section 7.11, shall be paid to the Governmental Agency upon delivery to the Authority of a certificate signed by an authorized officer of the Governmental Agency to the effect that the Governmental Agency has

complied with either subparagraph (A) or (B), or both, of this Section, and written approval of such certificate by an authorized officer of the Authority. In no event will the Governmental Agency voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Project or any part thereof without the written consent of the Authority.

Section 7.12. Flood Insurance. All structures located in flood prone areas shall be covered by flood insurance carried by the Governmental Agency for an amount equal to the total Project cost excluding the cost of land and any uninsurable improvements, or for the maximum limit available under the National Flood Insurance Act of 1968, as amended, whichever is less, for the entire useful life of the Project.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.1. Events of Default Defined. The following will be "Events of Default" under this Assistance Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Assistance Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any payments specified herein at the times specified herein.

(B) Failure by the Governmental Agency to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Governmental Agency by the Authority unless the Authority agrees in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Governmental Agency within the applicable period and diligently pursued until such failure is corrected.

(C) The dissolution or liquidation of the Governmental Agency, or the voluntary initiation by the Governmental Agency of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Governmental Agency of any such proceeding which will remain undismitted for sixty (60) days, or the entry by the Governmental Agency into an agreement of composition with creditors or the failure generally by the Governmental Agency to pay its debts as they become due.

(D) A default by the Governmental Agency under the provisions of any agreements relating to its Debt Obligations.

Section 8.2. Remedies on Default. Whenever any Event of Default referred to in Section 8.1 has occurred and is continuing (other than an event of default arising under Section 6.13 of this Assistance Agreement), the Authority may, without any further demand or notice, take one or any combination of the following remedial steps:

(A) Declare all payments due hereunder, as set forth in the Schedule of Payments, to be immediately due and payable.

(B) Exercise all the rights and remedies of the Authority set forth in the Act.

(C) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights under this Assistance Agreement.

(D) Submit a formal referral to the appropriate federal agency, as required by the Federal Agreement.

The sole remedies for an Event of Default under this Assistance Agreement arising by virtue of the failure of the Governmental Agency to comply with the provisions of Section 6.10 hereof shall be those remedies specifically set forth in Section 6.10 hereof

Section 8.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Authority under this Assistance Agreement, the Authority shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Authority may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 8.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 8.5. Consent to Powers of Authority Under Act. The Governmental Agency hereby acknowledges to the Authority its understanding of the provisions of the Act, vesting in the Authority certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Authority should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Authority in the due and prompt implementation of this Assistance Agreement.

Section 8.6. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 8.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto will default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

ARTICLE IX

MISCELLANEOUS PROVISIONS

Section 9.1. Approval not to be Unreasonably Withheld. Any approval of the Authority required by this Assistance Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Authority, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Assistance Agreement requiring the approval of the Authority or the satisfaction or the evidence of satisfaction of the Authority shall be interpreted as requiring action by an authorized officer of the Authority granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 9.2. Approval. This Agreement is made subject to, and conditioned upon, the approval of this Assistance Agreement by the Secretary of the Finance and Administration Cabinet.

Section 9.3. Effective Date. This Assistance Agreement shall become effective as of the date first set forth hereinabove and shall continue in full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Assistance Agreement have been fully satisfied.

Section 9.4. Binding Effect. This Assistance Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Assistance Agreement shall not be revocable by either of the parties, without the written consent of the other party.

Section 9.5. Severability. In the event that any provision of this Assistance Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 9.6. Assignability. The rights of the Authority under this Assistance Agreement shall be assignable by the Authority without the consent of the Governmental Agency, but none of the rights, duties or obligations of the Governmental Agency under this Assistance Agreement shall be assignable by the Governmental Agency without the prior written consent of the Authority.

Section 9.7. Execution in Counterparts. This Assistance Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 9.8. Applicable Law. This Assistance Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 9.9. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Assistance Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Assistance Agreement to be executed by their respective duly authorized officers as of the day and year above written.

ATTEST:

**KENTUCKY INFRASTRUCTURE
AUTHORITY**

By: _____

Title: _____

Title: _____

ATTEST:

GOVERNMENTAL AGENCY:

Title: _____

By: _____
Title: _____

APPROVED:

EXAMINED:

SECRETARY/FINANCE AND
ADMINISTRATION CABINET OF THE
COMMONWEALTH OF KENTUCKY

LEGAL COUNSEL TO THE
KENTUCKY INFRASTRUCTURE
AUTHORITY

ENERGY AND ENVIRONMENT
CABINET OF THE COMMONWEALTH OF KENTUCKY

By: _____
Director
Division of Water

APPROVED AS TO FORM AND LEGALITY

APPROVED
FINANCE AND ADMINISTRATION CABINET

EXHIBIT A

PROJECT SPECIFICS

GOVERNMENTAL AGENCY:

Engineers:

Name:

Contact Person:

Address:

Telephone:

SYSTEM:

PROJECT:

PROJECT COST BREAKDOWN:

LOAN AMOUNT:

LOAN RATE:

REPAYMENT TERM:

INTEREST PAYMENT DATES:

AMORTIZATION COMMENCEMENT DATE:

ADMINISTRATIVE FEE:

DEFAULT RATE:

OTHER FINANCING SOURCES:

DEBT OBLIGATIONS CURRENTLY OUTSTANDING:

SERVICE CHARGE PAYMENT PERIOD:

LIABILITY INSURANCE COVERAGE -

Death or personal injury (1 person):

Death or personal injury (each occurrence):

Property Damage:

EXHIBIT B

REQUEST FOR PAYMENT WITH RESPECT TO
ASSISTANCE AGREEMENT DATED _____ 1, 200__
LOAN NO. F __ - __

Request No. _____

Dated: _____

Original sent to: Kentucky Infrastructure Authority
1024 Capital Center Drive
Suite 340
Frankfort, Kentucky 40601

Copy sent to: SRP and SPAP Section Manager
Division of Water
Energy and Environment Cabinet
200 Fair Oaks, 4th Floor
Frankfort, Kentucky 40601

FROM: _____ (the "Governmental Agency")

Gentlemen:

The above identified Governmental Agency has entered into an Assistance Agreement with the Kentucky Infrastructure Authority (the "Authority") for the acquisition and construction of drinking water supply facilities, described in the Assistance Agreement as the "Project."

