
S T O L L

K E E N O N

&

P A R K

L L P

300 WEST VINE STREET | SUITE 2100 | LEXINGTON, KENTUCKY 40507-1801
(859) 231-3000 PHONE | (859) 253-1093 FAX | WWW.SKP.COM

LINDSEY W. INGRAM, JR.
859-231-3033
lindsey.ingram@skp.com

May 20, 2005

VIA HAND DELIVERY

Beth O'Donnell, Esq.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

MAY 20 2005

PUBLIC SERVICE
COMMISSION

Case No. 2005-00206

RE: Kentucky-American Water Company - Owenton

Dear Ms. O'Donnell:

Enclosed you will find the original and ten (10) copies of the Joint Verified Application of Kentucky-American Water Company and Owenton, Kentucky, seeking the Public Service Commission's approval of the transfer of ownership and control of the assets owned by Owenton, Kentucky, for the provision of water and wastewater services (subject to a few exceptions as described in the Asset Purchase Agreement attached to the Verified Application).

In anticipation of this transaction, we wrote the Commission on February 9, 2004 soliciting an opinion from the Commission as to whether the transaction needs Commission approval. We received a timely response from the then Executive Director advising that an interpretation of applicable law by the Commission's staff concluded that Commission approval was not required for the transaction. However, as pointed out in the response, that interpretation was not binding upon the Commission and we have therefore elected to file the enclosed Application. Copies of our request dated February 9, 2004 and the response thereto dated March 3, 2004 are enclosed with this letter.

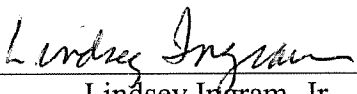
If the Commission's interpretation of the relevant law is the same as represented in the letter of March 3, 2004, I assume an Order dismissing the Application would be in order. If the matter is to be docketed and considered by the Commission, please relay our request to handle the matter as expeditiously as possible.

Ms. Beth O'Donnell
May 20, 2005
Page 2

Thanking you in advance for your attention, I am

Very truly yours,

STOLL, KEENON & PARK, LLP

By 
Lindsey Ingram, Jr.

/s/

Enc.

cc: Freda C. Prather

David E. Spenard

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LINDSEY INGRAM, JR.
859-231-3033
ingramjr@skp.com

February 9, 2004

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MAY 20 2005

PUBLIC SERVICE
COMMISSION

Mr. Thomas Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: Kentucky-American Water Company

Dear Tom:

The purpose of this letter is to request an opinion from the staff of the Public Service Commission.

If a municipality in the Commonwealth of Kentucky contracts to sell assets owned by it and used to provide a service that would be regulated if supplied by an investor owned entity to a Commission regulated entity, is it necessary to seek Commission approval for the change of control of the ownership of the assets from the municipality to a commission regulated entity?

Secondly, can the regulated utility, after acquiring ownership of the assets, change the rates utilized by the municipality by filing an appropriate initial tariff with sufficient cost-of-service justification without a formal application to change rates. This question assumes that neither the municipalities' nor the acquirer's rates are appropriate.

The Commission has encouraged Kentucky-American Water Company to assist with the provision of regulated services where providers may be unable, for multiple reasons, to meet acceptable standards. Kentucky-American Water Company is willing to continue these efforts and answers to the above posed questions are important to that effort.

Mr. Thomas Dorman
February 9, 2004
Page 2

With best personal regards, I am

Very truly yours,

STOLL, KEENON & PARK, LLP

By Lindsey Ingram, Jr. by [signature]
Lindsey Ingram, Jr.

/s/

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Ernie Fletcher
Governor

LaJuana S. Wilcher
Secretary

Commonwealth of Kentucky
Environmental and Public Protection Cabinet
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460

March 3, 2004

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MAY 20 2005

PUBLIC SERVICE
COMMISSION

Hon. Lindsey Ingram, Jr.
Stoll Keenon & Park LLP
300 W. Vine St., Ste. 2100
Lexington, KY 40507-1801

Re: Kentucky-American Water Company

Dear Mr. Ingram,

You have requested an opinion from Commission Staff regarding two issues: whether a regulated utility must receive Commission approval for purchase of the assets of a municipal water utility, and whether a regulated utility, after acquiring the assets mentioned above, can change the rates filed by the municipal utility by filing an initial tariff sheet with cost-of-service justification without a formal application to change rates.

A regulated utility is not required to receive Commission approval for the purchase of the assets of a municipal utility. KRS 278.020(4) & (5), which govern the transfer of assets of regulated utilities, require the acquirer of the assets to receive Commission approval before acquiring the assets of the regulated utility. KRS 278.010(3) exempts municipal utilities from Commission jurisdiction. Therefore, KRS 278.020(4) & (5) do not apply to the acquisition of a municipal utility.

Municipal utilities are only required to have on file the tariff rates for wholesale water sales to regulated utilities. Municipal utilities have no tariff on file to address other rates and, thus, have no tariffed rates to change. Therefore, in order to charge for water service of the newly-acquired municipal assets, the acquiring jurisdictional utility may take one of three actions: (1) adopt the rates currently being charged by the municipal utility; (2) charge the rates it is currently charging its own customers; or (3) file an initial tariff sheet with supporting documentation regarding projected cost-of-service.

Hon. Lindsey Ingram, Jr.
March 3, 2004
Page 2

This letter represents Commission Staff's interpretation of the law as applied to the facts presented. This opinion is advisory in nature and not binding on the Commission should the issues herein be formally presented for Commission resolution. If you have any question, please contact J.E.B. Pinney at (502) 564-3940, extension 427.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas M. Dorman", with a long horizontal flourish extending to the right.

Thomas M. Dorman
Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

RECEIVED

MAY 20 2005

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)
)
THE VERIFIED JOINT APPLICATION OF)
THE CITY OF OWENTON)
AND KENTUCKY-AMERICAN WATER)
COMPANY FOR APPROVAL OF THE)
TRANSFER OF THE OWNERSHIP OF)
WATER AND WASTEWATER-RELATED)
ASSETS OF THE CITY OF OWENTON)
TO KENTUCKY- AMERICAN)
WATER COMPANY)

NO. 2005-00206

VERIFIED JOINT APPLICATION FOR APPROVAL OF
THE TRANSFER OF THE OWNERSHIP OF CERTAIN
WATER AND WASTEWATER-RELATED ASSETS
OF THE CITY OF OWENTON

Come the City of Owenton ("Owenton") and Kentucky-American Water Company ("Kentucky American Water") and seek approval of a transfer of the ownership of assets, as set forth in the Asset Purchase Agreement attached hereto as Exhibit I, and state as follows:

1. Joint Applicant, Kentucky American Water, is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business in Lexington, Fayette County, Kentucky. It is engaged in the distribution and sale of water in its Central Division, consisting of Bourbon, Clark, Fayette, Harrison, Jessamine, Scott and Woodford Counties and its Northern Division consisting of Gallatin, Grant and Owen Counties. The post office address of Kentucky American Water is 2300 Richmond Road, Lexington, Kentucky 40502.

2. Joint Applicant, Owenton, is a city of the fifth class, providing water and wastewater services within and without the city limits. Its address is 220 South Main Street, Owenton, Kentucky 40359.

