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DEC 29 2004

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of

FILED

PUBLIC SERVICE
COMMISSION

DEC 29 2004

**PUBLIC SERVICE
COMMISSION**

THE APPLICATION OF WEST CARROLL WATER DISTRICT, CARROLL AND TRIMBLE COUNTIES, KENTUCKY, (1) FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING CONSTRUCTION OF MAJOR ADDITIONS AND IMPROVEMENTS TO ITS WATER DISTRIBUTION SYSTEM AND (2) SEEKING APPROVAL OF THE ISSUANCE OF CERTAIN SECURITIES.

) CASE
) NO.
) 2004-00520
)
)

The Applicant, West Carroll Water District, Carroll and Trimble Counties, Kentucky (the "District"), acting by and through its Commission, respectfully tenders this Application and requests that the Public Service Commission of Kentucky enter its Order pursuant to KRS 278.023 and 807 KAR 5:069 issuing a Certificate of Public Convenience and Necessity authorizing the District to construct major additions and improvements to its water distribution system (the "System") for the purpose of furnishing an adequate supply of pure and potable water for domestic, agricultural and commercial use in the District and approving the issuance of certain securities by the District. No water rate adjustment approval is requested. In support of this Application and in conformity with the rules of the Public Service Commission, the District states as follows:

1. The District was created by an Order entered by the County Court of Carroll County, Kentucky, on November 22, 1969, which established its original geographic area. From time to time additional territories in Carroll and Trimble Counties have been annexed to the District. The District is now, and has been since its creation, regulated by the Public Service Commission of Kentucky, and all records and proceedings of the Public Service Commission with reference to the District are incorporated in this Application by reference.

2. The governing body of the District is its Commission, which is a public body corporate, with power to make contracts in furtherance of its lawful and proper purposes as provided in KRS 74.070. In conformity with KRS 74.020(l)(b) the County Judge/Executive of Carroll County, with the approval of the Fiscal Court, appoints three Commissioners, and the County Judge/Executive of Trimble County, with the approval of the Fiscal Court, appoints two Commissioners, all of whom are residents of the District. The present District Commissioners and officers are Vicki Edwards, Chairperson, Clifford Simmons, Secretary, Dan Reisner, David Pirtle and David Scott. The mailing address of the District is c/o Carrollton Utilities, P.O. Box 269, Carrollton, Kentucky 41008, Attention: Bill R. Osborne, P.E., General Manager.

3. In order to finance water service facilities and improvements, the District has previously issued, and there are presently outstanding, the following revenue bonds payable from the revenues of the System:

- (a) Water System Revenue Bonds, Series of 1974;
- (b) Water System Revenue Bonds, Series 1981; and
- (c) Waterworks Revenue Bonds, Series 1994.

4. The District's consulting engineers, Quest Engineers, Inc., Lexington, Kentucky (the "Engineers"), have prepared a Preliminary Engineering Report and a Final Engineering Report as well as detailed plans and specifications for the construction and installation of proposed major additional water facilities and improvements (the "Project") to serve the District. The Preliminary Engineering Report dated 08/29/02 and the Final Engineering Report dated 12/21/04, are appended hereto as Exhibit A and Exhibit B, respectively. These Exhibits contain, among other things, descriptions of the Project, cost figures and other pertinent data.

It is the opinion of the Commissioners of the District that the public health, safety and general welfare of the citizens and inhabitants of the District will be promoted and served by the construction of the Project and the financing thereof as herein described.

5. The District has caused public advertising to be made according to law soliciting competitive bids for the construction and installation of the Project; has received, opened and considered the construction bids; and has filed with the United States Department of Agriculture, Rural Development (“USDA”), the data prepared by the Engineers showing the bids received and the recommendations of the Engineers with respect thereto. USDA has approved the District’s proposed award of the best bids as evidenced by the USDA letter of concurrence in the bid awards appended hereto as Exhibit C.

The District hereby states, through its undersigned Chairperson, that the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066, Section 4(3) and (4), Section 5(1), Sections 6 and 7, Section 8(1) through (3), Section 9(1) and Section 10; that all other state approvals or permits for the Project have been obtained; that the existing water rates of the District will produce total revenue requirements as set out in Exhibits A and B; and that construction of the Project is expected to begin on or about February 1, 2005, and to end on or about August 1, 2005.

6. The District further represents that, based upon the projections of the engineers and the financial studies of USDA, the existing schedule of water service rates and charges will be adequate to amortize the proposed Bonds identified in Section 8 below and to cover other annual debt service and other costs.

7. The estimated costs of and sources of funds for the Project are set out in Exhibit B and in Exhibit E identified below.

8. As shown in Exhibit B and in Exhibit E, the District proposes to finance, in part, the construction and installation of the Project by the issuance of its bonds, to be styled “Water System Revenue Bonds, Series 2005” (the “Bonds”), in the principal amount of \$369,000. A preliminary draft of a proposed bond-authorizing Resolution of the District, prepared in 2004, is appended hereto as Exhibit D.

The District has entered into a loan agreement with USDA pursuant to which USDA will make a loan to the District of \$369,000, to be represented by the Bonds. The Bonds are expected to bear interest at the single rate of 4.625% per annum. Appended hereto as Exhibit E are copies of letters from USDA to the District setting forth terms, conditions and understandings relating to the loan, together with related USDA correspondence regarding the principal maturities of and interest rate on the Bonds.

With reference to the proposed issuance of the Bonds to USDA, the proceedings relating thereto will provide for the public advertisement of competitive bids for the Bonds according to Kentucky law. In the event a bid or bids are received for the Bonds at an interest cost basis to the District more advantageous to the District than the loan commitment of USDA, the Bonds will be sold to such other bidder; however, it is not expected any more favorable bids will be received in view of the interest rate to be stipulated by USDA. The Bonds will not be delivered to USDA until such time as approximately 80% of the amount of the Bonds has been spent on the Project. This procedure is in accord with USDA rules requiring interim financing of USDA projects to the amount of the USDA loan. Accordingly, construction of the Project will be instituted and funded initially from the proceeds of an interim financing loan expected to be

obtained from The First National Bank of Carrollton at a rate not expected to exceed 4.50% per annum. The interim loan will be secured by (i) the undisbursed proceeds of the interim financing loan and (ii) the proceeds of the Bonds when delivered to USDA according to USDA practices and procedures.

Interim financing is also available to the District from the Kentucky Rural Water Finance Corporation and USDA in the event the intended interim financing source is not available for any reason.

9. The Commission of the District respectfully represents to the Public Service Commission that there is a genuine need and demand for the Project and that the Commission should enter herein its Order, in compliance with KRS 278.023 and KAR 5:069, (a) issuing its Certificate of Public Convenience and Necessity pursuant to KRS 278.020 authorizing construction and installation of the Project, and (b) authorizing pursuant to KRS 278.300 the issuance of \$369,000 principal amount of Water System Revenue Bonds, Series 2005, by the District as described herein.

WHEREFORE, the Applicant, West Carroll Water District, respectfully requests that such Order be issued.

Respectfully submitted,

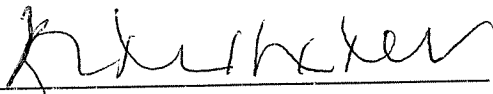
WEST CARROLL WATER DISTRICT

By




Vickie Edwards

Chairperson of the Commission



 Ruth H. Baxter
 Crawford & Baxter
 523 Highland Avenue
 Carrollton, Kentucky 41008
 Telephone: (502) 732-6688
 Counsel for the District

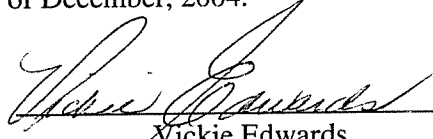


 William W. Davis
 Ogden Newell & Welch PLLC
 1700 PNC Plaza, 500 West Jefferson Street
 Louisville, Kentucky 40202
 Telephone: (502) 582-1601
 Bond Counsel for the District

COMMONWEALTH OF KENTUCKY)
)
 COUNTY OF CARROLL)

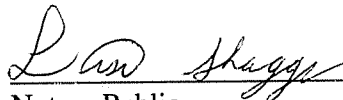
I, Vickie Edwards, being first duly sworn according to law, state that I am Chairperson of the Commission of West Carroll Water District, that I have read the foregoing Application and that the statements of fact set forth therein are true and accurate to the best of my knowledge and belief.

WITNESS my signature this 28th day of December, 2004.



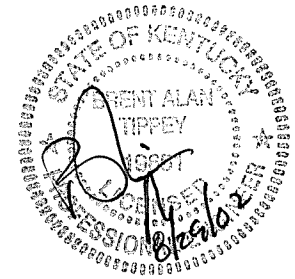
 Vickie Edwards

Subscribed and sworn to before me this 28 day of December, 2004. My commission expires 9-15-2008.



 Notary Public
 Commonwealth of Kentucky

West Carroll Water District 2002 Water System Improvements Preliminary Engineering Report



Background

The West Carroll Water District has applied to USDA-Rural Development for funding assistance in order to install approximately 93,000 linear feet of 3-inch through 8-inch PVC watermain, a 50,000 gallon water tank, a 100,000 gallon and other related appurtenances. The proposed project will improve the water system reliability, insure regulatory compliance and extend potable water service to approximately 35 households. The basis of design for the proposed improvements is detailed below.

Project Planning Area

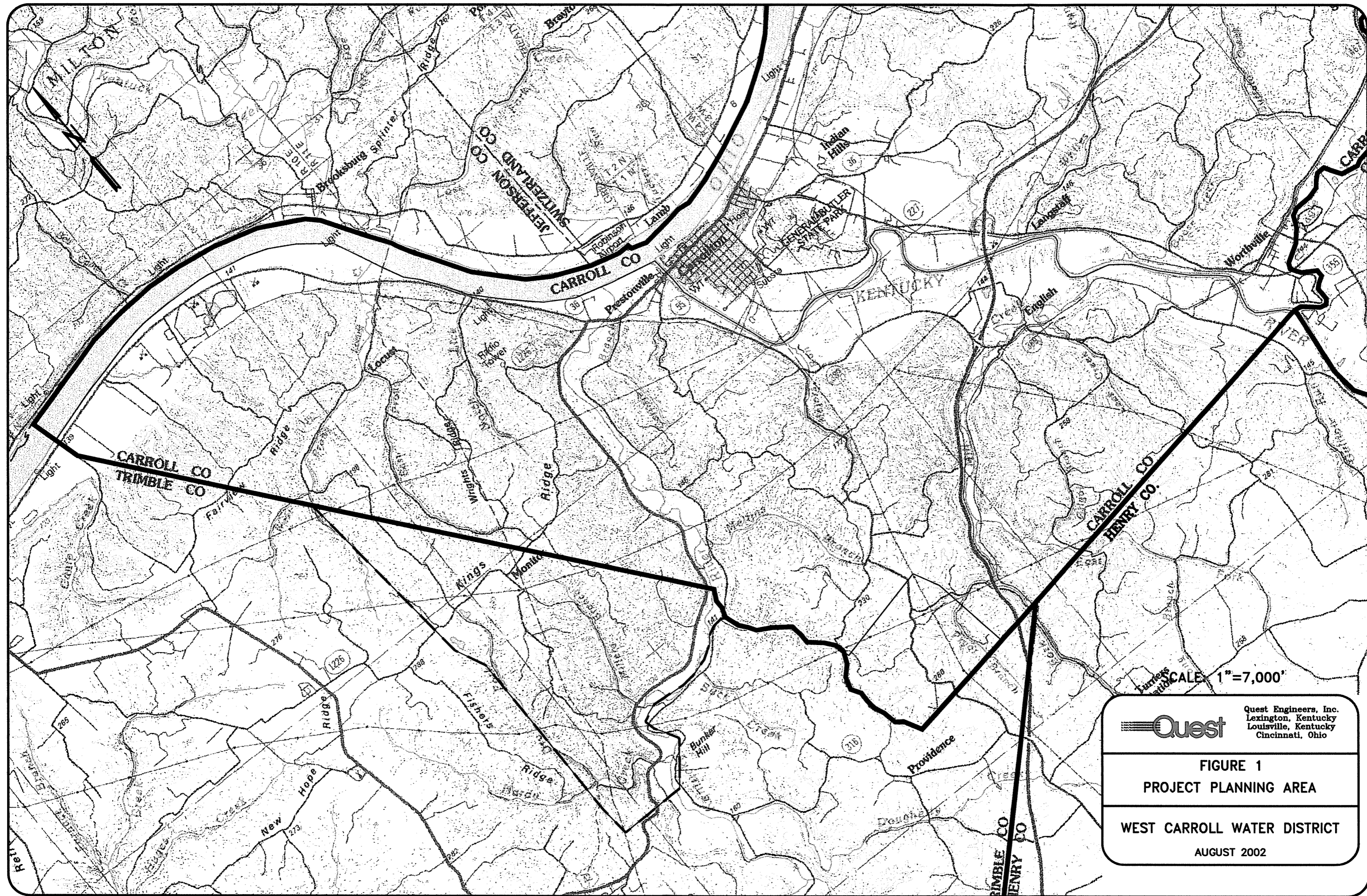
Figure 1 shows the location of the proposed project area. Small portions of the area may lie within the 100/500 flood plain and will require permitting. However, no prime farmland, wetlands, historic sites, or endangered species are expected to be disturbed as part of this project

Based on the 2000 United States Census, the Carroll County area grew at a rate of 9.3 percent over the 10 year period between 2000-2010 and at a 19.1 percent rate over the 30-year period between 1970-2000. Based on this information, the proposed improvements would adequately cover system growth for the next 20 years.