Pursuant to the Assistance Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Authority's funding share of these expenses is in the amount so denoted in this request totaling \$_____.

Documentation supporting the expenses incurred and identified per this request are attached.

ELIGIBLE PROJECT EXPENSES INCURRED

<u>Contractor</u>	<u>Expenses this Request</u>	<u>Expenses to Date</u>
-------------------	----------------------------------	-----------------------------

Total

ALLOCATION OF FUNDING FOR EXPENSES

<u>Funding Source</u>	<u>Portion of Expenses this Request</u>	<u>Portion of Expenses Total to Date</u>
-----------------------	---	--

Totals

The Governmental Agency certifies it has also paid Project expenses for planning and design or has submitted requisitions to the applicable funding sources for Project expenses, which have not been identified in any previous Request or Payment, as follows:

<u>Funding Source</u>	<u>Amount of Payment or Requisition</u>	<u>Date of Payment or Requisition</u>
-----------------------	---	---

Respectfully submitted,

Governmental Agency

By: _____

Title _____

CERTIFICATE OF CONSULTING ENGINEERS AS TO
PAYMENT REQUEST

The undersigned, a duly qualified and licensed Engineer hereby certifies that he or she represents the Governmental Agency submitting this request in connection with the "Eligible Project" and that all expenses represented in this request were duly incurred for the Construction of the "Project," that the Authority's funding share of these expenses is accurately represented and that such expenses have not been the subject of any request for disbursement previously submitted.

Engineer/Architect

Firm Name

EXHIBIT C

SCHEDULE OF SERVICE CHARGES

See Attached

EXHIBIT D

RESOLUTION

RESOLUTION OF THE _____ APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT DATED AS OF _____ 1, 200_ BETWEEN THE _____ AND THE KENTUCKY INFRASTRUCTURE AUTHORITY.

WHEREAS, the _____ ("Governing Authority") of the _____ ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain facilities and improvements to the Governmental Agency's Water System (the "Project") and

WHEREAS, the Governmental Agency has made application to the Kentucky Infrastructure Authority (the "Authority") for the purpose of providing monies to acquire and construct the Project; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an assistance agreement dated as of _____ 1, 200_ (the "Assistance Agreement") with the Authority.

NOW, THEREFORE, BE IT RESOLVED by the _____ of the _____, as follows:

SECTION 1. That the Governing Authority hereby approves and authorizes the Assistance Agreement between the Governmental Agency and the Authority substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the acquisition and construction of the Project.

SECTION 2. That the _____ and _____ of the Governmental Agency be and hereby are authorized, directed and empowered to execute necessary documents or agreements, and to otherwise act on behalf of the Governmental Agency to effect such financing.

SECTION 3. That this resolution shall take effect at the earliest time provided by law.

ADOPTED on _____, 2009.

Attest:

Title: _____

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting _____ of the _____; that the foregoing is a full, true and correct copy of a Resolution adopted by the _____ of said _____ at a meeting duly held on _____, 2009; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this ____ day of _____, 2009.

EXHIBIT E

OPINION OF COUNSEL

[Letterhead of Counsel to Governmental Agency]

[Date]

Kentucky Infrastructure Authority
1024 Capital Center Drive
Suite 340
Frankfort, Kentucky 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and _____, dated as of _____ 1, 200__

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the _____, hereinafter referred to as the "Governmental Agency". I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the drinking water supply project (the "Project") with respect to which the Assistance Agreement by and between the Kentucky Infrastructure Authority ("Authority") and the Governmental Agency is being authorized, executed and delivered.

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency, the resolution or ordinance of the governing authority authorizing the execution and delivery of said Assistance Agreement.

Based upon my review I am of the opinion that:

1) The Governmental Agency is a duly organized and existing political subdivision or body politic of the Commonwealth of Kentucky validly existing under the Constitution and statutes of the Commonwealth of Kentucky.

2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

4) The Service Charges, as defined in the Assistance Agreement, are in full force and effect and have been duly and lawfully adopted by the Governmental Agency.

5) The execution and delivery of the Assistance Agreement and the performance by the Governmental Agency of its obligations thereunder does not and will not conflict with, violate or constitute a default under any court or administrative order, decree or ruling, or any law, statute, ordinance or regulation, or any agreement, indenture, mortgage, lease, note or other obligation or instrument, binding upon the Governmental Agency, or any of its properties or assets. The Governmental Agency has obtained each and every authorization, consent, permit, approval or license of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, or any specifically granted exemption from any of the foregoing, that is necessary to the valid execution, delivery or performance by the Governmental Agency of the Assistance Agreement and the imposition of the Service Charges.

6) To the best of my knowledge after due inquiry there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the members and officers of the Governmental Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Assistance Agreement or the application of any monies or security therefor, (iv) the construction of the Project, (v) the validity or enforceability of the Service Charges or (vi) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Assistance Agreement.

7) None of the proceedings or authority heretofore had or taken by the Governmental Agency for the authorization, execution or delivery of the Assistance Agreement has or have been repealed, rescinded, or revoked.

8) To the best of my knowledge, the Governmental Agency has fully complied with all federal and state labor and procurement laws in connection with the construction of the Project.

9) All proceedings and actions of the Governmental Agency with respect to which the Assistance Agreement is to be delivered were had or taken at meetings properly convened and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Very truly yours,

EXHIBIT F

TO ASSISTANCE AGREEMENT BETWEEN
("GOVERNMENTAL AGENCY") AND
THE KENTUCKY INFRASTRUCTURE AUTHORITY

Total Loan to be Repaid by
Governmental Agency to
Kentucky Infrastructure Authority \$ _____

Principal and Interest Payable
on Each June 1 and December 1

It is understood and agreed by the parties to this Assistance Agreement that this Exhibit F is an integral part of the Assistance Agreement between the Governmental Agency and the Kentucky Infrastructure Authority.

IN WITNESS WHEREOF, the parties have caused this Exhibit F to Assistance Agreement to be executed by their respective duly authorized officers as of the date of said Assistance Agreement.