3. A certified copy of Kentucky American Water's Articles of Incorporation and Amendments thereto were filed with this Commission as Filing Exhibit 4 in Case No. 95-554, *Notice of the Adjustments of the Rates of Kentucky-American Water Company Effective on and after February 29, 1996*, and incorporated herein by reference as authorized by 807 KAR 5:001, Section 10(1)(6)(3).

4. Pursuant to KRS 278.020(5), Owenton and Kentucky American Water jointly petition the Public Service Commission of Kentucky ("Commission") for the approval of the Asset Purchase Agreement and further petition the Commission upon approval of the Asset Purchase Agreement to permit the water and wastewater systems to continue to be operated under the rates, classifications and regulations of Owenton as they exist at the time of the Closing Date as set forth in the Asset Purchase Agreement.

5. Joint Applicants, Owenton and Kentucky American Water, seek to consummate the purchase by Kentucky American Water of Owenton's assets under the terms set forth in the Asset Purchase Agreement. The proposed purchase includes all of Owenton's tangible assets and real property interests devoted to the provision of water and wastewater service except for the limited exclusions identified in the Asset Purchase Agreement. A detailed itemization of these assets is found in Exhibits 1, 2 and 3 of the Asset Purchase Agreement.

6. The Commission has encouraged Kentucky American Water to become a regional supplier of water. It said in Case 92-83: "The Commission commends Kentucky-

American for pursuing the goal of serving as a regional water supplier." (Order dated October 1, 1985, p. 14). It said in Case 89-348: "The Commission has and will continue to encourage Kentucky-American to become a regional supplier of water for the very reasons stated above." (Order dated June 28, 1990, p. 24). It also said in Case 2004-103: "We continue to encourage larger water suppliers to expand their facilities and absorb smaller water systems that are incapable of meeting the rising costs of providing safe and quality water service." (Order dated February 28, 2005, p. 9). For the reasons of (1) compliance with safe drinking water legislation and other regulation compliance, (2) economies of scale, and (3) inadequacies of sources of supply, Kentucky American Water began to negotiate to acquire the water-related assets of Owenton. The \$2,595,000 purchase price for the assets described in the Asset Purchase Agreement is an equitable price mutually agreed to by Kentucky American Water and Owenton. The price was calculated to reflect not only the value of the assets being purchased, but also the economic benefits to be gained by Owenton and Kentucky American Water customers through the transaction.

7. From and after the closing, Kentucky American Water will assume responsibility for the operation of the Owenton's water and wastewater systems and will provide service to existing Owenton customers and future customers in that geographical area. Kentucky American Water will make improvements over time in the Owenton water and wastewater systems to ensure that the existing and future customers in that geographical area are provided with the same quality of service as is currently being provided to Kentucky American Water customers.

8. The use of Owenton's rates as they exist at the Closing Date means that, subject to the temporal limitations in the Asset Purchase Agreement, the rates for

Owenton's customers will remain the same as they are on the Closing Date until Kentucky American Water's next rate case.

9. Kentucky American Water has the financial, technical, and managerial abilities to skillfully and efficiently operate Owenton's water and wastewater systems. Kentucky American Water will hire the Owenton employees listed in Exhibit 5 of the Asset Purchase Agreement, thus ensuring a smooth transaction following the transfer. By employing these personnel, Kentucky American Water can take advantage of economies of scale and not increase its work force as a result of this acquisition. Accordingly, the Owenton water customers will have the benefit of the combined resources of Owenton and Kentucky American Water personnel. This benefit will significantly reduce the expenses of operating the Owenton water and wastewater systems. This reduction in expenses will allow Kentucky American Water to invest in facilities to serve the area currently served by Owenton with no material financial impact to Kentucky American Water's existing customers.

10. Kentucky American Water's current customers will benefit from the proposed purchase because of the addition of approximately 1,100 water customers without the addition of any significant costs which would otherwise not be incurred.

11. This Joint Application is made in accordance with the law, for a proper purpose, and is consistent with public interest.

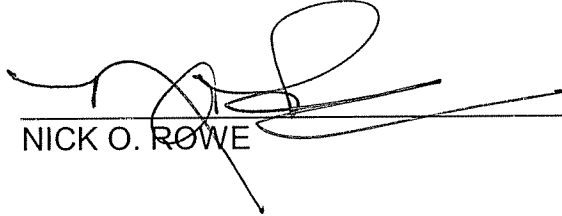
WHEREFORE, Joint Applicants, City of Owenton and Kentucky-American Water Company, pursuant to KRS 278.020(4) and (5), ask that the Public Service Commission of Kentucky enter an order (1) authorizing the transfer of ownership of the water and wastewater-related assets the City of Owenton under the terms set forth in the Asset

Purchase Agreement and (2) authorizing Kentucky-American Water Company to use Owenton's water and wastewater rates, classifications and regulations, as of the Closing Date, to Owenton's existing and future customers.

This 20th day of May, 2005.

VERIFICATION

I, Nick O. Rowe, President of Kentucky-American Water Company, do hereby state that the statements made in this Joint Application are true and accurate to the best of my knowledge.



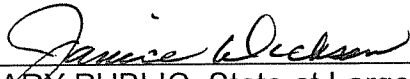
NICK O. ROWE

COMMONWEALTH OF KENTUCKY)

COUNTY OF FAYETTE)

Subscribed, sworn to, and acknowledged before me by Nick O. Rowe, President of Kentucky-American Water Company, for and on behalf of said corporation.

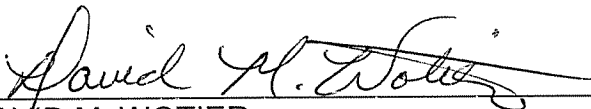
My Commission expires: 1/24/07



NOTARY PUBLIC, State at Large, Ky.

VERIFICATION

I, David M. Wotier, Mayor of the City of Owenton, do hereby state that the statements made in this Joint Application are true and accurate to the best of my knowledge.



DAVID M. WOTIER

COMMONWEALTH OF KENTUCKY)

COUNTY OF OWEN)

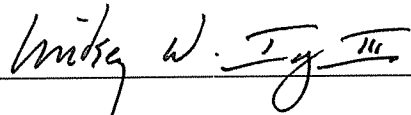
Subscribed, sworn to, and acknowledged before me by David M. Wotier, Mayor of the City of Owenton, for and on behalf of the City of Owenton.

My Commission expires: 11-19-08



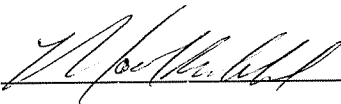
NOTARY PUBLIC, State at Large, Ky.