Existing Facilities/ Situation

West Carroll Water District currently purchases all of its water from four public water systems and only owns and operates the distribution system. The four entities are shown in Table 1 along with the actual monthly volume of water purchased during the fiscal year (FY) 2001-02 year.

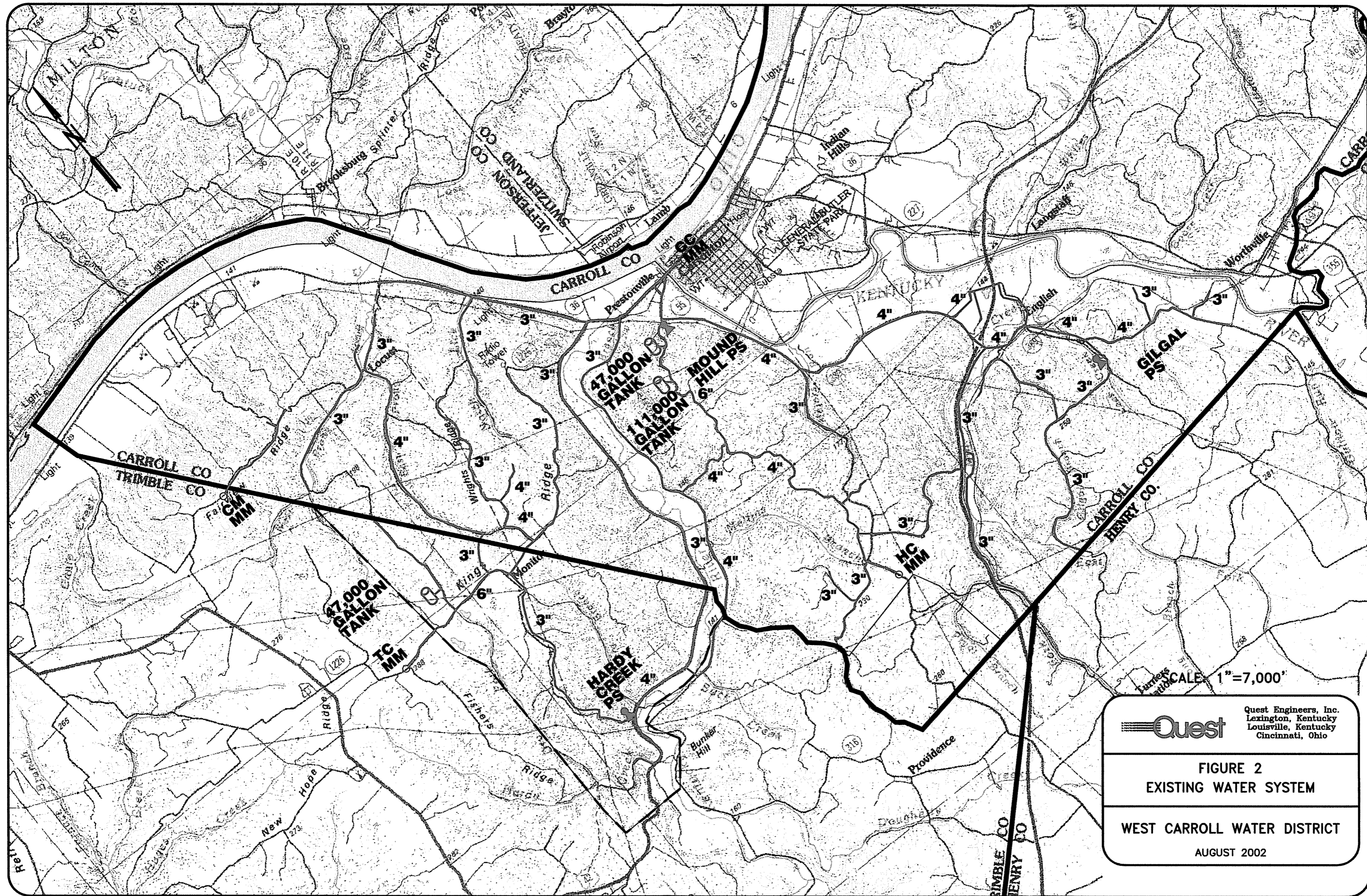
The distribution system is composed of approximately 407,000 linear feet of 2-inch through 6-inch water line. In addition, the system has three existing water storage tanks and two water pumping stations. A schematic layout of the existing system is attached as Figure 2.



SCALE: 1"=7,000'

Quest
 Quest Engineers, Inc.
 Lexington, Kentucky
 Louisville, Kentucky
 Cincinnati, Ohio

FIGURE 1
PROJECT PLANNING AREA
WEST CARROLL WATER DISTRICT
AUGUST 2002



SCALE 1"=7,000'

Quest
 Quest Engineers, Inc.
 Lexington, Kentucky
 Louisville, Kentucky
 Cincinnati, Ohio

FIGURE 2
EXISTING WATER SYSTEM
WEST CARROLL WATER DISTRICT
 AUGUST 2002

Table 1
Water Purchased FY 2001-02
West Carroll Water District

<i>Month</i>	<i>City of Carrollton</i>	<i>Trimble Co. Water District</i>	<i>Henry Co. Water District</i>	<i>City of Milton</i>
July 2001	3,461,900	1,442,752	733,548	101,800
August 2001	3,576,300	1,469,100	635,829	80,858
September 2001	3,465,770	1,396,585	606,556	68,427
October 2001	3,701,330	1,584,947	623,727	66,571
November 2001	3,537,087	1,474,897	529,417	73,244
December 2001	3,255,539	1,270,745	584,471	69,826
January 2002	3,451,844	1,321,726	669,642	66,458
February 2002	2,634,028	1,337,084	491,874	56,584
March 2002	2,862,200	985,616	644,384	75,032
April 2002	2,607,700	995,000	550,100	69,900
May 2002	2,745,440	1,187,400	619,060	65,600
June 2002	2,742,680	1,212,100	583,620	79,750
FY 2001-02 Total Gallons	38,041,818	15,677,952	7,272,228	874,050
Monthly Average	104,224	42,953	19,924	2,395

History

WCWD was established in July, 1960 for the purpose of providing water to rural customers in the district's area. The system has grown steadily in the years since the district's formation and now serves over 880 customers. The elevation change between the river valleys and the hilltops have traditionally created pressure challenges for system operators. This challenge is enhanced by the purchase of potable water from four different suppliers at four different hydraulic gradients. One of the goals of this project is to provide flexibility and redundancy within the system so that water can be supplied to all customers from different sources if the need arises.

Condition of Facilities

WCWD maintains its system in accordance with the guidelines set forth by the Public Service Commission (PSC) of Kentucky. All of the existing facilities are in good condition and suitable for future use. However, one water tank is located on a site that is too low for beneficial use. This tank will

be decommissioned as part of this project and its unusable storage replaced by the construction of new tanks in the Gilgal and Cove Hill areas. All other facilities will remain in operation.

Financial Condition

WCWD is in good financial condition and a full reporting of their revenues and expenses can be found in their 2001 audit which is attached as Appendix A to this report. Other than the purchase of additional water to serve the new customers, no significant new expenses are expected as part of this project. The existing rate schedule is detailed in Table 2.

Table 2
Existing Rate Schedule
West Carroll Water District

<i>Usage Category</i>	<i>Monthly Rate</i>
First 2,000 Gallons	\$ 17.48 (Minimum Charge)
Next 3,000 Gallons	\$ 6.74 per 1,000 Gallons
Next 5,000 Gallons	\$ 5.94 per 1,000 Gallons
Next 10,000 Gallons	\$ 5.04 per 1,000 Gallons
Next 20,000 Gallons	\$ 4.24 per 1,000 Gallons
Over 40,000 Gallons	\$ 3.84 per 1,000 Gallons

Need for Project

Health and Safety

The need for the project is public health and safety related. This project extends the service of safe, high quality potable water to approximately 35 new households that might otherwise not have good water available. In addition, the PSC has adopted a requirement that all systems have storage that equals or exceeds one day's worth of usage. This is done as a safety measure in order to provide water service during short term interruptions such as power outages or line breaks.

System Operation and Maintenance

The preliminary engineering investigation has not revealed any operations, maintenance, management or water loss problems associated with the WCWD system. As described previously, an ineffective tank is being decommissioned as part of this project which will improve the overall

efficiency of the system. The system is managed very efficiently on a contract basis with Carrollton Utilities.

Growth

The growth projections for the WCWD system have been previously detailed. This project is anticipated to add approximately 35 new customers to the system. The current infrastructure will meet the projected system growth over the next 20 years.

Alternatives Considered

Description/Criteria/Environmental Impacts

Based on the nature and need of the line extensions, the only other alternative considered for that portion of the project was a “no action alternative”. The two tanks have had different sites investigated however the selected sites were chosen based on hydraulic considerations. No unique impacts on floodplains, wetlands, endangered species or historical properties were identified with any of the possible tank sites.

Land Requirements

The state and county highway right-of-ways will be utilized where possible for waterline construction. However, easements will be required for much of the pipeline routes. The tank sites will be purchased in fee simple if the proposed landowner concurs.

Construction Problems

The presence of rock is the primary construction challenge that is expected to be encountered during construction of this project. No other major obstacles have been identified.

Cost Estimates

The cost estimate is detailed in the next section for the proposed improvements. This estimated cost was the same for all the proposed alternatives.

Advantages/Disadvantages

The proposed tank sites are more accessible and sit on a slightly higher elevation than the other alternatives. As described before, cost was not a factor. The waterline locations reflect the best routing in the identified areas.

Proposed Improvements

Design

This proposed project has been developed in order to provide safe drinking water to approximately 35 new households and to undertake some improvements that will strengthen the WCWD distribution system. The project is comprised of approximately 93,000 linear feet of 3-inch through 8-inch watermain, a new 50,000 gallon water storage tank, a new 100,000 gallon water storage tank, pump station improvements and other miscellaneous items. A schematic of the proposed improvements is included as Figure 3.

Cost Estimate

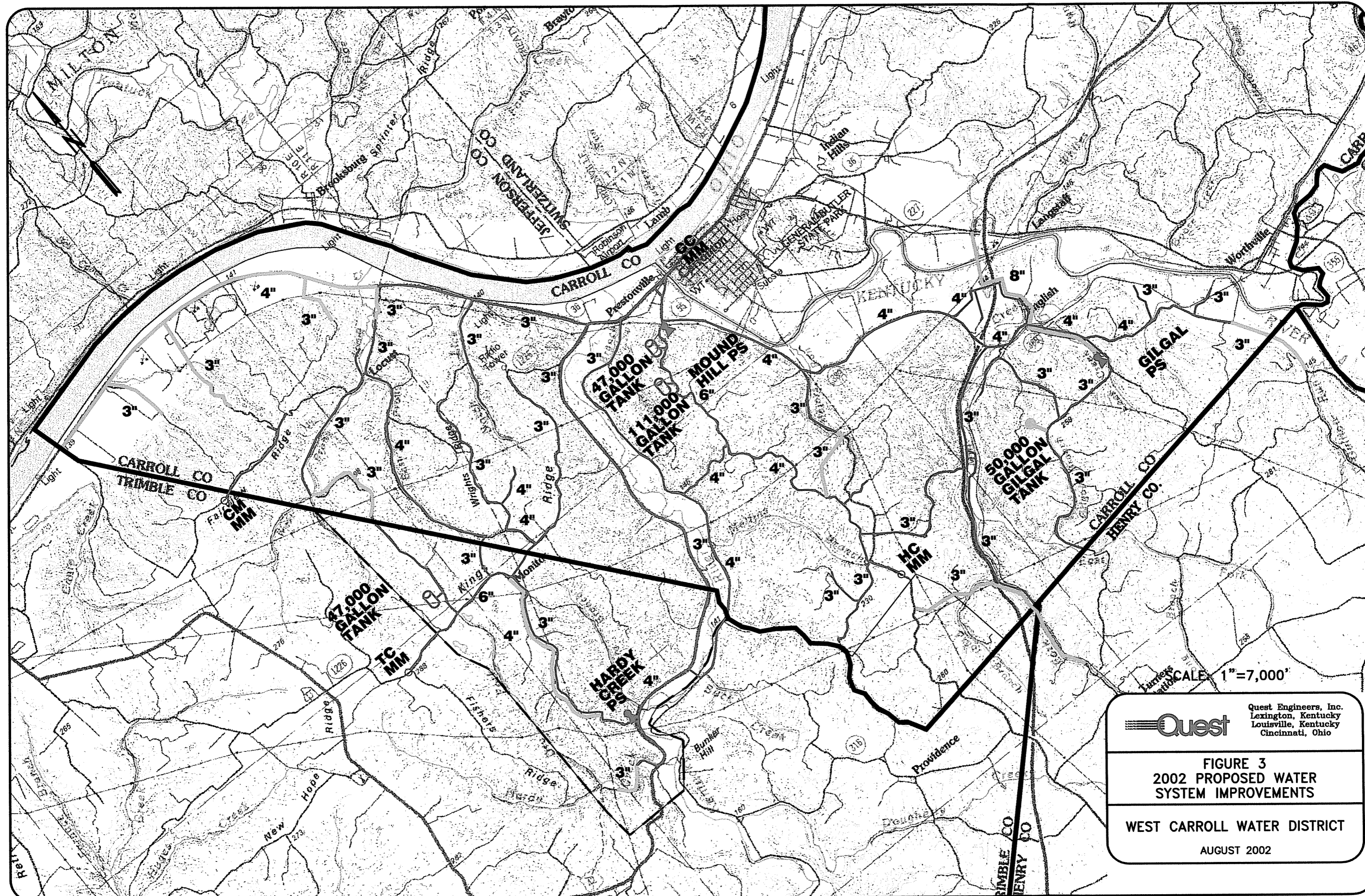
The individual project components are detailed in Table 3 along with a preliminary project cost estimate.