KENTUCKY INFRASTRUCTURE AUTHORITY

By: _____

Title: _____

Governmental Agency

By: _____

Title: _____

ATTEST:

Title: _____

EXHIBIT G

ADDITIONAL COVENANTS AND AGREEMENTS

None

43786.1

EXHIBIT 4

EXHIBIT 4

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Water Sales	\$ 2,175,021	\$ 2,109,934
Service Charges and Other	191,085	154,927
	<u>2,366,106</u>	<u>2,264,861</u>
OPERATING EXPENSES		
Personal Service	681,858	639,487
Contractual Services	30,063	38,981
Supplies and Materials	168,932	156,755
Repairs and Maintenance	66,986	51,813
Operational	1,164,098	1,063,424
Depreciation and Amortization	624,893	559,313
	<u>2,736,830</u>	<u>2,509,773</u>
OPERATING INCOME/(LOSS)	(370,724)	(244,914)
NON-OPERATING REVENUES (EXPENSES)		
Other Non-Utility Income	13,783	5,102
Lease	28,570	
Interest Income	3,512	16,411
Interest Expenses and Fiscal Charges	(280,708)	(237,013)
	<u>(234,843)</u>	<u>(215,500)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(605,567)	(460,413)
Capital Contributions	2,990,310	278,735
Grants	-	198,980
	<u>2,990,310</u>	<u>477,715</u>
INCREASE (DECREASE) IN NET ASSETS	2,384,743	17,302
NET ASSETS		
Beginning of Year	9,773,369	9,756,067
End of Year	<u>\$ 12,158,112</u>	<u>\$ 9,773,369</u>

EXHIBIT 5

EXHIBIT 5

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF NET ASSETS
 December 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 104,767	\$ 213,253
Customer Accounts Receivable	378,776	209,680
Accounts Receivable - Other	519,500	
Inventory	160,239	175,070
Prepaid Expenses	42,818	30,402
Total Unrestricted Current Assets	1,206,100	628,405
Restricted Cash and Investments	571,664	574,181
Total Current Assets	1,777,764	1,202,586
NON-CURRENT ASSETS		
Capital Assets:		
Land and Construction in Progress	384,224	1,062,702
Other Capital Assets (net of accumulated depreciation)	18,129,556	14,718,008
Total Non-Current Assets	18,513,780	15,780,710
TOTAL ASSETS	20,291,544	16,983,296
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable - Trade	123,429	96,156
Accounts Payable - Construction in Progress	182,552	-
Accrued and Withheld Taxes	14,450	-
Customer Deposits	22,467	16,797
Accrued Payroll	8,523	-
Liabilities Payable from Restricted Assets:		
Interest Payable	184,745	171,906
Current Portion of Revenue Bonds Payable	165,319	157,859
Current Portion of Notes Payable	687,030	956,973
Total Current Liabilities	1,388,515	1,399,691
NON-CURRENT LIABILITIES		
Long-term Liabilities (Excluding Current Portion):		
Non-Current Portion of Notes Payable	-	-
Non-Current Portion of Revenue Bonds Payable	6,744,917	5,810,236
Total Non-Current Liabilities	6,744,917	5,810,236
TOTAL LIABILITIES	8,133,432	7,209,927
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	10,733,962	8,855,642
Restricted	571,664	574,181
Unrestricted	852,486	343,546
TOTAL NET ASSETS	\$ 12,158,112	\$ 9,773,369

EXHIBIT 6

2010 AUDIT

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	Pages	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	Pages	3-8
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements:		
Statement of Net Assets	Page	9
FUND FINANCIAL STATEMENTS		
Statements of Revenue, Expenses and Changes in Retained Earnings	Page	10
Statements of Cash Flows	Pages	11-12
NOTES TO FINANCIAL STATEMENTS	Pages	13-20
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	Page	21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	Page	22
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	Page	23
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	Pages	24-25
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	Pages	26-27

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Adair County Water District

We have audited the accompanying financial statements of the business-type activities of Adair County Water District, as of and for the years ended December 31, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Adair County Water District's management. Our responsibility is to express opinions 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities Adair County Water District, as of December 31, 2010 and 2009, and the respective changes in financial position, and, where applicable, cash flows thereof 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 March 29, 2011, on our consideration of the Adair County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Commissioners of
Adair County Water District
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Adair County Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Adair County Water District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Commissioners, and 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.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Campbellsville, KY

March 29, 2011



Adair County Water District

109 Grant Lane * P.O. Box 567 * Columbia, KY 42728
Phone 270-384-2181 * Fax 270-384-3437
E-Mail office@adaircountywaterdist.net
Website adaircountywaterdistrict.com

This section of the Adair County Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2010 and 2009. This information is presented in conjunction with the audited basic financial statements, which follow.

Financial Highlights

- Total net assets increased by \$2,733,069 from 2009 to 2010. This increase in net assets is essentially due to the addition of contributed capital assets, which were capitalized as plant in service and construction in progress during 2006. The District incurred an additional \$627,198 of debt related to these capital projects.
- Total operating revenues increased by \$101,245 or about 4.47% from 2009 to 2010. The increase is primarily due to a combination of customer growth in relation to operating agreement with the City.
- Total operating expenses increased by \$227,057 from 2009 to 2010. The increase is primarily due to current economic conditions and the increased cost of most everything. Along with the additional expenses in relation to operating agreement with the City.

Overview of the Financial Statements

The District provides water to the residents of Adair County. The District is managed by a five member Board of Commissioners. The District operates under service rules and rates established by the Public Service Commission of Kentucky. Accounting records of the District are maintained in accordance with the Uniform System of Accounts prescribed by the PSC and in accordance with the Governmental Accounting Standards Board.

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary information. The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years. Significant changes from the prior year are explained in the following paragraphs. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

Required Financial Statements

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principals which are generally accepted in the United States of America.

Adair County Water District is an equal opportunity provider and employer. "Deaf, Hard of Hearing and Speech Impaired users, call the Kentucky Relay Service at (800) 648-6056. Give the communications assistant our phone number to contact us"

The Statement of Net Assets includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Districts creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expense and Changes in Net Assets identify the District's revenues and expenses for the years ended December 31, 2010 and 2009. This statement normally provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The third financial statement is the Statements of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash and cash equivalents balance.