Lindsey W. Ingram, Jr.
Lindsey W. Ingram III
STOLL, KEENON & PARK, LLP
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507
(606) 231-3000

BY:  _____

ATTORNEYS FOR JOINT APPLICANT,
KENTUCKY-AMERICAN WATER COMPANY

Mark R. Cobb
P.O. Box 342
Owenton, Kentucky 40359-0342
(502) 484-2119

BY:  _____

ATTORNEYS FOR JOINT APPLICANT,
CITY OF OWENTON

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT ("Agreement"), entered into this 17th day of May, 2005, between the City of Owenton, Kentucky ("Seller"), a city of the 5th class in Kentucky, 220 South Main Street, Owenton, Kentucky 40359, and Kentucky-American Water Company ("Buyer" or "Kentucky American Water"), a Kentucky corporation, with its principal office at 2300 Richmond Road, Lexington, Kentucky 40502:

WHEREAS, the City of Owenton currently provides bulk water sales to Kentucky-American Water to service the majority of Kentucky American Water's customers in its Northern Division; and,

WHEREAS, Owenton has a history of water supply limitations during dry weather conditions and water quality issues from elevated disinfection by-products resulting primarily from its source of supply and treatment processes ; and,

WHEREAS, Kentucky American Water has been providing technical and operational assistance at no cost to Owenton to address these water quality and supply problems; and,

WHEREAS, Owenton recognizes the need to access quality technical expertise which is necessary to upgrade, maintain, and operate its water and wastewater systems; and

WHEREAS, Owenton cannot make the substantial investment necessary to maintain compliance with current and future water quality regulations and to meet increasing customer demands without an unreasonable increase in water rates; and

WHEREAS, Owenton believes that its costs to effectively address these water quality and supply problems would be far greater than Kentucky American Water's costs given

Owenton's long-standing challenges in these areas prior to involvement of Kentucky American Water; and;

WHEREAS, realizing these challenges of Owenton and success of working with Kentucky American Water, the Kentucky Division of Water has enthusiastically supported Kentucky American Water's taking ownership responsibility of Owenton's water and wastewater assets, provided both parties were amenable; and,

WHEREAS, Kentucky American Water possesses the financial, technical and operational resources to direct investments and manage operations to minimize costs and maximize quality of service by meeting all water quality regulations; and,

WHEREAS, Owenton and Kentucky American Water have been in discussions and negotiations for several years to develop a long-term arrangement whereby the citizens of Owenton will be afforded high quality water and wastewater service at a reasonable price; and,

WHEREAS, the customers of Owenton will immediately benefit from Kentucky American Water's ownership of Owenton's water and wastewater system as experienced water quality, distribution system operations, engineering, and management will direct personnel and investment to address supply and water quality issues, a level of expertise not available to Owenton; and,

WHEREAS, Owenton has considered its alternatives and has concluded that a long-term partnership arrangement with Kentucky American Water is the most logical, least costly approach to delivering water and wastewater service in Owenton.

WHEREAS, the Parties to this Asset Purchase Agreement previously entered into an Asset Purchase Agreement dated January 15, 2004; and

WHEREAS, the Parties were unable to close in accordance with Paragraph 12 of that Asset Purchase Agreement but now wish to enter into a new Asset Purchase Agreement;

NOW, THEREFORE, for good and valuable consideration, including the mutual promises contained herein, the Parties to this Asset Purchase Agreement do hereby agree as follows:

1. **PURCHASE OF ASSETS**. Seller hereby agrees to sell to Buyer on the Closing Date identified in paragraph 12 herein, and Buyer hereby agrees to purchase, free and clear of all liens, claims and encumbrances, all of Seller's tangible assets devoted to the provision of potable water service and wastewater service to the public, whether or not carried on or reflected in Seller's books and records. The purchase shall include the tangible assets of Seller's potable water system and wastewater system and all interest Seller has in real property, whether license, easement, fee simple, or any other type of ownership, (collectively referred to as the "Assets") which are listed in Exhibits 1 and 2. Although Exhibits 1 and 2 are intended to be complete, to the extent Seller on the date of this Agreement owns any assets which are needed to operate the potable water system and wastewater system that should be but are not included in the exhibits (except the water and sewer office building which shall be leased to Buyer for 10 years (with Buyer having the option of three additional 10-year lease terms for the Seller's cost of utilities, janitor services, and insurance)), such assets nonetheless shall be transferred to Buyer on the Closing Date.

The following Seller's assets are specifically excluded from this Agreement: (1) two snow blades; (2) salt box; (3) Scag mower and Scag mower accessories; (4) temporary pipe to Elmer Davis Lake (which Seller agrees to remove prior to Closing); (5) red storage building at wastewater treatment plant; (6) a new water intake to be constructed by Seller; (7) all land and

structures which directly impound the water in Upper and Lower Thomas Lakes; (8) all of Seller's six-inch diameter sanitary sewer force main lines consisting of Line A from Station 16+50 to Station 79+69.82 (approximately 6,320 feet) as shown on the plans of Owen County School System Sewer Expansion Project dated April, 2001, drafted by GRW Engineers; (9) all of Seller's six-inch diameter drinking water lines and existing water lines (approximately 2,028 feet) along Kentucky Highway 22 between Station 1+ 280.000 and 1 + 789.949, as shown on the plans of Owen County, Kentucky, City of Owenton, KY 22 – Utility Relocation Sta. 1+280.000 to Sta. 1+789.949 dated October, 2003, drafted by MSE Engineers; and (10) all of Seller's twelve-inch diameter raw water lines and all of its four-inch diameter finished drinking water lines within a radius of one-half mile of the intersection of Squiresville Road and Kentucky Highway 22 in Owen County.

With respect to items 8 and 9 of this Paragraph, \$50,000 from the funds due to the Seller at closing will be held in escrow by the Buyer pending completion of and transfer to the Buyer of the piping projects identified in those items. With respect to item 10 of this Paragraph, the Seller will retain ownership of these assets until such time the Buyer determines the utility relocation work is completed. During the period of time that the assets described in items 8, 9 and 10 are owned by the Seller, the Seller agrees that it will allow, without further consideration, Buyer to use those assets for the supply, delivery, flow, pressure and treatment of water and other purposes of Buyer as part of the water supply system assets being purchased by Buyer. In the event that the relocation of the assets described in items 8, 9 and 10 is required to be paid by the Buyer before closing, then the purchase price set forth in this Agreement shall be reduced by the amount of the Buyer's cost of relocation. In the event the relocation of the assets described in items 8, 9 and 10 is required to be paid by the Buyer after closing, but before the consideration

placed escrow is released, the escrowed amount shall be applied to the costs paid by Buyer to complete these relocations.

In the event the Closing Date occurs after July 31, 2005, then, for purposes of the consideration referred to in Section 2 of this Agreement, book depreciation on assets in service on July 31, 2005 shall be that amount as of July 31, 2005. Further, any assets purchased after July 31, 2005 shall be valued on the Closing Date at cost less book depreciation less any contributions in aid of construction.

2. **CONSIDERATION.** In consideration of the sale of such Assets, Buyer shall pay to Seller on the Closing Date, the sum of \$2,595,500 (two million five hundred ninety-five thousand five hundred dollars) (“Proposal”), adjusted for (i) any difference between the actual change in the book value, defined as gross utility plant less book depreciation and less contributions in aid of construction, and the pro forma change in book value used to arrive at an estimated book value as of June 30, 2004 for purposes of the Proposal and (ii) for the net increase or decrease in the book value of the Assets subsequent to June 30, 2004, the sufficiency of which is acknowledged by Seller. In the event Seller acquires or disposes of tangible assets devoted to the provision of utility service subsequent to the date of this Agreement, the purchase price shall be adjusted to reflect the net book value of those assets on the Closing Date. Buyer agrees to adopt Seller’s rates at closing. Buyer will not place into effect any rate increase for Seller’s now existing customers for a period of two years from the Closing Date.