Table 3
Proposed Project Cost
West Carroll Water District

<i>Item</i>	<i>Amount</i>
Construction	\$1,160,600
Engineering	\$88,100
Administration/Legal	\$6,000
Resident Representation	\$46,424
Land/Right of Ways	\$7,876
Contingencies	\$116,000
Total Estimated Project Cost	\$1,425,000

A more detailed breakdown of the construction costs is included in Appendix B of this report.

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SCALE 1"=7,000'

Quest
Quest Engineers, Inc.
Lexington, Kentucky
Louisville, Kentucky
Cincinnati, Ohio

FIGURE 3
2002 PROPOSED WATER
SYSTEM IMPROVEMENTS

WEST CARROLL WATER DISTRICT
AUGUST 2002

Annual Operating Budget

This proposed project will have an impact on the operations and maintenance (O&M) costs of the system. The existing and proposed system revenues and expenses are detailed below in Table 4 and Table 5.

Table 4
Existing/Projected Water System Revenues
West Carroll Water District

<i>Item</i>	<i>2003 Amount</i>	<i>Post-Project Amount^{1, 2}</i>
Metered Sales	\$393,749	\$408,710
Miscellaneous Revenue	\$14,850	\$15,425
Total System Revenue	\$408,599	\$424,125

Notes: ¹ Includes 35 new customers @ 4,500 gallons per month per customer (3.8% growth)
² Based on percentage growth of metered sales.

It is anticipated that most O&M costs will increase but the most significant increases will be in the areas of purchased water and system maintenance as a result of the proposed improvements. Table 5 details the existing and projected O&M costs.

Table 5
Existing/ Projected O & M Costs
West Carroll Water District

<i>Item</i>	<i>2003 Amount</i>	<i>Projected Amount¹</i>
Purchased Water	\$116,887	\$121,330
Maintenance Agreement	\$114,753	\$119,115
Salaries and Wages	\$9,000	\$9,000
Materials and Supplies	\$24,778	\$24,778
Contractual Services	\$3,698	\$3,698
Insurance	\$3,837	\$3,983
Utilities	\$5,465	\$5,672
Professional Services	\$11,204	\$11,630
Miscellaneous Expenses	\$6,167	\$6,401
Total O&M Costs	\$295,789	\$305,608
Debt Service	\$48,375	\$70,435
Total Expenses	\$344,164	\$376,042

Note: ¹ Projections, where applicable, are based percentage increase in metered sales.

The funding applied for to United States Department of Agriculture-Rural Development program in this project consists of a 50 percent grant/ 50 percent loan package. Based on the requested package, WCWD would receive a \$369,000 grant and borrow the remaining \$369,000. In addition to USDA-RD funds, WCWD has previously acquired a \$ 675,000 grant from the Kentucky Infrastructure Authority and would also contribute \$12,000 from local funds. This will result in approximately \$22,060 of additional annual debt service with coverage from this project as shown in Table 5.

Conclusions

West Carroll Water District should award the construction contracts for the proposed system improvements to provide reliable service to the existing customers and extend the system to provide safe drinking water to approximately 35 new households.

**West Carroll Water District
Water System Improvements
Final Engineering Report**

Appendix A

**Project Bid Results
Recommendation of Award**



November 30,2004

Ms. Vickie Edwards, Chair
West Carroll Water District
P.O. Box 45
Carrollton, KY 41008

Re : Recommendation of Award
Water System Improvements Project (WX21041301)

Dear Vickie,

As you are aware, bids were received and opened publicly on November 18, 2004 for the Water System Improvements project. Prospective bidders were requested to provide bids for items relating to the construction of two different work contracts. Contract No. 1 included approximately 67,500 linear feet of 3-inch through 8-inch waterlines, 29 gate valves, along with related appurtenances. Contract No. 2 was for the erection of a 50,000 gallon elevated water storage tank, related sitework and other appurtenances. The bid results have been checked and a tabulation is attached to this letter for your review.

We received three responsive bids for Contract No. 1 and four responsive bids for Contract No.2 . The lump sum prices submitted for both contracts were very competitive. A comparison of the bids for each contract is shown below.

Quest Engineers, Inc.

Lexington:
2517 Sir Barton Way
Lexington, KY 40509
859-223-3755
859-223-3150 (Fax)

Louisville:
One Riverfront Plaza
401 West Main Street
Suite 500
Louisville, KY 40202
502-584-4118
502-589-3009 (Fax)

Cincinnati:
1251 Kemper Meadow Drive
Suite 600
Cincinnati, OH 45240
513-851-9774
513-851-9207 (Fax)

**Contract No. 1 - Waterline Extensions
West Carroll Water District**

<i>Bidder</i>	<i>Base Bid Amount</i>	<i>Additive Alternative Bid Amount</i>	<i>Comparison to Engineers Estimate¹</i>
SJ Cox Enterprises	\$791,707.00	\$115,377.00	-12.0%
Kenney, Inc.	\$827,038.50	\$115,785.00	-8.5%
Lykins Contracting, Inc.	\$886,486.55	\$141,490.75	-0.2%

¹Engineer's Estimate - \$1,030,000

**Contract No. 2 - Elevated Water Storage Tank
West Carroll Water District**

<i>Bidder</i>	<i>Bid Amount</i>	<i>Comparison to Engineers Estimate¹</i>
Caldwell Tanks	\$235,400.00	-16.0%
Pittsburg Tank & Tower	\$266,600.00	-4.8%
Phoenix Fabricators	\$334,505.00	9.4%
KY Glass Lined Tanks	\$346,681.00	23.8%

¹Engineer's Estimate - \$280,000

As detailed above, SJ Cox Enterprises (SJ Cox) and Caldwell Tanks (Caldwell) are the low bidders. Both of contractors have successfully completed previous projects with Quest. This work was of a similar nature to that identified for this project. Based on this experience and a check of other references, we believe both contractors are capable of successfully completing their contracts. In addition, there is sufficient budget available to include both the base bid and additive alternative in the award of Contract No.1.

If West Carroll Water District concurs by awarding the contracts to SJ Cox and Caldwell, the estimated project budget would be as follows:

***Project Budget
Water System Improvements
West Carroll Water District***

<i>Item</i>	<i>Amount</i>
Development (Contract No. 1 and No. 2)	\$1,142,484
Land and Rights	\$7,900
Legal and Administrative	\$6,000
Engineering/Resident Representation	\$134,500
Interest During Construction	\$10,000
Geotechnical Investigation	\$4,160
Contingency	\$119,956
<i>Project Total</i>	<i>\$1,425,000</i>

Once WCWD has reached a decision regarding the award of this project, please let us know. Quest will be happy to begin the preparation of the contract documents. If you have any questions about this matter, please feel free to call me at (859) 223-3755.

Kindest regards,



Brent A. Tippey, P.E.
Project Manager

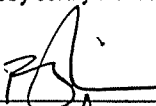
c: Terry Roach, WCWD
Bill Osborne, WCWD
Ernest Scruggs, USDA-RD Shelbyville
John Covington, KIA

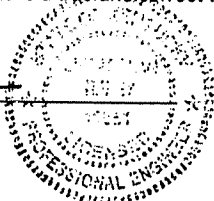
Attachments

Bid Tabulation
Water Line Extension
West Carroll, Kentucky
Bids Received: November 18, 2004

Item No.	Description	Unit	Approx Qty	S. J. Cox Enterprises, Inc.		Kenney, Inc.		Lykins Contracting Inc.	
				Unit Price	Total Item Amount	Unit Price	Total Item Amount	Unit Price	Total Item Amount
1	Mobilization	LS	1	\$16,500.00	\$16,500.00	\$16,500.00	\$16,500.00	\$12,000.00	\$12,000.00
2	General Requirements	LS	1	15,000.00	15,000.00	16,000.00	16,000.00	23,810.00	23,810.00
3	Bonds and Insurance	LS	1	11,700.00	11,700.00	25,000.00	25,000.00	19,350.00	19,350.00
4	3-inch PVC SDR 21 Water Line	LF	24,395	5.60	136,612.00	5.50	134,172.50	6.20	151,249.00
5	4-inch PVC SDR 21 Water Line	LF	26,862	6.00	161,172.00	6.00	161,172.00	7.55	202,808.10
6	6-inch PVC SDR 21 Water Line	LF	6,220	8.00	49,760.00	8.50	52,870.00	9.75	60,645.00
7	8-inch PVC SDR 21 Water Line	LF	10,100	10.00	101,000.00	11.50	116,150.00	11.60	117,160.00
8	3-inch Gate Valve	EA	12	410.00	4,920.00	380.00	4,560.00	380.00	4,560.00
9	4-inch Gate Valve	EA	9	440.00	3,960.00	420.00	3,780.00	405.00	3,645.00
10	6-inch Gate Valve	EA	2	520.00	1,040.00	525.00	1,050.00	465.00	930.00
11	8-inch Gate Valve	EA	6	710.00	4,260.00	715.00	4,290.00	645.00	3,870.00
12	3-inch HDPE Pipe, Horizontal Directional Drilling	LF	85	60.00	5,100.00	70.00	5,950.00	32.80	2,788.00
13	4-inch HDPE Pipe, Horizontal Directional Drilling	LF	250	80.00	20,000.00	72.50	18,125.00	34.60	8,650.00
14	8-inch HDPE Pipe Through Existing Casing	LF	390	30.00	11,700.00	25.00	9,750.00	25.60	9,984.00
15	8-inch HDPE Horizontal Directional Drilling	LF	620	100.00	62,000.00	90.00	55,800.00	52.40	32,488.00
16	10-inch x 0.25 Steel Encasement Pipe (open cut)	LF	65	50.00	3,250.00	41.00	2,665.00	40.80	2,652.00
17	10-inch x 0.25 Steel Encasement Pipe (bore & jack)	LF	80	90.00	7,200.00	85.00	6,800.00	110.00	8,800.00
18	12-inch x 0.25 Steel Encasement Pipe (open cut)	LF	191	55.00	10,505.00	44.00	8,404.00	41.75	7,974.25
19	12-inch x 0.25 Steel Encasement Pipe (bore & jack)	LF	316	95.00	30,020.00	110.00	34,760.00	116.00	36,656.00
20	14-inch x 0.25 Steel Encasement Pipe (open cut)	LF	68	65.00	4,420.00	52.50	3,570.00	58.40	3,971.20
21	14-inch x 0.25 Steel Encasement Pipe (bore & jack)	LF	185	150.00	27,750.00	225.00	41,625.00	145.00	26,825.00
22	14-inch Creek Crossing	LF	30	130.00	3,900.00	105.00	3,150.00	200.00	6,000.00
23	3-inch Tapping Valve and Sleeve- Wet Connection	EA	5	1,700.00	8,500.00	1,225.00	6,125.00	1,580.00	7,900.00
24	4-inch Tapping Valve and Sleeve- Wet Connection	EA	3	1,800.00	5,400.00	1,325.00	3,975.00	1,845.00	5,535.00
25	8-inch Tapping Valve and Sleeve- Wet Connection	EA	1	2,500.00	2,500.00	2,000.00	2,000.00	2,580.00	2,580.00
26	Carrollton Meter Vault	LS	1	19,100.00	19,100.00	13,800.00	13,800.00	16,375.00	16,375.00
27	Air Release Valves	EA	2	950.00	1,900.00	835.00	1,670.00	1,010.00	2,020.00
28	Locust PRV Station	LS	1	8,500.00	8,500.00	8,050.00	8,050.00	9,050.00	9,050.00
29	Gilgal Pump Station Modifications	LS	1	2,500.00	2,500.00	2,000.00	2,000.00	17,000.00	17,000.00
30	Leak Detection Assembly w/Gate Valve	EA	6	1,300.00	7,800.00	1,400.00	8,400.00	1,300.00	7,800.00
31	Line Markers	EA	53	95.00	5,035.00	65.00	3,445.00	75.00	3,975.00
32	Flushing Hydrant and Valve Assembly	EA	14	1,150.00	16,100.00	1,400.00	19,600.00	1,725.00	24,150.00
33	Dry Connection to Existing System	EA	2	900.00	1,800.00	1,280.00	2,560.00	2,175.00	4,350.00
34	Bituminous Pavement Replacement- Trench Width	LF	305	13.60	4,148.00	23.00	7,015.00	29.25	8,921.25
35	Bituminous Pavement Replacement- Full Road	LF	200	33.00	6,600.00	40.00	8,000.00	51.75	10,350.00
36	Crushed Stone Pavement Replacement- Trench	LF	605	6.00	3,630.00	8.00	4,840.00	13.45	8,137.25
37	Concrete Pavement Replacement- Trench Width	LF	75	25.00	1,875.00	35.00	2,625.00	61.50	4,612.50
38	Plug and Block Water Line	EA	7	250.00	1,750.00	610.00	4,270.00	345.00	2,415.00
39	Demobilization	LS	1	2,800.00	2,800.00	2,500.00	2,500.00	4,500.00	4,500.00
TOTAL AMOUNT OF BID					\$791,707.00		\$827,038.50		\$886,486.55

I hereby certify that this is a true and correct tabulation of the bids

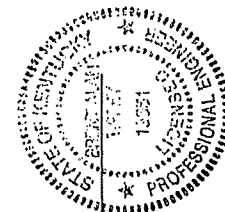

 Brent Tippey, P.E.
 Quest Engineers, Inc.