Financial Analysis of the District

Analysis of the District's financial position begins with a review of the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information. These two statements report the District's net assets and changes therein. The District's net assets (the difference between assets and liabilities) are key to measuring the financial health of the District. Over time, increases and decreases in the net asset value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position could also be affected by other non-financial factors including economic conditions, population growth or new regulations.

Net Assets

A condensed version of the Statement of Net Assets at December 31, 2010 and 2009 follows:

Condensed Statement of Net Assets

	2010	2009
Cash and Investments	\$ 676,431	\$ 787,434
Other Assets	1,101,333	415,153
Capital Assets	<u>18,513,779</u>	<u>15,780,711</u>
Total Assets	20,291,543	16,983,298
Current Liabilities	1,203,770	1,227,787
Other Liabilities	184,745	171,906
Long-Term Outstanding	<u>6,744,917</u>	<u>5,810,236</u>
Total Liabilities	<u>8,133,432</u>	<u>7,209,929</u>
Net Assets:		
Invested in Capital Assets (Net of Related Debt)	10,733,962	8,855,642
Restricted	571,664	574,181
Unrestricted	<u>852,486</u>	<u>343,546</u>
Total Net Assets	<u>\$ 12,158,112</u>	<u>\$ 9,773,369</u>

As shown in the above table, total net assets increased by \$2,710,410 from 2009 to 2010. The majority of this increase is from capital asset additions due to new construction.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2010 the District had \$25,577,183 invested in capital assets, consisting primarily of plant and equipment.

Capital Assets at Year End

	2010	2009
Land	\$ 384,224	\$ 105,729
Construction-in-Progress	-	956,973
Buildings	364,434	364,434
Plant & Equipment	24,851,177	20,815,784
Subtotal	<u>25,599,835</u>	<u>22,242,920</u>
Accumulated Depreciation	<u>(7,086,055)</u>	<u>(6,462,210)</u>
Capital Assets, Net	<u>\$ 18,513,780</u>	<u>\$ 15,780,710</u>

Revenues, Expenses and Changes in Net Assets

A condensed version of the Statement of Revenues, Expenses and Changes in Net Assets is as follows:

Condensed Statement of Revenues, Expenses & Changes in Net Assets
Years Ended December 31, 2010 and 2009

	2010	2009	Dollar Change	Percent Change
Operating Revenues	\$ 2,366,106	\$ 2,264,861	\$ 101,245	4.47%
Operating Expenses	(2,111,937)	(1,950,460)	(161,477)	8.28%
Depreciation Expense	<u>(624,893)</u>	<u>(559,313)</u>	<u>(65,580)</u>	<u>11.73%</u>
Operating Income/(Loss)	(370,724)	(244,912)	(125,812)	51.37%
Non-Operating Revenues/(Expenses)				
Non-Utility Income	13,783	5,102	8,681	170.15%
Operating Lease Agreement	28,570	-	28,570	100.00%
Interest Income	3,512	16,411	(12,899)	-78.60%
Interest Expense & Fiscal Charges	<u>(280,708)</u>	<u>(237,013)</u>	<u>(43,695)</u>	<u>18.44%</u>
Total Non-Operating Revenues/(Expenses)	(234,843)	(215,500)	(19,343)	8.98%

Adair County Water District
 Management's Discussion & Analysis
 Page 4

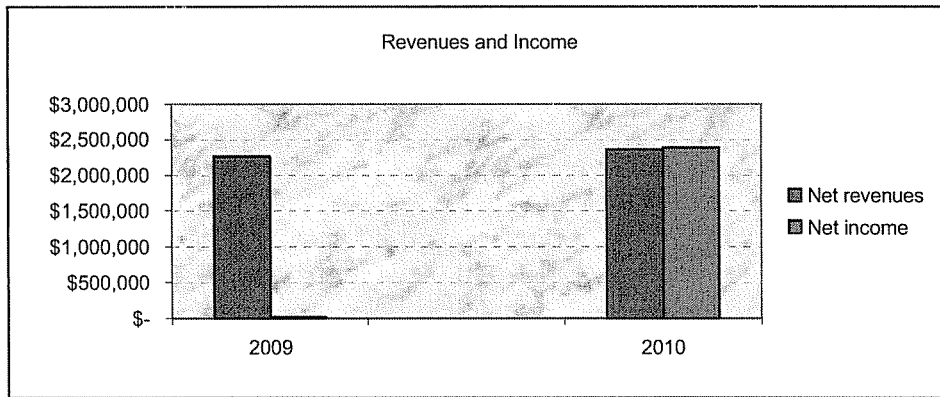
Income/(Loss) Before Capital Contributions				
Capital Contributions	\$ 2,990,310	\$ 278,735	\$ 2,711,575	972.81%
Grants	-	198,980	(198,980)	0.00%
	<u>2,990,310</u>	<u>477,715</u>	<u>2,512,595</u>	<u>525.96%</u>
 Increase/(Decrease) in Net Assets	 2,384,743	 17,303	 2,367,441	 13682.26%
 Beginning of Year	 <u>9,773,369</u>	 <u>9,756,066</u>	 <u>17,303</u>	 <u>0.18%</u>
End of Year	<u>\$ 12,158,112</u>	<u>\$ 9,773,369</u>	<u>\$ 2,384,743</u>	<u>24.40%</u>

Operating revenues

A comparison of the District's revenues and net income for the years ended December 31, 2010 and 2009 is as follows:

	2009	2010	Dollar Change	Percentage Change
Net revenues	\$ 2,264,861	\$ 2,366,106	\$ 101,245	4.47%
Net income	\$ 17,303	\$ 2,384,743	\$ 2,367,440	13682.58%

The following graph shows the District's 2009 revenues and income in comparison to the District's 2010 revenues and income.



Operating revenues increased by \$101,245 from 2009 to 2010. The primary reasons for the increase in revenues are a combination of growth in customer base and greater water usage in 2010.