3. WARRANTIES. Seller represents and warrants to Buyer as follows as of the date of this Agreement and as of the Closing Date:

- (A) Seller is a city of the 5th class in Kentucky with the requisite right, power and authority (i) to carry on its business as is now being conducted and (ii) to own, lease or operate its properties, which it currently owns, leases, or operates. Seller has, and at all times has had, full power and authority to own its properties and to conduct its business.
- (B) Seller has full capacity, right, power and authority to enter into, deliver, and perform this Agreement. Prior to closing, all consents, approvals, authorizations, or other requirements prescribed by law, rule, contract, agreement or regulation which must be obtained or satisfied by Seller and are necessary in order for it to enter into and perform this Agreement have been satisfied. This Agreement has been duly executed and delivered by Seller and constitutes its legal, valid and binding obligation, enforceable against Seller in accordance with its terms.
- (C) The execution, delivery, and performance of and the consummation of the transactions contemplated in this Agreement do not and will not: (i) conflict with or result in a violation or breach of any of the terms, conditions, or provisions of or constitute a default of the Seller's governance documents or any instrument, loan, grant, contract, bond, agreement, mortgage, judgment, order, writ, award, decree, or other restriction to which Seller is a party, or to which any of its Assets are subject, or by which Seller is bound or any statute or regulatory provision affecting Seller, (ii) require the approval, consent, or authorization of any federal, state, or local court, governmental authority, or regulatory body (except as provided in paragraph 11 of this Agreement) or of any creditor or seller or of any person or entity, nor (iii) give any party with rights under any instrument, agreement, mortgage, judgment, order, writ, award, decree or other restriction the right to terminate, modify, or otherwise change the Seller's rights or obligations thereunder.
- (D) Seller has complied with all existing laws, rules, regulations, ordinances, orders, instruments, contracts, loans, grants, bonds, agreements, judgments and decrees now or hereafter applicable to the Assets. Seller is not aware of any proposed laws, rules, regulations, ordinances, orders, judgments, decrees, governmental takings, condemnations, or other proceedings which would be applicable to the Assets or which might adversely affect the Assets

either before or after the date of this Agreement, other than as listed in Exhibit 3.

- (E) Seller has not received any notice or notification from any court or governmental agency, authority, or body that it is in violation of or not in compliance with any federal, state, or local law, statute, ordinance, rule, regulation, guideline (including voluntary guidelines), decree, or order or permit relating to the Assets or that upon the passage of time it will be in violation of any of the foregoing. Seller's operation of its water and wastewater systems complies in all respects with all governmental requirements relating to the provision of potable water service and wastewater system operation.
- (F) Seller has good, marketable, and insurable title to all of the Assets. None of the Assets will, after closing, be subject to any mortgage, pledge, lien, charge, security interest, encumbrance, restriction, lease, license, easement, liability or adverse claim of any nature whatsoever, direct or indirect, whether accrued, absolute contingent or otherwise. All the Assets are in good operating condition and repair and are suitable for the purposes used.
- (G) No other person or entity now has, nor at any time in the future will have, the right to purchase, own, use, or sell any of the Assets.
- (H) Seller is not insolvent. Seller is able to meet all business obligations as they become due and will not be insolvent or unable to meet its business obligations as a result of completing the transactions described herein.
- (I) All tax returns, if applicable, employee withholding forms and other tax-related documents, of every kind relating to Seller and the Assets that are due to be filed in accordance with any applicable law have been duly filed and all taxes and benefits shown to be due on such returns have been paid in full.
- (J) Seller has delivered to Buyer copies of 2003 and 2004 (when available) audited and unaudited financial statements, which are complete and correct and have been prepared from Seller's books and records in accordance with generally accepted accounting principles consistently applied and maintained throughout the periods indicated and fairly present the Seller's financial condition. Except as set forth in the financial statements, Seller has no debts, liabilities or obligations (whether absolute, accrued, contingent or otherwise), of any nature whatsoever including, without limitation, any other debts, liabilities or obligations relating to or arising out

of any act, omission, transaction, circumstance, except those incurred in the ordinary course of Seller's business. There is not any condition or event which could materially or adversely affect the Assets.

- (K) With the exception of the legal proceedings listed in Exhibit 3, there is no claim, legal action, suit, arbitration, governmental investigation or other legal or administrative proceeding, nor any order, decree or judgment in progress, pending or in effect, or threatened, against or relating to Seller, its officers, directors, employees or business, the Assets, or the transactions contemplated by this Agreement, and Seller neither knows nor has reason to be aware of any basis for the same. After the execution of this Agreement Seller will take all actions necessary to assist Buyer in pursuing the claims addressed in the legal proceedings described in Exhibit 3. Each of the parties will be responsible for its costs incurred in such legal proceedings.
- (L) Between the date of this Agreement and the Closing Date Seller shall conduct its business diligently and substantially in the same manner as heretofore conducted prior to the date of this Agreement. Buyer shall not institute any new methods of accounting or operation or engage in any transaction or activity, enter into any agreement or make any commitment except in the ordinary course of business and consistent with past practice.
- (M) Seller shall not prior to the Closing Date permit any Assets to be subjected to a mortgage, pledge, lien or encumbrance, without notice to and approval of Buyer, and further shall not dispose of such Assets. Prior to the Closing Date Seller shall not acquire any asset devoted to serving the public costing more than One Thousand Dollars (\$1,000.00) without the approval of Buyer.
- (N) Seller shall maintain until the Closing Date insurance policies in effect on the Assets adequate to restore or replace the assets in case of loss with Buyer as loss payee.
- (O) Seller shall not perform any act or omit to perform any act or permit any act or omission that will cause a breach or default in this Agreement.
- (P) No representation or warranty by Seller in this Agreement nor any statement or certificate furnished or to be furnished by Seller to Buyer or its representatives in connection herewith or pursuant hereto contains or will contain any untrue statement of a material fact or will omit a statement of any material fact required to make

the statements herein or therein contained not misleading. Seller has disclosed to Buyer in writing all material adverse facts known to it relating to the Assets. Seller is not aware of any circumstances or facts which could be detrimental to the Assets other than those disclosed to the Buyer in writing.

(Q) Seller has provided to Buyer all of its records regarding the operation of this water and wastewater system for calendar year 1998 through the present.

(R) Seller has sufficient interests in land ownership for the proper operation and maintenance of the Assets.

4. **LIABILITIES.** Buyer is not assuming any of Seller's liabilities or debts. All of Seller's debts and liabilities will be settled prior to or on the Closing Date and any debts outstanding on the Closing Date will remain Seller's sole obligation and will be paid by Seller under this Agreement. Consistent with Seller's obligation to remove all debts from the Assets, Seller will, on the Closing Date, utilize as much of the purchase price as is necessary to pay off all outstanding secured obligations.

5. **OPERATION OF WATER AND WASTEWATER SYSTEMS.** Buyer shall own and operate the water and wastewater systems acquired from Seller and all customers currently served by Seller shall, for all intents and purposes, be customers of Buyer. Said customers shall, after the Closing Date, be charged at those rates and charges for such customers as from time to time are approved for use for such customers by Buyer by the Public Service Commission of the Commonwealth of Kentucky ("PSC"). Buyer assumes ownership and responsibility for maintenance of existing fire hydrants. Kentucky American Water presently has no tariff for charging for the volumetric use of water in fighting fires and has no plan to request such a tariff. As of the Closing Date Buyer will specifically assume Seller's obligations under all other contracts to which Seller may be bound as of the date of this Agreement, all of which are

listed in Exhibit 4, except the Water Purchase Agreement between Seller and Buyer as it may have been amended, which will be terminated as of the Closing Date.