Bid Tabulation
Water Line Extension
Additive Alternative 1
West Carroll, Kentucky
Bids Received: November 18, 2004

Item No.	Description	Unit	Approx. Qty	S.J. Cox Enterprises, Inc.		Kenney, Inc.		Lykins Contracting Inc.	
				Unit Price	Total Item Amount	Unit Price	Total Item Amount	Unit Price	Total Item Amount
1	3-inch PVC SDR 21 Water Line	LF	2,600	\$5.60	\$14,560.00	\$5.50	\$14,300.00	\$6.90	\$17,940.00
2	4-inch PVC SDR 21 Water Line	LF	14,280	6.00	85,680.00	6.00	85,680.00	7.40	105,672.00
3	3-inch Gate Valve	EA	1	410.00	410.00	380.00	380.00	380.00	380.00
4	4-inch Gate Valve	EA	4	440.00	1,760.00	420.00	1,680.00	405.00	1,620.00
5	3-inch Tapping Sleeve and Valve	EA	1	1,700.00	1,700.00	1,225.00	1,225.00	1,680.00	1,680.00
6	4-inch Tapping Sleeve and Valve	EA	1	1,800.00	1,800.00	1,325.00	1,325.00	1,895.00	1,895.00
7	Air Release Valves	EA	1	950.00	950.00	835.00	835.00	1,010.00	1,010.00
8	Line Marker	EA	15	95.00	1,425.00	65.00	975.00	75.00	1,125.00
9	Flushing Hydrant and Valve Assembly	EA	4	1,150.00	4,600.00	1,400.00	5,600.00	1,725.00	6,900.00
10	Bituminous Pavement Replacement- Trench Width	LF	95	13.60	1,292.00	23.00	2,185.00	29.25	2,778.75
11	Crushed Stone Paving	LF	200	6.00	1,200.00	8.00	1,600.00	2.45	490.00
TOTAL AMOUNT OF ADDITIVE ALT 1					\$115,377.00		\$115,785.00		\$141,490.75

I hereby certify that this is a true and correct tabulation of the bids

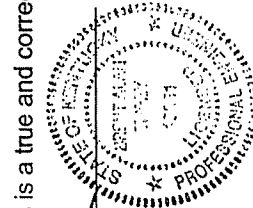


Brent Tippey, P.E.
 Quest Engineers, Inc.

Bid Tabulation
50,000 Gallon Elevated Storage Tank
West Carroll County, Kentucky
Bids Received: November 18, 2004

Item No.	Description	Unit	Approx. Qty	Caldwell Tanks		Pittsburg Tank & Tower		Phoenix Fabricators		KY Glass Lined Tanks	
				Unit Price	Total Item Amount	Unit Price	Total Item Amount	Unit Price	Total Item Amount	Unit Price	Total Item Amount
1	Mobilization	LS	1	\$14,000.00	\$14,000.00	\$5,000.00	\$5,000.00	\$1,500.00	\$1,500.00	\$2,200.00	\$2,200.00
2	General Requirements	LS	1	3,000.00	3,000.00	5,000.00	5,000.00	239,005.00	239,005.00	1,500.00	1,500.00
3	Bonds and Insurance	LS	1	2,500.00	2,500.00	10,000.00	10,000.00	5,000.00	5,000.00	8,500.00	8,500.00
4	Sitework/Access Road/Fencing	LS	1	4,350.00	4,350.00	12,000.00	12,000.00	17,000.00	17,000.00	19,800.00	19,800.00
5	6-inch PVC SDR 21 Water Line	LS	860	11.05	9,503.00	14.00	12,040.00	25.00	21,500.00	30.00	25,800.00
6	50,000 Gallon Elevated Tank	LS	1	181,547.00	181,547.00	201,760.00	201,760.00	23,000.00	23,000.00	244,181.00	244,181.00
7	Valve Vault with Appurtenances	LS	1	13,700.00	13,700.00	15,000.00	15,000.00	22,000.00	22,000.00	37,000.00	37,000.00
8	Fire Hydrant Assembly	LS	1	2,500.00	2,500.00	2,000.00	2,000.00	2,500.00	2,500.00	2,500.00	2,500.00
9	Connection to Existing Water Line	LS	1	2,000.00	2,000.00	1,800.00	1,800.00	2,000.00	2,000.00	3,000.00	3,000.00
10	Demobilization	LS	1	2,300.00	2,300.00	2,000.00	2,000.00	1,000.00	1,000.00	2,200.00	2,200.00
TOTAL AMOUNT OF BID					\$235,400.00		\$266,600.00		\$334,505.00		\$346,681.00

I hereby certify that this is a true and correct tabulation of the bids



Brent Tippey, P.E.
 Quest Engineers, Inc.



**United States Department of Agriculture
Rural Development**
Kentucky State Office

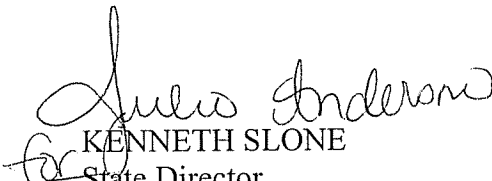
December 9, 2004

SUBJECT: West Carroll Water District
Water System Improvements
Contract Award Concurrence

TO: Area Director
Shelbyville, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder on Contract No. 1, SJ Cox Enterprises, in the amount of \$907,084.00, and the low bidder on Contract No. 2, Caldwell Tanks, in the amount of \$235,400.00.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.


for **KENNETH SLONE**
State Director
Rural Development

cc: Quest Engineers, Inc.
Lexington, Kentucky

Harper, Ferguson, and Davis
Louisville, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

Exhibit C

BOND-AUTHORIZING RESOLUTION

A RESOLUTION OF THE COMMISSION OF WEST CARROLL WATER DISTRICT, CARROLL AND TRIMBLE COUNTIES, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE DISTRICT'S WATER DISTRIBUTION SYSTEM; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S \$369,000 WATER SYSTEM REVENUE BONDS, SERIES 2004, TO PAY THE COSTS THEREOF, SUCH BONDS TO BE ISSUED ON A PARITY WITH CERTAIN PREVIOUSLY ISSUED AND OUTSTANDING BONDS; CONFIRMING AND CONTINUING PROVISIONS FOR THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE REVENUES OF SAID SYSTEM; CONFIRMING, RATIFYING AND CONTINUING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM SAID REVENUES AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED AND OUTSTANDING PARITY BONDS; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

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A RESOLUTION OF THE COMMISSION OF WEST CARROLL WATER DISTRICT, CARROLL AND TRIMBLE COUNTIES, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE DISTRICT'S WATER DISTRIBUTION SYSTEM; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S \$369,000 WATER SYSTEM REVENUE BONDS, SERIES 2004, TO PAY THE COSTS THEREOF, SUCH BONDS TO BE ISSUED ON A PARITY WITH CERTAIN PREVIOUSLY ISSUED AND OUTSTANDING BONDS; CONFIRMING AND CONTINUING PROVISIONS FOR THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE REVENUES OF SAID SYSTEM; CONFIRMING, RATIFYING AND CONTINUING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM SAID REVENUES AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED AND OUTSTANDING PARITY BONDS; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

WHEREAS, the West Carroll Water District, Carroll and Trimble Counties, Kentucky (the "District"), is a duly organized and existing water district under Chapter 74 of the Kentucky Revised Statutes ("KRS") and, as such, has the power and authority to acquire, construct, maintain and operate a water system for the purpose of providing water service for domestic and commercial use and to finance such acquisition and construction by the issuance of its revenue bonds secured by the income and revenues of its water system; and

WHEREAS, the District currently has outstanding the following water revenue bonds payable from and secured by a first lien on the revenues of the District's municipal water distribution system (the "System"):

(a) Water System Revenue Bonds, Series of 1975 (the "1975 Bonds"), authorized by a Resolution adopted by the Commission of the District on May 5, 1975 (the "1975 Resolution");

(b) Water System Revenue Bonds, Series 1981 (the "1981 Bonds"), authorized by a Resolution adopted by the Commission of the District on January 5, 1982 (the "1981 Resolution"); and

(c) Waterworks Revenue Bonds, Series 1994 (the "1994 Bonds"), authorizing by a Resolution adopted by the Commission of the District on February 1, 1994 (the "1994 Resolution"); and

WHEREAS, it is provided in and by the 1975, 1981 and 1994 Resolutions (the "Prior Resolutions") that the District may issue additional bonds on a parity with the 1975, 1981 and 1994

Bonds (the "Prior Bonds") in order to pay the costs of additions, improvements and extensions to the System if the United States Department of Agriculture, Rural Development (as successor to the Farmers Home Administration) ("USDA"), as the holder of the Prior Bonds, consents to such issuance; and

WHEREAS, pursuant to the above cited provisions of the Prior Resolutions, the 2004 Bonds hereinafter identified and authorized may now be issued on a parity with the Prior Bonds, the consent of USDA having been obtained; and

WHEREAS, in proceedings before the Public Service Commission of Kentucky, the District has obtained (or otherwise will obtain prior to issuance of the 2004 Bonds herein authorized) the right and authority to construct and operate major extensions and additions to the System, and plans and specifications have heretofore been prepared by Quest Engineers, Inc., Lexington, Kentucky, and approved by the District's Commission and all State and supervisory authorities having jurisdiction thereof; and it is the opinion of the Commission of the District that it is feasible to undertake the construction and installation of such new facilities at this time; and

WHEREAS, it has been determined upon the basis of public bids for construction duly solicited in the manner required by law, and upon the basis of other costs and estimates, that the aggregate of all costs and expenses in connection with the Project will be \$1,425,000 and to provide such funds the District has received from USDA an offer to make a USDA loan to the District in the total amount of \$369,000, which will be supplemented by a USDA grant of \$369,000, a State 2020 Grant of \$175,000, a KIA Fund B Grant of \$500,000 and a District contribution of \$12,000; and

WHEREAS, it is now appropriate for the District to provide for borrowing the sum of \$369,000 through issuance and sale of its Water System Revenue Bonds, Series 2004 (the "2004 Bonds"), according to authority of Kentucky Revised Statutes ("KRS") Chapters 74 and 106 and the provisions of the Prior Resolutions permitting the issuance of parity bonds or other obligations; and the 2004 Bonds shall be payable as to both principal and interest solely (except as to capitalized interest) from the income and revenues to be derived from the operation of the System, as extended from time to time, and shall not constitute an indebtedness of the District within the meaning of debt-limiting provisions of the Constitution of Kentucky;

NOW, THEREFORE, THE COMMISSION OF WEST CARROLL WATER DISTRICT, CARROLL AND TRIMBLE COUNTIES, KENTUCKY, DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1

AFFIRMATION OF PREAMBLE RECITALS; AUTHORIZATION OF THE PROJECT; DECLARATION OF NECESSITY

All statements and recitals set forth in the preamble of this Resolution, including the terms defined therein, are hereby affirmed and adopted as a part of this Resolution.

It is hereby further determined and declared to be necessary in the interests of the general welfare of the citizens and inhabitants of the District that the District undertake at this time the construction and installation of major additions and extensions (the "Project") to the District's municipal water distribution system (the "System"), all substantially according to the plans, specifications and designs prepared for the District by Quest Engineers, Inc., Lexington, Kentucky (the "Engineer"), and on file with the District. Immediate undertaking of such construction and installation is hereby authorized.

SECTION 2

PROJECT TO BE MUNICIPALLY OWNED AND OPERATED

The construction and installation of the Project is undertaken by the District for public purposes and same shall constitute and be a part of the System, and so long as any of the 2004 Bonds hereinafter authorized, or bonds issued on a parity therewith, shall remain outstanding and unpaid as to principal or interest, the System shall continue to be municipally owned, controlled, operated and maintained by the District for the security and source of payment of the 2004 Bonds hereinafter authorized to be issued and any such parity bonds which may be hereafter issued, subject, however, to the provisions of Section 3 hereinafter. The Project is to be constructed, installed and acquired and the System is to be operated pursuant to the provisions of KRS Section 74.370 and KRS Chapter 106, now in full force and effect.