Net income increased by \$2,344,788 from 2009 to 2010. Several factors are the cause for this increase. However, the most significant reason for this increase is the increased capital contributions of \$2,512,595 and increase of operating expenses.

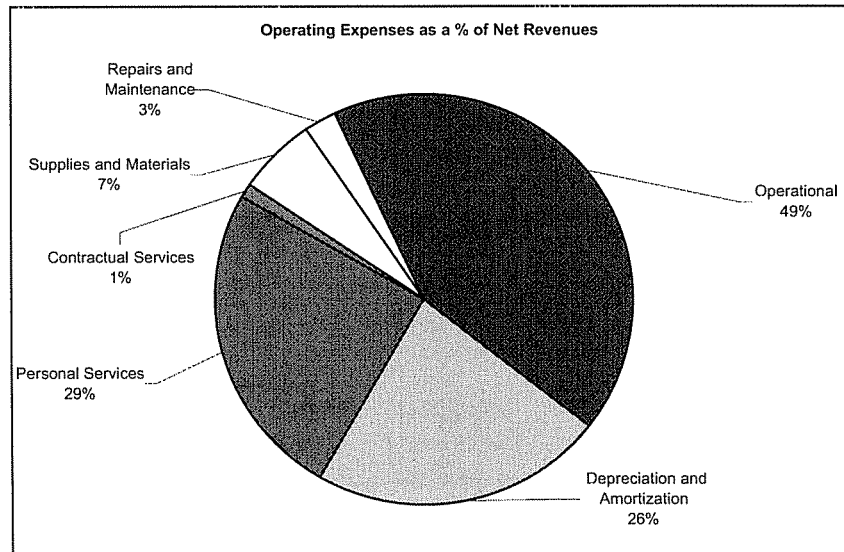
Expenses

Total operating expenses increased by \$227,507 from 2009 to 2010. The increase is primarily due to current economic conditions and the increased cost of doing business.

	2010	2009	Dollar Change	Percent Change
Operating Expenses				
Personal Services	\$ 681,858	\$ 639,487	\$ 42,371	6.21%
Contractual Service	30,063	38,981	(8,918)	-29.66%
Supplies and Materials	168,932	156,755	12,177	7.21%
Repairs and Maintenance	66,986	51,813	15,173	22.65%
Operational	1,164,098	1,063,424	100,674	8.65%
Depreciation and Amortization	624,893	559,313	65,580	10.49%
	<u>\$ 2,736,830</u>	<u>\$ 2,509,773</u>	<u>\$ 227,057</u>	<u>8.30%</u>

Expenses as a Percentage of Revenues

The following pie chart shows the District's expenses as a percentage of revenues.



Debt Outstanding

At December 31, 2010, the District had \$7,597,266 in debt outstanding versus \$6,925,069 for December 31, 2009.

Economic Factors and Future Planning

The primary service area of the Utility is located in Adair County; we are in the process of completing a merger in which we will be the sole provider of water and sewer in all of Adair County including the City of Columbia. The population growth for the Utility's service area has averaged 140-180 persons annually over the past ten years, and this growth rate is expected to continue into the near future. In conjunction with its master plan the Utility has maintained project and financial planning to keep pace with this

growth. Rate structures are also reviewed on a consistent basis to ensure that water services are provided to customers at the best value.

Adair County Water District
Management's Discussion & Analysis
Page 6

Our water has been purchased from Russell Springs, Jamestown and Columbia/Adair County Water Commission.

Several projects are planned to build up our infrastructure to serve the needs of our current customer base as well as plan for future growth. One of those projects is Phase 12 which includes a new high service distribution main and a composite tank in the Southern end of Adair County. When finished we will be able to distribute more water and help increase pressure to the southern part of our service area. We are in the process of completing a merger with the City of Columbia Utilities. We are currently mapping meters, lines and other utilities in the City of Columbia where we are planning on replacing old lines and meters in the City system that have not been updated since their first installation. This will be a two part construction project to be completed when funding is available. We have a small project to replace lines on three city streets and install a metering system at the city fire department this project is currently under construction.

Financial Contact Information

The District's financial statements are designed to provide the District's customers, commissioners, creditors and other interested parties with a general overview of the District's financial operations and financial condition. If you have questions about the report or need additional financial information, please contact the District's Manager, Lennon Stone at 270-384-2181 or 109 Grant Lane, Columbia, KY 42728.

General information relating to Adair County Water District can be found at the Utility's web site www.caud.net.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
STATEMENT OF NET ASSETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 104,767	\$ 213,253
Customer Accounts Receivable	378,776	209,680
Accounts Receivable - Other	519,500	
Inventory	160,239	175,070
Prepaid Expenses	42,818	30,402
	1,206,100	628,405
Total Unrestricted Current Assets		
Restricted Cash and Investments	571,664	574,181
	1,777,764	1,202,586
Total Current Assets		
NON-CURRENT ASSETS		
Capital Assets:		
Land and Construction in Progress	384,224	1,062,702
Other Capital Assets (net of accumulated depreciation)	18,129,556	14,718,008
	18,513,780	15,780,710
Total Non-Current Assets		
TOTAL ASSETS	20,291,544	16,983,296
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable - Trade	123,429	96,156
Accounts Payable - Construction in Progress	182,552	-
Accrued and Withheld Taxes	14,450	-
Customer Deposits	22,467	16,797
Accrued Payroll	8,523	-
Liabilities Payable from Restricted Assets:		
Interest Payable	184,745	171,906
Current Portion of Revenue Bonds Payable	165,319	157,859
Current Portion of Notes Payable	687,030	956,973
	1,388,515	1,399,691
Total Current Liabilities		
NON-CURRENT LIABILITIES		
Long-term Liabilities (Excluding Current Portion):		
Non-Current Portion of Notes Payable	-	-
Non-Current Portion of Revenue Bonds Payable	6,744,917	5,810,236
	6,744,917	5,810,236
Total Non-Current Liabilities		
TOTAL LIABILITIES	8,133,432	7,209,927
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	10,733,962	8,855,642
Restricted	571,664	574,181
Unrestricted	852,486	343,546
	12,158,112	9,773,369
TOTAL NET ASSETS	\$ 12,158,112	\$ 9,773,369