6. **EMPLOYEES.** Buyer agrees to offer employment to Seller's employees, at mutually agreed upon compensation levels, who are listed in Exhibit 5, provided that such employees pass the examinations, background check and other screening tests routinely required of applicants for employment with Buyer. The employees meeting such requirements will be employed, on an at will basis, as the Buyer's full-time employees with benefits as listed in Exhibit 6, as may change from time to time, comparable to the Buyer's employees performing the same tasks, although Buyer and Seller recognize that the specific duties and responsibilities of said employees may be different from duties and responsibilities of Buyer's existing employees at other geographic locations and may be subject to different supervisory oversight and reporting. The employees shall be deemed to have been employed by Buyer on the dates indicated in Exhibit 5 for the limited purpose of determining vacation or sick pay benefits with Buyer. Seller acknowledges that it has told all of the persons listed in Exhibit 5 that the benefits of employment by Buyer may change from time to time and there is no assurance that the level of benefits will remain the same as they existed on the Closing Date. Notwithstanding the above, two existing employees of Seller (Athelene Glore and Robert Howard) will not be employed by the Buyer at Closing but will continue to be employed by Seller. Buyer will, under separate agreement(s), agree to utilize the services of these two individuals for a definite period of time, but Buyer shall have no obligation to utilize their services nor employ them beyond the expiration of the separate agreements.

7. **FINAL METER READING AND BILLING.** At least one week prior to the Closing Date Seller will provide Buyer with a current list of the names and addresses of the

Seller's customers. Within the week prior to the Closing Date, Buyer's meter readers, accompanied at the Seller's election, by Seller's meter readers, will read all customer meters and provide copies of those meter readings to Seller. Seller will bill all customers for water service as reflected in the final meter reading. Seller will, after satisfaction of all routine customary expenses of Seller through the Closing Date use any monies received from these billings in addition to all monies from all accounts receivable from prior billings for the payment of any other of the Seller's liabilities remaining at the closing. Buyer will be entitled to all revenue from water services provided by Buyer on and after the Closing Date.

8. **OPERATION OF UPPER AND LOWER THOMAS LAKES.** Seller now owns and shall continue to own after the Closing Date all land and structures which directly impound the water in Upper and Lower Thomas Lakes ("the Lakes"), but grants to Buyer access to and the right to use the Lakes as a source of supply at no cost to Buyer which access and right include the right to pump water into and withdraw water from the Lakes and the right to increase or decrease the level of water in the Lakes. Seller agrees to maintain the structures which impound the Lakes, including the dam, in a safe and operational manner and in compliance with all applicable governmental requirements. Seller further agrees to maintain the land surrounding the Lakes in like fashion and agrees not to take or allow any action that would cause any pollution or detrimental effect on the quality of the water in the Lakes.

9. **OFFICE IN OWENTON.** Buyer agrees to maintain an office in Owenton for walk-in customer service purposes as long as is economically practicable at the discretion of the Buyer but for at least 10 years after the Closing Date.

10. **GRANT REPAYMENT.** In the event that any grant existing at the date of closing is later required to be repaid, Seller assumes all liability for such repayment.

11. **PUBLIC SERVICE COMMISSION APPROVAL.** Within thirty (30) days from the satisfaction of the conditions precedent described in paragraph 17 (C), (D), (E), (F), (G), and (I) both Seller and Buyer agree to file and pursue with diligence a Joint Application with the Public Service Commission of the Commonwealth of Kentucky, if necessary, seeking approval of this Agreement.

12. **CLOSING DATE.** The closing of this Agreement shall take place within thirty (30) days after the latest of (a) receipt of an acceptable final order from the PSC, if necessary, approving this Agreement, and no appeal having been taken from the issuance of such order, and (b) receipt of any other required waivers or consents to the transfer of the water system, and (c) completion of all conditions precedent as provided in Section 17 hereof.

13. **CONVEYANCE AND TRANSFERS.** Seller will not convey, lease or in any way dispose of any of the Assets which it holds as of the date of this Agreement. On the Closing Date Seller shall transfer and convey to Buyer, its successors and assigns forever, the Assets together with all files, plats, maps, plans, records and ledgers or copies thereof in any way connected with rendition of water service by Seller.

14. **ACCESS TO BOOKS.** Between the date of this Agreement and the Closing Date Buyer shall have the right to examine all of Seller's assets and to obtain copies of all Seller's books and records at such reasonably convenient times as Buyer may require. In the event the transaction contemplated by this Agreement is not consummated, all such copies of the inventory and books and records shall be returned to Seller. If prior to the Closing Date (a) any material discrepancies are discovered in the Seller's books and records (b) any claims, liabilities, liens, encumbrances or defects in title which would materially affect the value of the Assets are discovered by or disclosed to Buyer, or (c) any one of the representations and warranties set forth

in this Agreement is determined by Buyer not to be true and correct, Buyer may at its sole option terminate this Agreement and neither Buyer nor Seller shall be further obligated hereunder or incur or be liable for any claim, loss, damage or expenses to the other as a result of such termination.

15. **BINDING EFFECT.** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

16. **FORCE MAJEURE.** If the performance of any of the covenants or agreements contained herein is delayed or prevented by reasons beyond the Buyer's or Seller's control such as an act of God, act of war, strike, walkout, restraint of labor, from whatever cause, either partial or general, riot or civil commotion, order of court or administrative tribunal having jurisdiction over either party hereto, then the affected party shall be excused from such performance to the extent that the affected party is necessarily prevented, hindered or delayed thereby during the continuance of any such happening or event and the time for such performance shall be extended to commensurate with such delays provided that the affected party shall notify the other party of the happening of such event or force majeure within a reasonable time after the affected party acquires knowledge thereof.

17. **CONDITIONS PRECEDENT.** The parties hereto understand and agree that this Agreement and the obligations of the parties hereunder are expressly conditioned on the following, each of which is a condition precedent to the closing and the validity and enforceability of the Agreement:

(A) The PSC shall have entered a final order, if necessary (from which no appeal is taken), which approves the Joint Application to be filed by Buyer and Seller including (i) any specific rate making approach or request as set forth in the Joint Application, (ii) a

request for the use of Buyer's existing rules and regulations for Seller's water and wastewater customers, (iii) a request for the use of the Seller's existing rates to its customers as may be changed from time to time and as approved by the Public Service Commission, and (iv) this Agreement and all of its terms, conditions, undertakings, agreements and limitations between Buyer and Seller.

(B) The PSC, nor any court, shall not have attached to any order, any terms, conditions or limitations which in the sole opinion of either the Buyer or the Seller shall adversely affect the economic feasibility of this project or the Agreement between the parties or require Buyer or Seller to take any action or refrain from taking any action which might require either of them to breach any of their obligations under any mortgage indenture, as supplemented, or any other agreement to which either of them might be a party.

(C) Buyer and Seller shall have received all consents or waivers to the sale of the Assets.