SECTION 3

2004 BONDS AUTHORIZED; CERTAIN TERMS AND DETAILS

For the purpose of providing funds to defray the costs of the Project including all necessary and proper appurtenances, and expenses incident thereto and incident to the issuance of the 2004 Bonds hereinafter authorized, there are hereby authorized to be issued the District's Water System Revenue Bonds, Series 2004, in the aggregate principal amount of \$369,000 (the "2004 Bonds").

The 2004 Bonds shall be dated as of the date of their original delivery and shall be issuable as a single fully registered bond without coupons as hereinafter provided in Section 5 with reservation of right on the part of the District to issue additional bonds in the future, payable from the income and revenues of the System, subject to the conditions and restrictions hereinafter prescribed and set forth. The 2004 Bonds shall be offered at public sale as provided in Section 4 of this Resolution.

The 2004 Bonds shall mature as to principal in installments on January 1 in each of the years 2007 through 2044, inclusive, as set forth in the schedule appearing below; and shall bear interest from their date until payment of principal, such interest to the respective principal maturity dates to be payable semiannually on January 1 and July 1 of each year, and such interest to be at such rate as may be established by a supplemental Resolution upon the basis of competitive sale of the 2004

Bonds as hereinafter provided. The annual installments of principal of the 2004 Bonds, in fully registered form as aforesaid, shall be as set forth in the following schedule:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2007	\$ 4,000	2020	\$ 7,000	2033	\$ 12,000
2008	4,000	2021	7,000	2034	13,000
2009	4,000	2022	7,000	2035	13,000
2010	4,000	2023	8,000	2036	14,000
2011	4,000	2024	8,000	2037	15,000
2012	5,000	2025	8,000	2038	15,000
2013	5,000	2026	9,000	2039	16,000
2014	5,000	2027	9,000	2040	17,000
2015	5,000	2028	10,000	2041	17,000
2016	6,000	2029	10,000	2042	18,000
2017	6,000	2030	11,000	2043	19,000
2018	6,000	2031	11,000	2044	19,000
2019	6,000	2032	12,000		

provided, however, that installments of principal of 2004 Bonds maturing on and after January 1, 2016, shall be subject to prepayment at the option of the District prior to maturity in whole or from time to time in part in inverse order of maturities (less than all of a single maturity to be selected by lot) on any interest payment date on and after January 1, 2015, upon terms of par plus accrued interest without any prepayment premium, upon thirty (30) days' prior written notice mailed to the registered holder or holders of the 2004 Bonds; provided, that so long as USDA or any of its assigns is the owner of any of the 2004 Bonds, the same may be prepaid in whole or in part at any time at par plus accrued interest, and without notice or prepayment premium. The 2004 Bonds may be prepaid only in increments of \$1,000.

Both principal of and interest on the 2004 Bonds shall be payable, without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United States of America, to the registered holder at the address shown on the registration books of the District or, so long as USDA is the registered holder, at the office or address as may be designated by USDA from time to time.

If any District officer whose signature appears on any 2004 Bond shall cease to be such officer prior to delivery, such signature shall nevertheless be valid and binding for all purposes, the same as if such officer had continued in office until the time of delivery of such 2004 Bond. The 2004 Bonds, together with the interest thereon, and any bonds which have heretofore been or may hereafter be issued on a basis of parity therewith subject to the conditions and restrictions hereinafter set forth, shall be payable only from the Water System Bond and Interest Sinking Fund created and continued by the Prior Resolutions, as hereinafter more specifically provided, and shall be a valid

claim of the holder thereof only against said Fund and the fixed portion or amount of the revenues of the System which the District has pledged to said Fund, subject to the terms hereof.

SECTION 4

PROVISIONS RELATING TO SALE OF BOND ISSUE

The 2004 Bonds authorized by this Resolution shall be publicly offered for sale according to a Notice of Sale of Bonds conforming to the requirements of KRS Chapter 424 (and particularly KRS 424.140(3) and KRS 424.360), which shall be published one time, not less than seven (7) days nor more than twenty-one (21) days prior to the date therein specified (by and at the discretion of the Chairman of the Commission of the District) for the opening and consideration of purchase bids, in each of the following: (a) the legal newspaper published in Carroll and Trimble Counties, Kentucky, which are qualified under KRS 424.120 to publish advertisements for the District; and (b) The Courier-Journal, Louisville, Kentucky, a legal newspaper having statewide circulation.

Said Notice shall state the name and amount of 2004 Bonds to be sold, the time of the sale and other details concerning the 2004 Bonds and the sale and shall inform prospective bidders that a copy of the Official Notice of Bond Sale, setting out the maturities, security of the 2004 Bonds, provisions as to redemption prior to maturity, and related information, may be obtained from the District. Such Official Notice shall contain, *inter alia*, substantially the following bidding requirements:

(A) Bidders shall be limited to institutions or persons having knowledge and experience in financial and business matters who are capable of evaluating the merits and risks of the 2004 Bonds and who are not purchasing for more than one account and do not intend to redistribute the 2004 Bonds. The District will make available to any such qualified bidder, upon written request, any financial and other material information regarding the District and the System in the District's possession. Bidders are required to bid a cash price of not less than par value for the 2004 Bonds.

(B) The single interest rate must be in a multiple of 1/8 or 1/10 of one percent.

(C) Bids will be considered only for the entire 2004 Bond issue.

(D) Bidders (except USDA) are required to deposit a good faith check by cashier's check or certified check in the minimum amount of 2% of the face amount of the 2004 Bonds, which good faith deposit may be applied as partial payment for the 2004 Bonds, or as liquidated damages in the event that such bidder, if successful, fails to comply with the terms of his bid.

(E) Preference in award will be given to the bid resulting in the lowest net interest cost to the District.

(F) The lowest net interest cost will be determined by deducting the total amount of any premium bid from the aggregate amount of interest upon the 2004 Bonds, computed from the first

day of the month following the date of sale of the 2004 Bonds (even though the 2004 Bonds will bear interest only from the date of delivery) to the final maturity specified in each respective bid.

(G) The District expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the 2004 Bonds at the office of the District within 45 days after the date of sale thereof. If the 2004 Bonds are not ready for delivery and payment within forty-five days from the aforesaid date of sale, the successful bidder shall be relieved of any liability to accept delivery of the 2004 Bonds, except that 2004 Bonds purchased by any agency of the Federal government will be delivered to it at a place and time designated by such agency in accordance with its established practices and procedures.

(H) The District reserves the right, in its discretion, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids.

(I) The District will furnish the 2004 Bonds, together with customary closing documents, including no-litigation certificate.

In the event that there is no bid, or that all bids are rejected, the District may re-advertise the sale pursuant to this Resolution. Bond Counsel having submitted to the Commission of the District forms of the Notice of Sale of Bonds and the Official Notice of Bond Sale, together with an Official Bid Form for use by all bidders except USDA, said documents are hereby approved and authorized for use in connection with the aforesaid sale of the 2004 Bonds.

SECTION 5

2004 BONDS TO BE ISSUED IN FULLY REGISTERED FORM; FULLY REGISTERED BOND FORM

Upon the sale of the 2004 Bonds, the District shall issue a single fully registered 2004 Bond numbered R-I (hereinafter referred to as the "Fully Registered Bond"). The Fully Registered Bond shall be in the aggregate principal amount of \$369,000, maturing as to principal in installments as set out in Section 3 hereof. The Fully Registered Bond shall be of type composition, on paper of sufficient weight and strength to prevent deterioration until the last day of maturity of any installment of principal as stated therein, and shall conform in size to standard practice. The Fully Registered Bond shall, upon execution on behalf of the District (which execution shall be by manual signatures of the Chairman and Secretary of the Commission, and actual impression of the corporate seal) constitute a part of the 2004 Bond issue herein authorized and referred to, shall be non-negotiable, without interest coupons, registered as to principal and interest, payable as directed by the payee, and be in substantially the form hereinafter set forth.

The District hereby directs that books for the registration and for the transfer of the Fully Registered Bond shall be kept by the Secretary, who is hereby appointed as Bond Registrar in connection with such Bond. The Fully Registered Bond shall be transferable only upon said Bond Registrar's books at the request of the registered holder thereof in person or by his attorney duly

authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Secretary duly executed by the registered holder or his duly authorized attorney. Upon such transfer of the Fully Registered Bond, the Bond Registrar shall complete (with the name of the transferee), date and execute the registration schedule appearing on the Fully Registered Bond and deliver the Fully Registered Bond to such transferee. The person in whose name the Fully Registered Bond shall be properly registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of either principal thereof or interest thereon shall be made only to or upon the order of the registered holder thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon the Fully Registered Bond to the extent of the sum or sums so paid. The face amount of each Fully Registered Bond, portions of which mature on different dates, will be reduced upon the payment of each maturity, and the Secretary shall keep appropriate records of all payments (both principal and interest) with respect to the Fully Registered Bond.

The Fully Registered Bond shall be in substantially the following form (with appropriate insertions):

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTIES OF CARROLL AND TRIMBLE
WEST CARROLL WATER DISTRICT WATER SYSTEM REVENUE BOND
SERIES 2004

No. R-I \$369,000

KNOW ALL MEN BY THESE PRESENTS:

That West Carroll Water District (the "District"), acting by and through its Commission, a public body corporate created and existing pursuant to Chapter 74 of the Kentucky Revised Statutes and situated in Carroll and Trimble Counties, Kentucky, for value received, hereby promises to pay to the registered holder hereof, as hereinafter provided, solely from the special fund hereinafter identified, the sum of THREE HUNDRED SIXTY-NINE THOUSAND DOLLARS (\$369,000) on the first day of January in years and installments as follows:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
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(Here insert the principal maturities of the 2004 Bonds)

without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United

States of America, and in like manner, solely from said special fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, without deduction for exchange or collection charges and in like coin or currency, at the rate of _____ percent (_____%) per annum, semiannually on the first days of January and July in each year hereafter until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable to the registered holder hereof at the address shown on the registration books of the District or, so long as the United States of America, Department of Agriculture, is the registered holder of this Bond, at the office or address as may be designated by the Department of Agriculture from time to time.

This Bond is the Bond in fully registered form representing a total authorized series of Bonds in the principal amount of \$369,000 issued by the District pursuant to the Constitution and Statutes of the Commonwealth of Kentucky, including among others Chapters 74 and 106 of the Kentucky Revised Statutes, and pursuant to a duly adopted Resolution of the District, for the purpose of paying the costs of the construction and installation of major extensions and additions to the District's municipal water distribution system (the "System"), together with appurtenant facilities, and incidental expenses.

This Bond and the issue which it represents, together with previously issued and outstanding parity bonds and such additional parity bonds as may hereafter be issued and outstanding from time to time in accordance with the conditions and restrictions set forth in the Resolution authorizing the issuance of this Bond, are payable from and secured by a pledge of a fixed portion of the income and revenues to be derived from the operation of the System, which fixed portion shall be sufficient to pay the principal of and interest on this Bond and the issue which it represents, and outstanding parity bonds, as and when the same shall become due and payable, and which shall be set aside as a special fund for that purpose and identified as the "Water System Bond and Interest Sinking Fund."

A statutory mortgage lien upon the System and appurtenant facilities, together with all future additions and improvements thereto, and extensions thereof, is created by Section 106.080 of the Kentucky Revised Statutes for the benefit and protection of the holder of this Bond and outstanding parity bonds, and the same shall continue as a lien upon the System and appurtenant facilities, together with all future additions and improvements thereto, extensions thereof and the revenues derived from the operation thereof until payment in full of the principal of and interest on this Bond and outstanding parity bonds.

This Bond does not in any manner constitute an indebtedness of the District within the meaning of the Statutes and Constitution of Kentucky, and the District is not and shall not be obligated to pay this Bond or the interest hereon except from said special fund. The District, acting by and through its Commission, covenants that it will fix, and if necessary adjust from time to time, such rates and charges for use of the services and facilities of the System and will collect and account for the income and revenues therefrom sufficient to pay promptly the interest on and principal of this Bond and outstanding parity bonds as the same become due, as well as to pay the costs of operation and maintenance of the System.

This Bond shall be registered as to principal and interest in the name of the holder hereof, after which it shall be transferable only upon presentation to the Secretary of the District, as the Bond Registrar, with a written transfer duly acknowledged by the registered holder or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the books of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2015, in the inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof in multiples of One Thousand Dollars (\$1,000) as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered holder of this Bond at least thirty (30) days prior to the date fixed for prepayment. Provided, however, that so long as the United States of America, Department of Agriculture, or any of its assigns, is the registered holder of this Bond, this Bond may be prepaid at any time in whole or in part, at par or face value and without notice or prepayment premium.

Upon default in the payment of any principal or interest payment on this Bond or upon failure by the District to comply with any other provisions of this Bond or with the provisions of the resolution authorizing the issuance of this Bond, the registered holder may, at his option, institute proceedings to enforce all rights and remedies provided by law or by said resolution.