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Water Sales	\$ 2,175,021	\$ 2,109,934
Service Charges and Other	<u>191,085</u>	<u>154,927</u>
Total Operating Revenues	2,366,106	2,264,861
OPERATING EXPENSES		
Personal Service	681,858	639,487
Contractual Services	30,063	38,981
Supplies and Materials	168,932	156,755
Repairs and Maintenance	66,986	51,813
Operational	1,164,098	1,063,424
Depreciation and Amortization	<u>624,893</u>	<u>559,313</u>
Total Operating Expenses	<u>2,736,830</u>	<u>2,509,773</u>
OPERATING INCOME/(LOSS)	(370,724)	(244,914)
NON-OPERATING REVENUES (EXPENSES)		
Other Non-Utility Income	13,783	5,102
Lease	28,570	
Interest Income	3,512	16,411
Interest Expenses and Fiscal Charges	<u>(280,708)</u>	<u>(237,013)</u>
Total Non-Operating Revenues (Expenses)	<u>(234,843)</u>	<u>(215,500)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(605,567)	(460,413)
Capital Contributions	2,990,310	278,735
Grants	<u>-</u>	<u>198,980</u>
INCREASE (DECREASE) IN NET ASSETS	2,384,743	17,302
NET ASSETS		
Beginning of Year	9,773,369	9,756,067
End of Year	<u>\$ 12,158,112</u>	<u>\$ 9,773,369</u>

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS
 Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 2,279,771	\$ 2,241,382
Cash Payments to Employees for Services	(671,093)	(669,400)
Cash Payments to Suppliers for Goods and Services	(1,446,303)	(1,343,510)
Customer Deposits Received	20,600	16,163
Customer Deposits Returned	(14,740)	(12,660)
Net Cash Provided/(Used) By Operating Activities	168,235	231,975
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Debt	(2,109,861)	(152,404)
Interest Paid on Debt	(248,183)	(247,561)
Loan Proceeds	1,233,390	956,973
Bond Proceeds	1,100,000	-
Acquisition of Capital Assets	(2,812,359)	(1,820,733)
Proceeds from Grants	-	198,980
Contributed Capital	2,554,262	278,735
Net Cash Provided/(Used) By Investing Activities Related Financing Activities	(282,751)	(786,010)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	3,513	16,412
Net Cash Provided/(Used) By Investing Activities	3,513	16,412
Net Increase/(Decrease) In Cash and Cash Equivalents	(111,003)	(537,623)
Cash and Cash Equivalents - Beginning of Year	787,434	1,325,057
Cash and Cash Equivalents - End of Year	\$ 676,431	\$ 787,434
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and Cash Equivalents	\$ 104,767	\$ 213,253
Short-Term Investments	-	-
Restricted Cash	571,664	574,181
TOTAL CASH AND CASH EQUIVALENTS	\$ 676,431	\$ 787,434

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 STATEMENT OF CASH FLOWS (CONTINUED)
 Years Ended December 31, 2010 and 2009

	2010	2009
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Operating Margin	\$ (370,724)	\$ (244,913)
ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES		
Depreciation	624,893	559,313
Change in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(169,096)	(6,315)
(Increase)/Decrease in Inventory	14,830	(6,671)
(Increase)/Decrease in Prepaid Expenses	12,416	(3,714)
Increase/(Decrease) in Accounts Payable	27,273	(46,519)
Increase/(Decrease) in Salaries and Wages Payable	8,523	(15,430)
Increase/(Decrease) in Customer Deposits	5,670	3,503
Increase/(Decrease) in Accrued and Withheld Taxes	14,450	(7,278)
Total Reconciling Adjustments	538,959	476,889
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	\$ 168,235	\$ 231,976

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

NOTE 1: DESCRIPTION OF ENTITY

Reporting Entity - The Adair County Water District Commissioners have financial accountability and control over all activities related to the water district. The district's primary source of income is derived from water sales. The district also receives funding from federal government sources and must comply with the requirements of those funding source entities.

The District operates under rules established by the Public Service Commission (PSC) of Kentucky. Accounting records of the District are maintained in accordance with the Uniform System of Accounts prescribed by the PSC.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accounts of Adair County Water District are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, the district uses only one fund type known as a proprietary fund type.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Net assets (i.e., net of total liabilities) is segregated into invested in capital assets, net of related debt; restricted and unrestricted.

FASB Pronouncements - Since the District uses a proprietary fund, it applies all applicable Financial Accounting Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedures. The only exception in use of the aforementioned pronouncements is those that conflict with or contradict Governmental Accounting Standard's Board (GASB) pronouncements.

Cash, Cash Equivalents and Investments - The District considers all highly liquid investments with a remaining maturity of 90 days or less when purchased to be cash equivalents. Investments are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Inventory - Inventories are generally used for construction, operation and maintenance work rather than for resale. Materials and supplies inventory consists principally of spare parts that are recorded when purchased and expensed when used. Inventory is stated at the lower of cost or market value. Cost is generally determined on a first-in, first-out basis.

Restricted Assets

Certain proceeds from revenue bonds and funds set aside for their repayment are classified as restricted on the statement of net assets because their use is limited to applicable bond covenants. Current liabilities payable from these restricted assets are classified as such. When both restricted and unrestricted assets will be used for a project, it is the District's policy to use restricted assets first, then finish with unrestricted.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Related Depreciation – The utility plant and equipment was recorded at cost. Depreciation is computed using the straight-line method over the plant's estimated useful life of 40 years. The office building is depreciated on a straight-line basis over an estimated useful life of 20 years. Machinery, office equipment and service vehicles are depreciated on a straight-line basis over their estimated useful life ranging from 5 to 10 years.

Long-Term Obligations

Long-term debt and other obligations are reported as district liabilities. Bond Issue Costs are being amortized and charged to expense over the term of the outstanding revenue bonds by use of the straight-line method.

Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services and producing, and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Charges for Services

District billings are rendered and recorded monthly based on metered usage.

Capital Contributions

Cash and capital assets are contributed to the District by external parties. The value of property contributed to the District is reported as revenue on the statement of revenues, expenses and changes in net assets.