(D) Buyer shall have determined that the assets are free from the presence or harmful effects of any hazardous or toxic substances, including, but not limited to, petroleum products and asbestos in friable form. Buyer shall be permitted to make or obtain such inspections and/or testing of the assets as may be desired by Buyer using such experts or consultants as Buyer deems desirable. In the event any of the inspections or testing made or obtained by Buyer reveal a condition of the assets which is not acceptable to Buyer, Buyer shall notify Seller, in writing, of such fact within ninety (90) days from the date of execution of this Agreement.

(E) Buyer's Board of Directors shall have approved the execution of this Agreement.

(F) Prior to the Closing Date there shall be a written determination from all appropriate authorities that Buyer shall have no obligation to repay any monetary obligations of Seller.

(G) Finished water quality currently produced by Seller shall be acceptable to Buyer and meet or exceed all governmental requirements.

(H) Except as may be specifically agreed to by Buyer elsewhere in this Agreement, there shall not be or have been any material or adverse changes in the Assets or financial condition of Seller, as determined by Buyer's discretion.

(I) Seller shall have granted a 20-year, non-exclusive franchise, at no further cost to Buyer or customers of the water and wastewater systems, to serve the City and citizens of Owenton.

(J) Seller has received two grants: (1) City of Owenton Water Collection and Treatment System Improvements and Freshwater Intake Project, to the Environmental Protection Agency pursuant to Public Law 107-206, a fiscal year 2001 Special Appropriations Grant, in the amount of Three Hundred and Eighty-Seven Thousand One Hundred and Sixty Dollars (\$387,160) after administrative fees and (2) Kentucky River Raw Water Intake, to the Kentucky Infrastructure Authority. Project Number WX21187207, in the amount of One Hundred Thousand Dollars (\$100,000). Seller is required to provide matching funds of approximately Two Hundred and Fifty Thousand Dollars (\$250,000) to secure the grants. Subject to the terms and conditions to be contained in an agreement respecting ownership and operation of the intake, Buyer shall pay Seller a use fee equivalent to the annual debt service incurred by Seller to provide the matching funds as long as Seller owns the intake and until the debt is fully paid. Because the construction of the new intake is critical, an amount equal to the grant funds sought

(\$487,160) shall be escrowed from the purchase price in a bank(s) chosen by Seller, subject to the joint control of Buyer and Seller, and released as grant funds are expended or used to construct the intake when the grants are denied or the grant funds are not available. Any interest earnings accumulated during the time these funds are escrowed will be remitted to the Seller upon final remittance of these escrow funds.

18. **INDEMNITY AGREEMENT.** Seller agrees to indemnify and hold harmless Buyer against any loss, claim, action, suit, proceeding, deficiency or expense (including attorneys' fees) relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by Seller under this Agreement (including the Exhibits) or any documents delivered to Buyer in connection with this Agreement; (b) claims of negligence or strict liability in connection with the Assets or the business conducted prior to the Closing Date; (c) all debts, liabilities, contracts or obligations whatsoever relating to the Assets prior to the Closing Date, or (d) all contingent liabilities relating to Seller, its business or the Assets which Buyer becomes obligated to pay with respect to any state of facts or occurrences existing at or prior to the Closing Date.

19. **WATER BOARD.** The Owenton Water Board ("Water Board") shall remain in place to serve as an advisor on growth and capital investment issues on applicable water and sewer issues. The Seller through its Water Board may partner with the Buyer to extend service and upgrade facilities. The Water Board shall meet with Buyer on a regular basis. Buyer agrees to compensate the members of the Water Board in the amount of \$50.00 per member per meeting attended with the limitation that compensation will only be made to a maximum of five Water Board members for a maximum of one meeting attended per month.

20. **ENTIRE AGREEMENT.** This Agreement, including all of its Exhibits, which are hereby incorporated by reference, constitutes the entire agreement of the parties with respect to the subject matter hereof and may not be modified or amended or terminated except by written agreement specifically referring to this Agreement, and signed by all of the parties hereto.

21. **GOVERNING LAW.** This Agreement and all amendments hereto shall be governed and construed in accordance with the laws of the Commonwealth of Kentucky.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their duly authorized representatives, and a copy of the resolution from the Seller is attached, this the day and year first above written.

CITY OF OWENTON

Freda Prother
Witness

BY: *D. M. Wale*
Mayor

KENTUCKY-AMERICAN WATER COMPANY

Peggy Stone
Witness

BY: *[Signature]*
President

COMMONWEALTH OF KENTUCKY)

COUNTY OF Fayette)

The foregoing instrument was acknowledged before me this 18th day of May, 2005, by Nick O. Rowe, President of Kentucky-American Water Company, a Kentucky corporation, on behalf of the corporation.

My Commission expires: 1/24/07

Janice Jackson
NOTARY PUBLIC

COMMONWEALTH OF KENTUCKY)

COUNTY OF OWEN)

The foregoing instrument was acknowledged before me this 17th day of May, 2005, by D. M. WOTIER, Mayor of the City of Owenton, Kentucky, on behalf of the City.

My Commission expires: 27 Feb 2009

Doris Riley
NOTARY PUBLIC

Exhibit 1

Assets

Exhibit 1								
List of Assets - Owenton Water and Sewer								
Owenton Waterworks								
Audit Report								
Year ended: June 30, 2002								
Kind of property	Date	Method Life Rate	Balance at 7/1/01	FYE 2002 Additions	FYE 2002 Retirements	Balance at 6/30/02	Accum. Depreciation as of 6/30/02	CIAC as of 6/30/02
Land & Rights of Way								
Land & Rights of Way	1933	n/a	1,293.46			1,293.46	-	
Land & Rights of Way	1941	n/a	1,160.00			1,160.00	-	
Land & Rights of Way	1944	n/a	1,000.00			1,000.00	-	
Land & Rights of Way	1960	n/a	2,560.00			2,560.00	-	
Land & Rights of Way	1969	n/a	4,080.00			4,080.00	-	
Land & Rights of Way	1977	n/a	7,619.29			7,619.29	-	
Virgil Cobb Easement	Jun-88	n/a	3,031.50			3,031.50	-	
Land - 75M gallon tanksite dismantled	1990	n/a	6,543.13			6,543.13	-	
Land - Water Plant	1994	n/a	9,286.00			9,286.00	-	
						-	-	
						-	-	
						-	-	
						-	-	
Subtotal Land & ROW			36,573.38	-	-	36,573.38	-	
Roads & Power Lines								
Roads & Power Lines	1933	n/a	4,527.11			4,527.11	-	
Roads & Power Lines	1941	n/a	4,060.00			4,060.00	-	
Roads & Power Lines	1944	n/a	3,500.00			3,500.00	-	
Roads & Power Lines	1960	n/a	8,960.00			8,960.00	-	
Roads & Power Lines	1969	n/a	14,280.00			14,280.00	-	
Roads & Power Lines	1977	n/a	20,591.33			20,591.33	-	
						-	-	
						-	-	
						-	-	
Subtotal - Roads and Power Lines			55,918.44	-	-	55,918.44	-	
Buildings & Improvements								
Barn	Jan-85	SL-10	6,000.00			6,000.00	6,000.00	
Rrestroom improvements	Apr-87	SL-10	287.00			287.00	287.00	
Addition - Maintenance Bldg.	Dec-90	SL-10	1,930.46			1,930.46	1,930.46	
Addition to Red Barn	Jun-92	SL-10	1,400.00			1,400.00	1,400.00	
Storage Building	Jun-02	SL-10		21,495.00		21,495.00	179.00	
						-	-	
						-	-	
						-	-	
Subtotal - Buildings & Improvements			9,617.46	21,495.00	-	31,112.46	9,796.46	