This Bond is exempt from *ad valorem* taxation in the Commonwealth of Kentucky.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, being the total authorized amount of Bonds of the issue which this Bond represents, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF, the West Carroll Water District, in the Commonwealth of Kentucky, by its Commission, has caused this Bond to be executed by the Chairman of its Commission, attested by the Secretary, and its corporate seal to be hereunto affixed, on the date of this Bond, which is _____.

WEST CARROLL WATER DISTRICT

By _____
Chairman of the Commission

Attest:

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the books of the West Carroll Water District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to the Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered holder or his attorney, such transfer to be made on said books and endorsed hereon.

(FORM OF REGISTRATION)

<u>Date of Registration</u>	<u>Name of Registered Holder</u>	<u>Signature of the Water District's Bond Registrar</u>
	United States of America Department of Agriculture State Office 771 Corporate Drive, Suite 200 Lexington, Kentucky 40503*	

*(To be inserted if USDA purchases the 2004 Bonds)

SECTION 6

DISPOSITION OF 2004 BOND PROCEEDS; CONSTRUCTION FUND

The Treasurer of the District shall be the custodian of all funds belonging to and associated with the System, as expanded and improved from time to time, and such funds shall be deposited in such bank or banks in Kentucky as the Commission of the District may from time to time designate (hereinafter sometimes referred to, singularly and collectively, as the "Depository Bank"). All such moneys of the District deposited in the Depository Bank in excess of the amount insured by the Federal Deposit Insurance Corporation ("FDIC") shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The Treasurer shall execute a fidelity bond in an amount and with a surety company approved by USDA so long as it is the holder of any of the 2004 Bonds; and USDA and the District shall be named co-obligees in such surety bond, and the amount thereof shall not be reduced without the written consent of USDA. The proceeds of the 2004 Bonds shall be applied as follows:

Upon the issuance and delivery of the 2004 Bonds authorized by this Resolution, the entire proceeds thereof shall be deposited in an account designated "West Carroll Water District Series 2004 Construction Fund" (the "Construction Fund"), hereby created. Said 2004 Bond proceeds, together with proceeds of the interim financing obligations described below, shall constitute a part

of the Construction Fund and shall be applied, to the extent necessary, in paying the costs incident to constructing, installing and acquiring the Project, including expenses incurred in the issuance of the 2004 Bonds and paying interim financing obligations (both principal and interest) incurred in connection with the Project as authorized by said separate interim financing Resolution of the Commission of the District; provided, however, any 2004 Bond proceeds so used to pay such interim financing obligations may be disbursed directly to the appropriate lending institution(s) without the requirement of being deposited to the Construction Fund.

A sum in the Construction Fund estimated to be equal to interest which will accrue on the 2004 Bonds (following delivery thereof) during construction and development of the Project shall be earmarked, used and applied to the payment of interest on the 2004 Bonds next becoming due.

Disbursements from the Construction Fund shall be made by checks signed by the Chairman and Treasurer, provided that the Secretary may sign for one of such officers if such officer is not available. Such disbursements shall be authorized and approved in writing by the Chairman, Secretary or Treasurer and, if USDA is the purchaser of the Bonds, by USDA. Reference is made in this connection to the provisions of the separate interim financing Resolution adopted concurrently herewith.

Pending disbursement, the 2004 Bond proceeds shall be deposited, as aforesaid, in the Construction Fund, and to the extent that such deposit causes the aggregate deposits by the District in the Depository Bank to be in excess of the amount insured by FDIC, the same shall be secured by a surety bond or bonds furnished by a surety company or companies qualified to do business in Kentucky and approved by the Commission of the District, or by a valid pledge of direct obligations of the United States Government, or obligations as to which the payment of principal and interest are guaranteed by the United States Government, having a market value at least equivalent to such deposit.

Where the moneys on deposit in the Construction Fund exceed the estimated disbursements on account of the Project for the next 30 days, the District shall direct the Depository Bank to invest such excess funds in direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government, which shall mature not later than six months after the date of such investment and which shall be subject to redemption at any time by the holder thereof, or in other obligations permitted by law and approved by USDA. The earnings from any such investments shall be deposited in the Construction Fund by the District, unless otherwise authorized by USDA.

In the event any unexpected balance shall remain in the Construction Fund after completion of the Project, and payment of all of the costs thereof, as certified by the Engineer, such unexpended balance, subject to the terms and conditions of the aforesaid USDA loan, and to USDA approval, shall be transferred and deposited in the Water System Bond and Interest Sinking Fund, hereinafter referred to, and shall be used at the earliest practicable date for the retirement of 2004 Bonds by purchase thereof (or principal prepayment) in inverse numerical and maturity order.

In the event that the amount hereinabove provided to be set aside from 2004 Bond proceeds for payment for interest during the construction and development of the Project should prove to be insufficient for such purpose, additional moneys may, upon approval by USDA, be withdrawn from the Construction Fund and so applied, inasmuch as interest during such period is a proper part of the cost of the Project, to the extent authorized by USDA.

Pending disbursements for the authorized purposes, the proceeds of all 2004 Bonds at any time issued pursuant to this Resolution shall be subject to a first and paramount lien and charge in favor of the holders of 2004 Bonds issued and outstanding hereunder and for their further security.

SECTION 7

OPERATION OF SYSTEM; FLOW OF FUNDS (TO CONTINUE AS IN PAST); ACCUMULATION OF REVENUES

From and after issuance and delivery of the 2004 Bonds herein authorized, and so long as any of the 2004 Bonds or parity bonds remain outstanding and unpaid, the System shall continue to be operated on a fiscal year basis beginning each January 1 and ending on the next December 31, and on that basis the cash income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

(A) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created and continued by the Prior Resolutions identified as the District's "Revenue Fund" (the "Revenue Fund"), which shall be maintained in the Depository Bank; and the District covenants and agrees that it will deposit therein, promptly as received from time to time, all cash income and revenues of the System. The moneys in the Revenue Fund from time to time shall continue to be used and disbursed and applied by the District only for the purposes, and in the manner and order of priorities, specified in the Prior Resolutions and in the succeeding provisions of this Section 7, all as permitted by applicable statutes, as follows:

(B) A separate and special fund or account of the District was created by the 1975 Resolution, designated the "West Carroll Water District Water System Bond and Interest Sinking Fund" (the "Bond Fund"), which shall continue to be maintained so long as any of the Prior Bonds, the 2004 Bonds or additional parity bonds payable from said Fund are outstanding, in the Depository Bank, and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the Prior Bonds, the 2004 Bonds and any additional parity bonds.

There shall continue to be transferred on or before the 20th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the Bond Fund, sums not less than the total principal and interest requirements of all Prior Bonds outstanding. In addition to amortization requirements of all Prior Bonds payable from the Bond Fund, there shall be set aside and paid into the Bond Fund on account of the 2004 Bonds herein authorized to be issued, and following delivery thereof, sums not less than:

- (i) beginning with and including the month in which interest shall last be payable from 2004 Bond proceeds, a sum equal to one-sixth (1/6) of the next succeeding interest installment to become due on all 2004 Bonds then outstanding; and
- (ii) beginning on January 1, 2006, a sum equal to one-twelfth (1/12) of the principal of all 2004 Bonds maturing on the next succeeding January 1.

In the event additional parity bonds are issued pursuant to the conditions and restrictions set forth in the Prior Resolutions, and hereinafter affirmed and continued, the monthly deposits to the Bond Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

Moneys from time to time in the Bond Fund may be held in cash, in which event the same shall, to the extent not insured by FDIC, be secured by a valid pledge of bonds, notes, or certificates of indebtedness of the United States Government having at all times an equal market value; or the same may, upon order of the Commission, be invested and reinvested in interest-bearing obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government, maturing not later than the date on which such funds are needed to pay principal of and interest on outstanding bonds. Income from any such investments shall be accumulated in the Bond Fund and may be invested in the same manner.

(C) A separate and special fund or account of the District was created and continued in and by the Prior Resolutions, which fund is hereby ratified, confirmed and ordered to be continued, designated the "West Carroll Water District Water Depreciation Fund" (the "Depreciation Fund").

After observing the priority of deposits set forth in subsection (B) above, there shall be set aside and paid into the Depreciation Fund each month not less than \$435 (or more, if fixed by Resolution of the Commission of the District) from the remaining funds in the Revenue Fund, until a balance of at least \$73,200 is accumulated and maintained, such monthly deposits to continue so long as any Prior Bonds and 2004 Bonds remain outstanding and unpaid.

In addition to the above deposits from the Revenue Fund, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn out or obsolescent properties of the System, if the same be sold upon order of the Commission. As required by the provisions of the 1975 Resolution, any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System (excluding initial deposits received in aid of the Project), shall be paid, as received, into the Depreciation Fund. The term "cash revenues" of the System, as used in this Section 7 means all proceeds of water service rates and charges, and does not include any of the cash items enumerated in this paragraph.

The Depreciation Fund shall be available and may be withdrawn and used by the District, upon appropriate certification to the bank in which said Fund is located, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, not included

in the Annual Budget of Current Expenses, and the cost of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a high degree of service. Said Fund shall also be available for transfer to the Bond Fund in order to avoid default in connection with any bonds payable from the Bond Fund.

At any time when the accumulations in the Depreciation Fund shall exceed anticipated and foreseeable needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in interest-bearing obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government, maturing or subject to redemption at the option of the holder not later than three (3) years from the date of investment; but as and when funds may be required for authorized purposes a sufficient portion thereof shall be converted into cash and so applied. All investments of money in the Depreciation Fund shall be carried to the credit of said Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

(D) A special and separate fund of the District was heretofore created and continued by the Prior Resolutions, distinct and apart from all other funds and accounts of the District, designated the "West Carroll Water District Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), and the same is hereby ratified and continued for the benefit of the System and all bonds payable from the income and revenues of the System. So long as any bonds payable from the Bond Fund remain outstanding and unpaid, there shall continue to be deposited monthly into the Operation and Maintenance Fund, from moneys remaining in the Revenue Fund, after making the transfers required by subsections (B) and (C) of this Section 7 (which are cumulative), sufficient funds to meet the Current Expenses of operating and maintaining the System, pursuant to the Annual Budget, for which provision is hereafter made, and to accrue an operation and maintenance reserve not in excess of anticipated requirements for a two-month period pursuant to the Annual Budget.

(E) Subject to the provisions of subsections (B), (C), and (D) of this Section 7 which are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred within sixty (60) days after the end of each fiscal year the balance of excess funds in the Revenue Fund on such date to the Bond Fund to be used in redeeming outstanding bonds payable from the Bond Fund in direct numerical or maturity order or purchasing such outstanding bonds at a price not to exceed the price at which such bonds may be redeemed on the next succeeding redemption date; provided, however, that notwithstanding the provisions hereof, the District reserves the right to redeem bonds which are redeemable without redemption premium prior to redeeming bonds which are only redeemable upon the payment of redemption premium.

* * *

All payments into the above special funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All moneys held in any of the above special funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC shall (unless invested as herein authorized) be secured by a surety bond or bonds or by pledge of direct obligations or by guaranteed bonds or securities of the United States Government having a market value equivalent to such deposit.

SECTION 8

COVENANTS TO BONDHOLDERS

The District hereby irrevocably covenants and agrees with the holder or holders of any and all 2004 Bonds and parity bonds at any time outstanding that so long as the same or any part thereof or interest thereon remain outstanding and unpaid:

(A) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky, and by the terms and provisions of this Resolution.

(B) It will at all times operate the System on a revenue-producing basis, and will permit no free services to be rendered or afforded thereby.

(C) It will maintain the System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided; and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of revenues accumulated and set aside for such purposes.

(D) The District covenants and agrees that, so long as any of the 2004 Bonds are outstanding, it will not sell or otherwise dispose of any of the System facilities or any part thereof, and, except as provided for in this Resolution and the Prior Resolutions, it will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the 2004 Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any of its System facilities, provided that:

- (i) it is in compliance with all covenants and undertakings in connection with all of its 2004 Bonds and Prior Bonds then outstanding and payable from the revenues of the System;
- (ii) it will, in the event of sale, apply the proceeds to either (1) redemption of outstanding Prior Bonds and 2004 Bonds in accordance with the provisions governing prepayment of said bonds in advance of maturity, or (2) replacement of the facility so disposed of by another facility the revenues of which shall be incorporated into the System as hereinbefore provided;

- (iii) it certifies, prior to any abandonment of use, that the facility to be abandoned is no longer economically feasible of producing net revenues; and
- (iv) notwithstanding all of the foregoing, no such sale, abandonment or transfer of System facilities shall be made (a) without the written consent of the holders of over 50% of the principal amount of the outstanding Prior Bonds, 2004 Bonds and parity bonds, and (b) so long as USDA owns any of the 2004 Bonds herein authorized, without the written consent and approval of USDA.