Net Assets

Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt—This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted—This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets—this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2010 and 2009

NOTE 3: CASH AND CASH EQUIVALENTS AND INVESTMENTS

A comparison of the District's cash and investments is shown below:

	December 31, 2010	December 31, 2009
Unrestricted:		
Cash	\$ 104,767	\$ 213,253
Certificates of Deposit and Savings	-	-
Total Unrestricted	104,767	213,253
Restricted:		
Cash	408,675	312,100
Certificates of Deposit and Savings	162,989	262,081
Total Restricted	571,664	574,181
Total Cash and Cash Equivalents	\$ 676,431	\$ 787,434

There are three categories of credit risk that apply to the government's bank balance:

1. Insured or collateralized with securities held by the government or by the government's agent in the government's name.
2. Collateralized with securities held by the pledging financial institution's trust department or the government's agent in the government's name.
3. Uncollateralized.

	2010	2009
Insured (FDIC) or Collateral Held by Pledging Bank Securities in District's Name	\$ 2,711,527	\$ 787,434
Uninsured or Uncollateralized	-	-
Total (Memorandum Only)	\$ 2,711,527	\$ 787,434

The District investment policy is conservative.

Deposits

The carrying amount of the District's deposits at December 31, 2010 was \$676,431 and the bank balance was \$694,777. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$500,000 was insured by federal depository insurance and the rest was collateralized by the pledging financial institutions.

Restricted Assets

These assets consist of cash restricted in a sinking fund and depreciation reserve fund as required by the revenue bonds plus cash received from the United States Fidelity and Guaranty Company for repairs to the system constructed by Roy Brothers.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

NOTE 4: CUSTOMER AND OTHER ACCOUNTS RECEIVABLES

Customer and other accounts receivables were as follows:

	2010	2009
Accounts Receivable - Trade	\$ 514,784	\$ 318,706
Accounts Receivable - Returned Checks	1,103	796
Accounts Receivable - Other	2,570	1,520
Allowance for Doubtful Accounts	<u>(137,112)</u>	<u>(111,342)</u>
Net	<u>\$ 381,345</u>	<u>\$ 209,680</u>

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2010 and 2009 was as follows:

	Balance 12/31/09	Additions	Deletions	Balance 12/31/10
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 105,729	\$ 278,495	\$ -	\$ 384,224
Construction in Progress	956,973	2,888,349	3,845,322	-
Total Assets Not Being Depreciated	<u>1,062,702</u>	<u>3,166,844</u>	<u>3,845,322</u>	<u>384,224</u>
Capital Assets Being Depreciated				
Office Equipment	152,279	20,869	-	173,148
Service Equipment	458,871	12,639	-	471,510
Building	364,434	-	-	364,434
Plant and Equipment	20,204,634	3,979,233	-	24,206,519
Total Assets Being Depreciated	<u>21,180,218</u>	<u>4,012,741</u>	<u>-</u>	<u>25,215,611</u>
Total Capital Assets	<u>22,242,920</u>	<u>7,179,585</u>	<u>3,845,322</u>	<u>25,599,835</u>
Less: Accumulated Depreciation				
Office Equipment	128,036	23,403	-	151,439
Service Equipment	326,668	35,538	-	362,206
Plant and Equipment	6,007,506	565,952	1,048	6,572,410
Total Accumulated Depreciation	<u>6,462,210</u>	<u>624,893</u>	<u>1,048</u>	<u>7,086,055</u>
Net Capital Assets	<u>\$ 15,780,710</u>	<u>\$ 6,554,692</u>	<u>\$ 3,844,274</u>	<u>\$ 18,513,780</u>

Depreciation expense for the year ended December 31, 2010 was \$624,893.

NOTE 6: SHORT-TERM DEBT

The District has interim financing through a local bank of \$462,030 for a project in progress (interest rate 5%) and a short-term loan of \$225,000 to purchase land.

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2010 and 2009

NOTE 7: LONG-TERM OBLIGATIONS

Revenue Bonds and Debt with principal payments due annually on January 1 are detailed as follows:

	<u>2010</u>	<u>2009</u>
1974 Waterworks Revenue Bond, original amount \$80,000 maturing January 1, 2014, with interest payments due semi-annually on January 1, and July 1, at a rate of 5%	\$ 15,500	\$ 19,000
1978 Waterworks Revenue Bond, original amount \$363,000 maturing January 1, 2018 with interest payments due semi-annually on January 1, July 1, at a rate of 5%	152,000	164,000
1985 Water District Water Revenue Bond, original amount \$1,155,000 maturing January 1, 2025, with interest payments due annually on January 1 at a rate of 5%	821,000	850,000
1989 Water District Water Revenue Bond, original amount \$200,000 maturing January 1, 2022, with interest payments due annually on January 1 at a rate of 6%	122,000	129,000
1992 Water District Water Revenue Bond, original amount \$745,000 maturing January 1, 2032, with interest payments due annually on January 1 at a rate of 5%	582,000	596,000
1995 Water District Water Revenue Bond, original amount \$428,000 maturing January 1, 2035, with interest payments due annually on January 1 at a rate of 4.5%	351,000	360,000
1998 Water District Water Revenue Bond, original amount \$427,000 maturing January 1, 2035, with interest payments due annually on January 1 at a rate of 4.5%	372,000	378,000
2003 Water District Water Revenue Bond, original amount \$627,000 maturing January 1, 2042, with interest payments due annually on January 1 at a rate of 4.5%	583,000	591,000
2005 Water District Water Revenue Bond, original amount \$1,238,000 maturing January 1, 2045, with interest payments due annually on January 1 at a rate of 4.25%	1,168,000	1,183,000
2007 Water District Water Revenue Bond, original amount \$752,000 maturing January, 2046, with interest payments due annually on January 1 at a rate of 4.25%	735,000	743,500
2008 Kentucky Infrastructure Authority Loan, original amount \$1,000,000 maturing December 2028, at a rate of 1%	908,736	954,596
2009 Water District Water Revenue Bond, original amount \$1,100,000 maturing January 2050, with interest payments due semi-annually on January and July 1, at a rate of 2.38%	<u>1,100,000</u>	<u>-</u>
Total Debt	6,910,236	5,968,096
Payments Due in Less Than One Year	<u>(165,319)</u>	<u>(157,859)</u>
Total Long-Term Obligations	<u>\$ 6,744,917</u>	<u>\$ 5,810,237</u>