Furniture & Fixtures								
Furniture & Fixtures	1977	SL-10	1,019.55			1,019.55	1,019.55	
Posting machine (1/2)	1978	SL-10	4,220.91			4,220.91	4,220.91	
Copier	Feb-84	SL-5	833.75			833.75	833.75	
Typewriter (1/2)	Jun-85	SL-5	318.00			318.00	318.00	
Table	Jan-86	SL-10	158.00			158.00	158.00	
Fire Proof Cabinet	Nov-89	SL-10	300.00			300.00	300.00	
Computer	Jun-91	SL-5	2,737.50			2,737.50	2,737.50	
Copier (1/2)	Jun-96	SL-5	1,557.50			1,557.50	1,557.50	
PS 120 Computer	Jun-96	SL-5	2,311.93			2,311.93	2,311.93	
						-	-	
						-	-	
						-	-	
						-	-	
Subtotal - Furniture & Fixtures			13,457.14	-	-	13,457.14	13,457.14	
Distribution System								
Distribution System	1933	SL-50	51,231.32			51,231.32	51,231.32	
Distribution System	1960	SL-50	116,480.00			116,480.00	99,207.00	
Distribution System	1969	SL-50	185,640.00			185,640.00	119,121.00	
Distribution System	1977	SL-50	277,000.55			277,000.55	141,733.00	55,394.75
Tank	1980	SL-50	16,000.00			16,000.00	7,067.00	
Apartment Hook Up	1981	SL-35	3,277.82			3,277.82	1,979.00	
Water Loading Building	Sep-82	SL-35	1,420.00			1,420.00	814.00	
8" Water Meter	Aug-86	SL-35	978.15			978.15	447.00	
New Line - Druther's	Sep-86	SL-35	2,588.00			2,588.00	1,172.00	
Flowmeter for hydrant	Oct-86	SL-35	480.83			480.83	220.00	
Ford Street Line	Jan-87	SL-35	7,331.26			7,331.26	3,240.00	
Kelly Court Line	Jun-88	SL-35	7,000.00			7,000.00	3,000.00	
Road Bore & Forsee's	Jun-88	SL-35	5,662.95			5,662.95	2,413.00	
(1) 6" meter/(6) 3/4" meters	Jul-88	SL-40	2,096.80			2,096.80	742.00	
Waterline for Horizon Homes	Jan-89	SL-50	6,854.00			6,854.00	1,850.00	
Hwy 22/Gratz Road Waterline	Feb-89	SL-50	1,380.79			1,380.79	376.00	
Horizon Homes material for line	Mar-89	SL-50	2,261.42			2,261.42	600.00	
Fire Hydrant - Horizon Homes	Mar-89	SL-40	801.62			801.62	267.00	
Fire Hydrant - Horizon Homes	Mar-90	SL-40	978.00			978.00	300.00	
Pipe - 2" meter	Apr-90	SL-35	2,253.24			2,253.24	800.00	
Old Lines Replaced	Jun-90	SL-35	10,161.50			10,161.50	3,625.00	
Hwy 127 Waterline	Jun-90	SL-50	82,087.00			82,087.00	18,881.31	75,671.50
Water main & Plant Improvements	Jun-90	SL-50	178,882.61			178,882.61	44,725.00	
400,000 Gallon Tank	Jun-90	SL-30	576,526.56			576,526.56	239,811.60	577,166.56
Capitalize Repairs to 100,000 Gallon Tank	Jun-90	SL-30	93,718.80			93,718.80	39,049.70	
2 Hydrants	Jun-91	SL-40	1,743.32			1,743.32	503.27	
Services	Various	SL-50	19,005.00			19,005.00	5,691.00	
Meters	Various	SL-50	17,384.75			17,384.75	5,213.00	
Meter Installations	Various	SL-50	19,005.00			19,005.00	5,691.00	
New Water Treatment Plant	Jun-96	SL-50	2,272,841.02			2,272,841.02	295,470.00	1,064,254.37
Pipe Upgrade - Cedar Hill Road	2-Mar	SL-50		6,447.00		6,447.00	43.00	
						-	-	
						-	-	
						-	-	
						-	-	
Subtotal - Distribution System			3,963,072.31	6,447.00	-	3,969,519.31	1,095,283.20	1,772,487.18

Equipment						-		
Equipment	1977	SL-10	2,227.30			2,227.30	2,227.30	
Temporary line	1977	SL-10	14,000.00			14,000.00	14,000.00	
Snow Plow	1979	SL-10	1,617.00			1,617.00	1,617.00	
Boat	Jul-83	SL-5	100.00			100.00	100.00	
Alum Feeder Tank	Jun-85	SL-5	2,887.91			2,887.91	2,887.91	
Ditch Witch	Jun-86	SL-7	450.00			450.00	450.00	
Chlorinator Equipment	Oct-86	SL-10	3,370.00			3,370.00	3,370.00	
Two Cylinder Scale	Nov-86	SL-10	755.00			755.00	755.00	
Push Rod Machine	Apr-87	SL-10	4,500.00			4,500.00	4,500.00	
Jar Test Equipment	Oct-86	SL-5	778.02			778.02	778.02	
Communication Equipment	Jan-89	SL-10	1,396.00			1,396.00	1,396.00	
PH Meter & Line Converter	Jun-89	SL-15	424.29			424.29	366.00	
Eccentric Slide Block	Jun-89	SL-15	188.42			188.42	170.00	
Porta Pump & Tow Chain	Jun-89	SL-20	608.89			608.89	333.00	
Hi Tork Mixer	Jun-89	SL-10	1,582.00			1,582.00	1,582.00	
1/2 Intercom	Oct-89	SL-10	30.45			30.45	30.45	
Telephone system (partial)	Jan-90	SL-10	272.84			272.84	272.84	
Jackhammer	Feb-90	SL-10	5,499.90			5,499.90	5,499.90	
Copy Machine	May-90	SL-10	421.25			421.25	421.25	
Coin Operated Machine	Mar-90	SL-10	989.00			989.00	989.00	
Valve - River gate	Apr-90	SL-40	3,150.00			3,150.00	987.00	
Fencing	Jun-90	SL-20	6,025.00			6,025.00	3,763.00	
Ten Foot Jon Boat	Jun-91	SL-10	85.00			85.00	85.00	
1/2 Mower	Jun-91	SL-10	561.87			561.87	561.87	
Roto Tiller	Jun-93	SL-10	579.95			579.95	468.82	
Lawnmower	Dec-94	SL-10	1,716.96			1,716.96	1,290.00	
Computer	Dec-94	SL-5	350.00			350.00	350.00	
P/U Truck Chevy (1/2)	Jun-96	SL-5	18,916.57			18,916.57	18,916.57	
Snow Plow & Utility bed for truck	Jul-90	SL-5	7,245.00			7,245.00	7,245.00	
Computer Upgrade	Oct-97	SL-3	4,686.00			4,686.00	4,686.00	
1989 Dodge Truck	Aug-99	SL-5	6,000.00			6,000.00	3,500.00	
1999 Deere 310E Backhoe	Sep-99	SL-10	28,034.41			28,034.41	7,942.00	
12' Truck Bed	Apr-00	SL-10	6,722.00			6,722.00	1,512.00	
Scag Power mower	Jun-01	SL-5	4,000.00			4,000.00	866.67	
Scag Power mower accessories	Jun-01	SL-5	299.00			299.00	64.98	
2002 Chevy Pickup	Jan-02	SL-5		26,390.25		26,390.25	2,639.00	
						-	-	
Subtotal - Equipment			130,470.03	26,390.25	-	156,860.28	96,623.58	
Grand Total Waterworks			4,209,108.76	54,332.25	-	4,263,441.01	1,215,160.38	1,772,487.18
						equals 6/30/02 audit	equals 6/30/02 audit	equals 6/30/02 audit