(E) It will establish, enforce and collect rates and charges for services rendered and facilities afforded by the System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining it in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all outstanding bonds as aforesaid and the accruing interest thereon, and the accumulation of reserves as herein provided; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the date of issuance of the 2004 Bonds, the District will adopt a Budget of Current Expenses for the System for the remainder of the then current fiscal year of the System, and thereafter, on or before the first day of each fiscal year so long as any 2004 Bonds are outstanding, it will adopt an Annual Budget of Current Expenses for the ensuing fiscal year, and will file a copy of each such Budget, and of any amendments thereto, in the office of the Secretary of the District, and furnish copies thereof to the holder of any Bond upon request. The term "Current Expenses," as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements, and extraordinary repairs and maintenance, and payments into the Bond Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the amounts provided for Current Expenses in the Annual Budget, except upon resolution duly adopted by the Commission of the District determining that such expenses are necessary in order to operate and maintain the System. At the same time, and in like manner, the District agrees that it will prepare an estimate of cash income and revenues to be derived from operation of the System for each fiscal year, and to the extent that said cash income and revenues are insufficient to provide for all payments required to be made into the Bond Fund during such ensuing fiscal year, and to build up and maintain the reserves specified and referred to in Section 7 of this Resolution, and to pay Current Expenses, the District covenants and agrees that it will revise its rates and charges for services rendered by the System, so that the same will be adequate to meet all of such requirements.

(F) It will not at any time make any reduction in any prevailing schedule of rates and charges for use of the services and facilities of the System without first obtaining the written determination of a Consulting Engineer of national reputation that the proposed reduction will not adversely affect the ability of the District to meet all the requirements set forth in this Resolution.

(G) It will at all times segregate the revenues of the System from all other revenues, moneys, and funds of the District, and will promptly and regularly make application and distribution thereof into the special funds provided in this Resolution, in the amounts and with due regard for the priorities herein attributed thereto.

(H) It will keep proper books of record and account, separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries of all transactions relating to the System, and the same shall be available and open to inspection by any Bondholder, and any agent or representative of a Bondholder.

(I) It will, within ninety (90) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state- licensed accountant not in the employ of the District on a monthly salary basis, showing all receipts and disbursements, and reflecting in reasonable detail the financial condition and records of the System, including the status of the several funds hereinbefore created, the status of the insurance and fidelity bonding, the number and type of connections, and the current rates and charges, with comments of the auditor concerning whether the books and records are being kept in compliance with this Resolution and in accordance with recognized accounting practices, and will promptly cause a copy of the Audit Report to be filed in the Office of the Secretary where it will be available for public inspection, and will promptly mail a copy thereof to the original recipients of 2004 Bonds issued hereunder. If requested to do so, the District will furnish to any Bondholder a condensed form of the Balance Sheet, and a condensed form of the Operating Report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the System, and may be paid from revenues allocated for such purposes, as herein provided. Provided, so long as USDA holds any of the 2004 Bonds herein authorized, the District shall furnish Operating and other financial statements in such form and substance and for such periods as may be requested by USDA.

(J) Any holder of 2004 Bonds may either at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance by said District and its officers and agents of all duties imposed or required by law or this Resolution in connection with the operation of the System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof.

(K) If there be any default in the payment of the principal of or interest on any of the 2004 Bonds, then upon the filing of suit by any holder of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System, and for the payment of Current Expenses, and to apply the revenues in conformity with this Resolution and the provisions of said statute laws of Kentucky aforesaid.

(L) The District will cause each municipal officer or other person (other than depository banks) having custody of any moneys administered under the provisions of this Resolution to be bonded at all times in an amount at least equal to the maximum amount of such moneys in his

custody at any time; each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Commission, and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from moneys available in the Operation and Maintenance Fund.

(M) It will procure, and at all times maintain in force, insurance of all insurable properties constituting parts of, or being appurtenant to, the System to the full insurable value thereof, against damage or destruction by fire, windstorm, and the hazards covered by the standard "extended coverage" policy endorsements or provisions, the premiums therefor to be paid from the Operation and Maintenance Fund; and will deposit all sums collected under the terms of such policies in the Depreciation Fund. Such insurance shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percentum (80%) of the full insurable value of the damaged facility.

(N) The District will procure and at all times maintain Public Liability Insurance relating to the operation of the System, with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death; and not less than \$100,000 from claims for damage to property of others which may arise from the District's operation of the System.

(O) The District will carry suitable Workers' Compensation Insurance in accordance with law.

(P) If the District owns or operates a vehicle in the operation of the System, the District will procure and at all times maintain Vehicular Public Liability Insurance with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death, and not less than \$100,000 against claims for damage to property of others which may arise from the District's operation of vehicles. Provided, notwithstanding (M), (N), (O) and (P) above, that so long as USDA holds any 2004 Bonds, the District will procure and maintain insurance of such types and amounts as USDA may specify.

(Q) So long as USDA is the holder of any bonds of the District, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of such bonds held by USDA without immediately prepaying all of such bonds held by USDA.

SECTION 9

PARITY BONDS PERMITTED; TERMS

The 2004 Bonds authorized to be issued hereunder and from time to time outstanding shall not be entitled to priority one over the other in the application of the revenues herein pledged, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the 2004 Bonds authorized to be issued under the provisions of this Resolution, regardless of the fact that they may actually be issued and delivered at different times. No other bonds or other

obligations shall be issued by the District and made payable from the income and revenues of the System unless the pledge of revenues for the same is expressly made subordinate and inferior to the lien and pledge herein created; provided, however, the District hereby reserves the right and privilege of issuing additional bonds, from time to time, payable from the revenues of the System, ranking on a basis of equality and parity as to security and source of payment with the 2004 Bonds and outstanding parity bonds, for the following purposes and subject to the following conditions and restrictions:

(A) The District shall have the right to add new System facilities and related auxiliary facilities by the issuance of one or more additional series of bonds to be secured by a parity lien on and ratably payable from the revenues and any other security pledged to the 2004 Bonds, provided in each instance that:

- (i) the facility or facilities to be built from the proceeds of the additional parity bonds is or are made a part of the System and its or their revenues are pledged as additional security for the additional parity bonds and the outstanding 2004 Bonds and parity bonds; and
- (ii) the District is in compliance with all covenants and undertakings in connection with all of its bonds then outstanding and payable from the income and revenues of the System or any part thereof; and
- (iii) the annual net revenues (defined as gross revenues less essential operation and maintenance expenses) of the System for the fiscal year next preceding the issuance of additional parity bonds are certified by an independent certified public accountant to have been equal to at least one and twenty hundredths (1.20) times the average annual requirements for principal and interest on all Prior Bonds and 2004 Bonds then outstanding and payable from the revenues of the System and on the additional parity bonds then to be issued (the average annual requirements for principal and interest on such additional parity bonds to be calculated on the basis of approximately equal annual principal and interest payments on such additional parity bonds). Provided, however, the foregoing conditions and limitations prescribed in this subparagraph (iii) may be waived or modified by the written consent of (a) USDA so long as it is the holder of any outstanding bonds payable from the revenues of the System and (b) the holders of at least seventy-five percent (75%) in principal amount of the then outstanding bonds payable from the revenues of the System.

(B) The District hereby covenants and agrees that in the event additional series of parity bonds are issued, it shall:

- (i) adjust the monthly deposits into the Bond Fund on the same basis as that prescribed in Section 7 (B) hereof to reflect the annual debt service on the additional bonds;

- (ii) adjust and increase appropriately the monthly amount to be deposited into the Depreciation Fund in accord with controlling resolutions to give recognition to the facilities and equipment to be constructed or acquired with the proceeds of such additional bonds; and
- (iii) make such additional bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year.

(C) If in any subsequently issued series of bonds secured by a parity lien on the revenues of the System, it is provided that excess revenues in the Revenue Fund shall be used to redeem bonds in advance of scheduled maturity, or if the District at its option undertakes to redeem outstanding bonds in advance of scheduled maturity, it is agreed and understood (a) that calls of bonds will be applied to each series of bonds on an equal pro rata basis (reflecting the proportion of the original amount of each series of bonds outstanding at the time of such call), and (b) that calls of bonds for each series of bonds will be in accordance with the call provisions of the respective bond series. However, the District shall have the right to call, subject to the call provisions of the respective bond series, any or all outstanding bonds which may be called at par prior to calling any bonds that are callable at a premium.

The additional parity bonds (sometimes herein referred to as "permitted" to be issued), the issuance of which is restricted and conditioned by this Section, shall be understood to mean bonds payable from the revenues of the System on a basis of equality and parity with the 2004 Bonds herein specifically authorized, and shall not be deemed to include other bonds or obligations, the security and source of payment of which are subordinate and subject to the priority of the 2004 Bonds and parity bonds. The District expressly reserves the right to issue its bonds or other obligations payable from the revenues herein pledged, and not ranking on a basis of equality and parity with the 2004 Bonds and parity bonds herein otherwise referred to, without any proof of previous earnings or net revenues, but only if such bonds or other obligations are issued to provide for additions or extensions or improvements of the System, and only if the same are issued in express recognition of the priorities, liens and rights created and existing for the security, source of payment, and protection of the 2004 Bonds and parity bonds. Provided, however, that nothing in this Section is intended or shall be construed as a restriction upon the ordinary refunding of the initially authorized 2004 Bonds, and/or of any bonds which may have been issued and are outstanding under any of the provisions of this Resolution, if such refunding does not operate to increase, in any year until the final maturity of the refunding bonds, the aggregate of the principal and interest requirements of the bonds to remain outstanding and the bonds proposed to be refunded.

SECTION 10

PROVISIONS OF RESOLUTION CONSTITUTE CONTRACT

The provisions of this Resolution shall constitute a contract between the District and the holders of the 2004 Bonds and parity bonds, and after the issuance of any of the 2004 Bonds, no material change, variation, or alteration of any kind of the provisions of this Resolution shall be

made in any manner except as herein provided until such time as all of the 2004 Bonds and parity bonds, and the interest thereon, have been paid in full.

SECTION 11

STATUTORY MORTGAGE LIEN ACKNOWLEDGED

A statutory mortgage lien upon the System, together with all appurtenances and additions thereto and extensions thereof, and including the revenues thereof, is granted and created by KRS Section 106.080 for the benefit and protection of the holders of the 2004 Bonds and parity bonds; and said statutory mortgage lien is hereby recognized and shall be effective upon delivery of any of the 2004 Bonds and shall continue in full force and effect so long as there shall remain unpaid any part of the principal of or interest on the 2004 Bonds and parity bonds.

SECTION 12

TAX COVENANTS

The District covenants and agrees that the Project will be constructed expeditiously and the expenditure of the portion of the proceeds of the 2004 Bonds deposited in the Construction Fund for the payment of the costs of the Project will be made promptly in order that the Project will be completed and in operation at the earliest possible date. The District further certifies and covenants with the holders of the 2004 Bonds that so long as any of the 2004 Bonds remain outstanding, moneys on deposit in any fund or account in connection with the 2004 Bonds, whether or not such moneys were derived from the proceeds of the sale of the 2004 Bonds or from any other sources, will not be invested or used in a manner which will cause the 2004 Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and any lawful regulations promulgated or proposed thereunder, including Sections 1.103-13 and 1.103-14 of the Income Tax Regulations (26 CFR Part 1), as the same presently exist, or may from time to time hereafter be amended, supplemented or revised. The Chairman and/or Treasurer, as the officers of the District charged with the responsibility for issuing the 2004 Bonds, are authorized and directed, for and on behalf of the District, to execute all papers, documents, certificates and other instruments that may be required for evidencing compliance with federal "arbitrage bond" regulations, and any representations and certifications contained in such papers, documents, certificates and other instruments so executed shall be deemed to constitute representations and certifications of the District.

The District further represents, warrants, agrees and covenants as follows:

(A) Within the meaning of Section 141 of the Code and the Income Tax Regulations issued thereunder, over the terms of the 2004 Bonds (i) less than 10% of the proceeds of the 2004 Bonds, if any, will be applied for any private business use, and the payment of principal of or interest on less than 10% of the amount of the 2004 Bonds, if any, will be secured directly or indirectly by any interest in property used for a private business use, or payments in respect of such property, or will be derived directly or indirectly from payments (whether or not to the District) in respect of such property; (ii) at least 90% of the proceeds of the 2004 Bonds will be applied for a governmental use

of the District; (iii) any private business use of the Project will be related to such governmental use of the District and will not be unrelated or disproportionate; and (iv) none of the proceeds of the 2004 Bonds will be used, directly or indirectly, to make or finance loans to private persons. It is reasonably expected that over the term of the 2004 Bonds (a) the Project will be available for general public use, in that it will be reasonably available for use by natural persons not engaged in a trade or business on the same basis as any other person or entity, (b) no nongovernmental person will have any special legal entitlement to use the Project, and (c) there will be no direct or indirect payments made with respect to the Project or the security of the 2004 Bonds by any persons or entities other than payments by the general public as described in clause (a) above.