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2010 and 2009

NOTE 7: LONG-TERM OBLIGATIONS (CONTINUED)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2010 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 165,319	\$ 261,675	\$ 426,994
2011	172,284	255,323	427,607
2012	199,553	248,417	447,970
2013	204,426	240,903	445,329
2014	212,405	233,126	445,531
2015-2019	1,170,970	1,035,763	2,206,733
2020-2024	1,309,072	800,669	2,109,741
2025-2029	964,107	575,360	1,539,467
2030-2034	933,500	392,160	1,325,660
2035-2039	706,500	218,459	924,959
2040-2044	655,500	78,346	733,846
2045-2049	216,600	13,656	230,256
	<u>\$ 6,910,236</u>	<u>\$ 4,353,857</u>	<u>\$ 11,264,093</u>

NOTE 8: BONDING COMPANY SETTLEMENT

A summary of the guaranteed payments from the United States Fidelity and Guaranty Company resulting from the settlement with the district regarding leakage of lines and repairs to those lines.

	<u>Total</u>
Repairs: \$8,000 per year, starting November 1, 1984, for a period of 15 years	\$ 120,000
Leakage: \$5,280 per year, starting November 1, 1984, for a period of 37 years	\$ 195,360

LUMP SUM PAYMENTS

November 1, 1994	\$ 50,000
November 1, 2000	50,000
November 1, 2004	50,000
November 1, 2009	50,000
November 1, 2014	100,000
November 1, 2019	100,000
Total Guaranteed Payments	<u>\$ 715,360</u>

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

NOTE 9: RISK MANAGEMENT

The Adair County Water District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions and natural disasters. The District purchases commercial insurance to cover any of these instances. The District did not have settled claims that exceeded the District's commercial insurance coverage in any of the past three years.

NOTE 10: PENSION PLAN

Substantially all employees are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution for the years ended June 30, 2010, 2009 and 2008 of 16.93%, 13.55% and 16.17% for Non Hazardous Employee's. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended June 30, 2010, 2009 and 2008 was \$99,399, \$68,019 and \$60,591 from the District and \$29,836, \$22,723 and \$20,465 from employees. The total covered payroll for CERS during the years ended June 30, 2010, 2009 and 2008 was \$596,710, \$455,068 and \$409,291.

The County Employee's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE 11: BASIS FOR EXISTING RATES

Current water rates were approved by the PSC on June 14, 2007 and became effective with the November 2007 billing period.

NOTE 12: OPERATING LEASE AGREEMENT

Effective July 30, 2010, the City of Columbia and the Adair County Water District entered into an operating agreement where the City turned over the operation of their water distribution system, waste water collection and treatment system. They are in the process of merging the City with the District. All paperwork had not been completed by year end, thus assets and liabilities had not been transferred.

The operation agreement is recorded as operating lease agreement in the financial statements. The completion of the merger is expected in 2011.

NOTE 13: JOINT VENTURE

On February 11, 2003 by order of the fiscal court, the Adair County Water District and Columbia Utilities established the Columbia/Adair County Water Commission. CACWC is a separate legal entity, whose function is for the treatment of water that will be sold to both Adair County Water District and Columbia Utilities. CACWC's governing board consists of two members from each entity, plus one fiscal court member. The district has no equity interest in the CACWC. The CACWC received funding from a grant by federal government in order to construct the new water treatment plant.

Audited financial statements for the Commission are prepared annually and can be obtained from the Commission's Manager.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

The only transaction between the District and CACWC was the purchase of water totaling \$889,013.

NOTE 13: JOINT VENTURE (CONTINUED)

Adair County Water District is in the process of merging the CACWC with the district. Completion of the merger is expected to be completed in 2011.

NOTE 14: SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through March 29, 2011.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ADAIR COUNTY WATER DISTRICT
 DBA COLUMBIA/ADAIR UTILITIES DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2010

	Federal CFDA Number	Disbursements
Department of Agriculture Rural Development		
Water and Waste Disposal Systems for Rural Communities	10.76	\$ 143,027
R D Grant	10.76	125,707
U.S. Department of Commerce		
Economic Development Administration		
ARRA Economic Adjustment Assistance Program	11.307 *	1,500,000
Total Expenditures of Federal Awards		\$ 1,768,734

* Denotes Major Program

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of audit issued:

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no
Reportable condition(s) identified that are
not considered to be material weakness(es)? x yes _____ none reported

Noncompliance material to financial
statements noted?

_____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no
reportable condition(s) identified that are
not considered to be material weakness(es)? _____ yes x none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133?

_____ yes x no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

11.307

ARRA Economic Adjustment Assistance Program

Dollar threshold used to distinguish
Between type A and B programs:

 \$300,000

Auditee qualified as low-risk auditee?

_____ yes x no

Section II - Financial Statement of Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

ADAIR COUNTY WATER DISTRICT
DBA COLUMBIA/ADAIR UTILITIES DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2010

The audit of Adair County Water District for the year ended December 31, 2009, revealed no audit findings requiring corrective action.

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

To the Board of Commissioners of
Adair County Water District

We have audited the financial statements of the business-type activities of Adair County Water District, as of and for the year ended December 31, 2010, which collectively comprise the Adair County Water District's basic financial statements and have issued our report thereon dated March 29, 2011. 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 Adair County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Adair County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Adair County Water District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Adair County Water District, in a separate letter dated March 29, 2011.

This report is intended solely for the information and use of management, the Board of Commissioners, and 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.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Campbellsville, KY

March 29, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners of
Adair County Water District

Compliance

We have audited Adair County Water District's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Adair County Water District's major federal programs for the year ended December 31, 2010. Adair County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Adair County Water District's management. Our responsibility is to express an opinion on Adair County Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Adair County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Adair County Water District's compliance with those requirements.

In our opinion, Adair County Water District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Adair County Water District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Adair County Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Adair County Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected or corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose describe in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify and deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, and 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.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Campbellsville, KY

March 29, 2011