(B) Within the meaning of Section 148(f)(4)(B), it is reasonably expected at least 75% of the net proceeds (including investment proceeds) of the 2004 Bonds will be used for construction expenditures with respect to property which is owned by a governmental unit, at least 10% of such proceeds will be spent for the governmental purposes of the issue within six months from the date the 2004 Bonds are issued, at least 45% of such proceeds will be spent for such purposes within one year from such date, at least 75% of such proceeds will be spent for such purposes within eighteen months from such date, and at least 100% of such proceeds will be spent within two years from such date. It is also reasonably expected at least 50% of all proceeds (including investment proceeds) of the 2004 Bonds will be used for expenditures on the Project within six months, at least 60% will be so used within 12 months and 100% will be so used within 18 months from the date of issuance of the 2004 Bonds. If for any reason the arbitrage rebate requirements of Section 148(f) of the Code should be deemed to apply to the 2004 Bonds, the District will take all action necessary to comply therewith.

(C) It is reasonably expected that during the term of the 2004 Bonds the Project will not be disposed of; provided, however, should there be any disposition of any personal property constituting a part of the Project because it is no longer suitable for its governmental purpose, it is reasonably expected that the fair market value of such personal property will not exceed 25% of its cost.

(D) The weighted average maturity of the 2004 Bonds does not exceed 120% of the weighted average useful life of the facilities comprising the Project.

(E) The District has not heretofore expended any sums on the Project which are to be reimbursed from the proceeds of the 2004 Bonds, other than (a) certain preliminary expenditures such as engineering and planning costs not exceeding 20% of the 2004 Bond proceeds, (b) expenditures made within 60 days prior to the date of adoption of this Resolution, and (c) expenditures prior to which the District had adopted an official intent resolution regarding reimbursement from tax-exempt bond proceeds.

(F) The 2004 Bonds are not federally guaranteed within the meaning of Section 149(b) of the Code.

(G) The District will comply with the information reporting requirements of Section 149(e) of the Code.

(H) The District will not use or permit the use of any of the funds provided by the 2004 Bonds in such manner as to, or take or omit to take any action which would, impair the exclusion from gross income for federal income tax purposes of interest on the 2004 Bonds. The District shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the 2004 Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

(I) This Resolution is intended to and does constitute, in part, a declaration of official intent under applicable Income Tax Regulations.

SECTION 13

SEVERABILITY CLAUSE

If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution.

SECTION 14

REPEAL OF INCONSISTENT PROVISIONS

All resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

SECTION 15

WHEN RESOLUTION EFFECTIVE

This Resolution shall be in full force and effect from and after its adoption, approval and attestation as provided by law.

ADOPTED BY THE COMMISSION OF THE WEST CARROLL WATER DISTRICT, CARROLL AND TRIMBLE COUNTIES, KENTUCKY, at a meeting held on the ___ day of _____, 2004, signed by the Chairman, attested by the Secretary, and declared to be in full force and effect.

Chairman of the Commission

Attest:

Secretary

CERTIFICATION

The undersigned, Secretary of the Commission of West Carroll Water District, Carroll and Trimble Counties, Kentucky, hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission of the District at a properly convened meeting of the Commission of said District held on _____, 2004, signed by the Chairman and attested by me as Secretary, as shown by the official records in my custody and under my control.

WITNESS my hand this _____, 2004.

Secretary



United States
Department of
Agriculture

Rural
Development

771 Corporate Drive, Suite 200
Lexington, KY 40503-5477
(859) 224-7336 TTY(859) 224-7422

January 7, 2003

Ms. Vickie Edwards, Chairperson
West Carroll Water District
P.O. Box 45
Carrollton, Kentucky 41008

**COPY FOR YOUR
INFORMATION**

Dear Ms. Edwards:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and/or grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$369,000, a RUS grant not to exceed \$369,000, a State of Kentucky 2020 grant of \$175,000, and a Kentucky Infrastructure Authority (KIA) Fund B grant of \$500,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

1. Number of Users and Their Contribution:

There shall be 949 water users, of which 914 are existing users and 35 are new users contributing \$12,000 in connection fees toward the cost of the project. The connection fees will be collected prior to advertising for construction bids and will be placed in the construction account at loan pre-closing, unless spent for authorized purposes prior to loan pre-closing. The Rural Development Manager will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids. No contribution is required from the Water District.

1a. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

1b. Drug-Free Work Place:

Prior to grant approval, the Water District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

2. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the bond. Principal payment will not be deferred for a period in excess of two years from the date of the bond. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January 1st and July 1st) and principal will be due on or before the first of January. Rural Development may require the Water District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments.

3. Recommended Repayment Method:

Payments on this loan can be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form SF 5510, "Authorization Agreement for Preauthorized Payments," should be signed by the District to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Rural Development Manager will furnish the necessary forms and further guidance on the PAD procedure.

4. Funded Depreciation Reserve Account:

The Water District will be required to deposit \$175.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$21,000. The deposits are to be resumed any time the account falls below the \$21,000.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the Water District's prior bond resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

5. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds.

6. Land Rights and Real Property:

The Water District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

7. Organization:

The Water District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

8. Business Operations:

The Water District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Water District after review by Rural Development. At no later than loan pre-closing, the Water District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

9. Accounts, Records and Audits:

The Water District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits) in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed.

10. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Water District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Water District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

11. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Water District. The Water District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Water District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Water District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$69,000.
- D. Real Property Insurance - The Water District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Water District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Water District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

12. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "22" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Rural Development Manager is prepared to furnish the necessary guide for him to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
 - 1. Final plans, specifications and bid documents.
 - 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
 - 3. Legal Service Agreements.
 - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the Water District will obtain advance clearance from Bond Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

13. Compliance with Section 504 of the Rehabilitation Act of 1973:

The Water District will be required to comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), in order to make sure no handicapped individual, solely by reason of their handicap, is excluded from participation in the use of the water system, be denied the benefits of the water system, or be subjected to discrimination.

14. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Water District.

15. Compliance with Special Laws and Regulations:

The Water District will be required to conform with any and all state and local laws and regulations affecting this type project.

16. System Operator:

The Water District is reminded that the system operator must have an Operator's Certificate issued by the State.

17. Prior to Pre-Closing the Loan, the Water District will be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Water District must offer the opportunity for all residents in the service area to become users of the facilities regardless of race, creed, color, religion, sex, national origin, marital status, physical or mental handicap or level of income.

18. Refinancing and Graduation Requirements:

The Water District is reminded that if at any time it shall appear to the Government that the Water District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Water District will apply for and accept such loan in sufficient amount to repay the Government.

19. Commercial Interim Financing:

The Water District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the Water District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

20. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Water District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the Water District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the Water District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the Water District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the Water District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Monthly audits of the Water District's construction account records shall be made by Rural Development.

21. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the Water District. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3016 (as applicable). Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to RUS at least quarterly.

22. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,160,600
Land and Rights	7,900
Legal and Administrative	6,000
Engineering	134,500
Interest	10,000
Contingencies	<u>106,000</u>
TOTAL	\$ 1,425,000

Financing:

RUS Loan	\$ 369,000
RUS Grant	369,000
State of Kentucky 2020 Grant	175,000
KIA Fund B Grant	500,000
Applicant Contribution	<u>12,000</u>
TOTAL	\$ 1,425,000

23. Debt Collection Improvement Act (DCIA) of 1996:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all federal payments after January 1, 1999, must be made by Electronic Funds Transfer/Automated Clearing House (EFT/ACH). Borrowers receiving payments by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

24. Use of Remaining Project Funds:

The applicant contribution shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS/State of Kentucky 2020/KIA Fund B grant funds and refunded in proportion to participation in the project. If the amount of unused grant funds exceeds the grants, that part would be RUS loan funds.

25. Rates and Charges:

Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First	2,000	gallons @ \$	17.76 - Minimum Bill.
Next	3,000	gallons @ \$	6.68 - per 1,000 gallons.
Next	5,000	gallons @ \$	6.08 - per 1,000 gallons.
Next	10,000	gallons @ \$	5.18 - per 1,000 gallons.
Next	20,000	gallons @ \$	4.38 - per 1,000 gallons.
All Over	40,000	gallons @ \$	3.98 - per 1,000 gallons.

26. Water Purchase Contracts:

The Water District will submit Water Purchase Contracts for approval by Rural Development before advertising for construction bids. If the contracts are not on Form RD 442-30, "Water Purchase Contract," the contracts will require approval by our Regional Attorney. The contracts must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

27. Commitment of State of Kentucky 2020 and KIA Fund B Grants:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the State of Kentucky 2020 grant in the amount of \$175,000 and for the KIA Fund B grant in the amount of \$500,000.

28. Floodplain Construction:

The Water District will be required to pass and adopt a Resolution or amend its By-Laws whereby the Water District will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Water District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

29. Mitigation Measures:

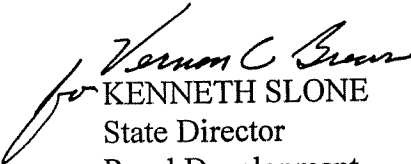
- A. The Water District shall be required to comply with the requirements of the Kentucky State Clearinghouse as detailed by letter dated August 27, 2002, and signed by Mr. Ronald W. Cook.
- B. The Water District shall be required to comply with the requirements, if any, of the U.S. Fish and Wildlife Service as requested by letter dated December 16, 2002, and signed by Lee A. Barclay, Ph.D., Field Supervisor.
- C. The Water District will comply with all applicable executive orders and regulations that are applicable to the preservation of prime farmlands, wetlands, floodplains, and cultural resources.

30. Final Approval Conditions:

Final approval of this loan will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Rural Development Manager will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,


KENNETH SLONE
State Director
Rural Development

Enclosures

- cc: Rural Development Manager - Shelbyville, Kentucky
✓ Community Development Manager – New Castle, Kentucky
Northern Kentucky ADD - Florence, Kentucky
Ruth H. Baxter - Carrollton, Kentucky
Harper, Ferguson & Davis - Louisville, Kentucky
Quest Engineers - Lexington, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



Committed to the future of rural communities

771 Corporate Drive, Suite 200, Lexington, KY 40503-5477
Telephone 859/224-7300; Fax 859/224-7340; TTY 859/224-7422

May 26, 2004

Attn: William W. Davis
Harper, Ferguson & Davis
Division of Ogden, Newell & Welch
1700 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202-2874

Re: West Carroll Water District
\$369,000 Bond Issue

Dear Mr. Davis:

We are enclosing the Maturity Schedule for the referenced Bond Issue. The required deposits to the Funded Depreciation Reserve Account are \$175.00 per month with a required level of \$21,000. The Rural Development loan of \$369,000 was approved at an interest rate of 4.625%.

We are attempting to obtain the Regional Attorney's Closing Instructions at an earlier date in an effort to avoid delays in scheduling bond sales and pre-closing. Hopefully, you will be able to draft the bond authorizing documents at such a time to coincide with the Advertisement for Construction Bids. We plan to request Closing Instructions at the same time we authorize the Water District to advertise for construction bids.

Please provide this office with one copy of the proposed documents and forward one copy to the Rural Development Area Office.

Please let us know if you have any questions.

Sincerely,


KENNETH SLONE
State Director

Enclosure

cc: Area Director - Shelbyville, Kentucky
Quest Engineers - Lexington, Kentucky



**RURAL UTILITIES SERVICE
BOND SCHEDULE, 5/26/2004**



Name of Borrower: West Carroll Water District			
Amount of Loan	369000	Annual Interest Rate	0.04625
Number of Initial Interest Only Payments	2	Number of principal and/or Interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	1000	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2005	1	1	17067	17067	0	369000
2006	1	2	17067	17067	0	369000
2007	1	3	21067	17067	4000	365000
2008	1	4	20882	16882	4000	361000
2009	1	5	20697	16697	4000	357000
2010	1	6	20512	16512	4000	353000
2011	1	7	20327	16327	4000	349000
2012	1	8	21142	16142	5000	344000
2013	1	9	20910	15910	5000	339000
2014	1	10	20679	15679	5000	334000
2015	1	11	20448	15448	5000	329000
2016	1	12	21217	15217	6000	323000
2017	1	13	20939	14939	6000	317000
2018	1	14	20662	14662	6000	311000
2019	1	15	20384	14384	6000	305000
2020	1	16	21107	14107	7000	298000
2021	1	17	20783	13783	7000	291000
2022	1	18	20459	13459	7000	284000
2023	1	19	21135	13135	8000	276000
2024	1	20	20765	12765	8000	268000
2025	1	21	20395	12395	8000	260000
2026	1	22	21025	12025	9000	251000
2027	1	23	20609	11609	9000	242000
2028	1	24	21193	11193	10000	232000
2029	1	25	20730	10730	10000	222000
2030	1	26	21268	10268	11000	211000
2031	1	27	20759	9759	11000	200000
2032	1	28	21250	9250	12000	188000
2033	1	29	20695	8695	12000	176000
2034	1	30	21140	8140	13000	163000
2035	1	31	20539	7539	13000	150000
2036	1	32	20938	6938	14000	136000
2037	1	33	21290	6290	15000	121000
2038	1	34	20597	5597	15000	106000
2039	1	35	20903	4903	16000	90000
2040	1	36	21163	4163	17000	73000
2041	1	37	20377	3377	17000	56000
2042	1	38	20590	2590	18000	38000
2043	1	39	20758	1758	19000	19000
2044	1	40	19879	879	19000	0
TOTALS			824347	455347	369000	