Equipment								
Equipment	1938	SL-10	3,335.66				3,335.66	3,335.66
Equipment	1964	SL-10	3,335.67				3,335.67	3,335.67
Equipment	1977	SL-10	1,050.00				1,050.00	1,050.00
78 Chev Truck	Aug-83	SL-3	3,500.00				3,500.00	3,500.00
Radio (1/3 interest)	Aug-83	SL-3	100.00				100.00	100.00
Sewer Cleaning Machine	Apr-84	SL-5	974.85				974.85	974.85
Chlorinator Machine	Feb-86	SL-7	1,350.00				1,350.00	1,350.00
Smoke Blower	Apr-87	SL-10	602.10				602.10	602.10
Monitoring Kit	Jun-87	SL-10	884.64				884.64	884.64
Communication System	Jan-89	SL-10	1,396.00				1,396.00	1,396.00
Sludge Truck	Aug-88	SL-10	27,691.00				27,691.00	27,691.00
91 S10 Chevey P/U	Jul-91	SL-5	3,953.16				3,953.16	3,953.16
V-500 Chlorinator	Aug-89	SL-10	1,222.38				1,222.38	1,222.38
12' Boat & 4 hp motor	Sep-89	SL-10	200.00				200.00	200.00
Air Tanks	Dec-89	SL-10	1,522.00				1,522.00	1,522.00
Equipment	Jan-90	SL-10	173.61				173.61	173.61
Copy Machine	May-90	SL-10	421.25				421.25	421.25
Computer System	Jun-90	SL-10	3,500.00				3,500.00	3,500.00
Computer System	Jun-90	SL-10	2,737.50				2,737.50	2,737.50
Mower (1/2 interest)	Jun-91	SL-10	500.00				500.00	500.00
Sewer Cleaning Machine	Apr-93	SL-10	20,009.00				20,009.00	19,009.00
Aerator	Jun-96	SL-10	8,200.00				8,200.00	4,988.00
2 Myer Pumps & Installation	Nov-97	SL-10	4,842.84				4,842.84	2,218.00
99 Deere 310E Backhoe (1/2)	Sep-99	SL-10	9,792.59				9,792.59	2,692.00
Aerators	Apr-00	SL-10	11,962.00				11,962.00	2,691.00
							-	-
							-	-
							-	-
							-	-
Subtotal - Equipment			113,256.25	-	-		113,256.25	90,047.82

Distribution System						-		
Distribution System	1938	SL-50	101,899.32			101,899.32	101,899.32	106,338.26
Distribution System	1964	SL-50	146,664.34			146,664.34	113,171.00	
Sewer Lines	Apr-89	SL-50	3,748.55			3,748.55	994.00	
Horizon Home Lines	Jan-89	SL-50	5,635.00			5,635.00	1,525.00	
Wastewater Plant Improvements	Dec-89	SL-50	2,110,399.46			2,110,399.46	526,980.00	1,168,806.00
Pump Station Replacements	Jun-89	SL-50	267,212.77			267,212.77	69,472.00	
Sewer Rehab and television service	Dec-89	SL-20	46,935.29			46,935.29	28,342.00	
Meters, services & installations	Jun-90	SL-50	2,000.00			2,000.00	500.00	
Meters, services & installations	var 6/89	SL-50	4,700.00			4,700.00	1,729.00	
Meters, services & installations	Jun-91	SL-50	2,850.00			2,850.00	656.00	
Sewer Rehab	Dec-91	SL-20	4,561.51			4,561.51	2,394.00	
Sewer Rehab	Dec-92	SL-20	6,913.79			6,913.79	3,287.00	
Lift Station	Mar-99	SL-50	15,450.00			15,450.00	1,004.00	
Madison Street Force Main	Jan-00	SL-50	67,145.00			67,145.00	3,357.00	
Madison Street Force Main	Dec-00	SL-50	9,851.78			9,851.78	296.00	
						-	-	
						-	-	
						-	-	
						-	-	
Subtotal - Distribution System			2,795,966.81	-	-	2,795,966.81	855,606.32	1,275,144.26
Grand Total Sewer			2,917,722.21	-	-	2,917,722.21	951,903.29	1,275,144.26
							equals 6/30/02 audit	equals 6/30/02 audit

Exhibit 2
Real Estate

DEEDS

1. Deed dated May 13, 1933, from the Owenton School District recorded in Deed Book 72, at page 453.
2. Deed dated March 29, 1988, from Nellie Slaughter and her husband, J.L.W. Slaughter recorded in Deed Book 80, at page 130.
3. Deed dated March 29, 1938, from Ada Cull, Dorman L. Cull, Margaret B. Cull and Byron Cull recorded in Deed Book 80, at page 133.
4. Deed dated November 30, 1949, from Newt Cobb and his wife, Eura Cobb recorded in Deed Book 92, at page 239.
5. Deed dated April 15, 1950, from Ray C. Stamper and his wife, Emma C. Stamper recorded in Deed Book 92, at page 559.
6. Deed dated April 8, 1952, from Robert S. Duncan and his wife, Margaret Duncan recorded in Deed Book 95 at page 381.
7. Deed dated April 9, 1955, from H.L. Smith, et al. recorded in Deed Book 97, at page 452.
8. Deed dated April 23, 1955, from Dorman Cull and his wife, Margaret Cull recorded in Deed Book 97, at page 464.
9. Deed dated January 11, 1961, from Robert S. Duncan and his wife, Margaret Duncan recorded in Deed Book 103, at page 69.
10. Deed dated March 27, 1961, from E.S. Rose and his wife, Alice Rose and Malone Bourne and his wife, Beth Ann Bourne recorded in Deed Book 103, at page 173.
11. Deed dated December 21, 1963, from Sollie Clifton and his wife, Edith Clifton recorded in Deed Book 107, at page 210.
12. Deed dated December 21, 1963, from Anna McCormick Webster and her husband, Leonard Webster recorded in Deed Book 107, at page 212.
13. Deed dated December 23, 1963, from A.E. Rose and Fannie Rose recorded in Deed Book 107, at page 215.

14. Deed dated December 21, 1963, from Dorman L. Cull and his wife, Margaret Cull recorded in Deed Book 107, at page 216.
15. Deed dated December 2, 1963, from James R. Ford and his wife, Helen Ford, and R.C. Ford, Jr. and his wife, Grace Ford recorded in Deed Book 107, at page 469.
16. Deed dated November 12, 1968, from E.S. Rose and his wife, Alice Rose recorded in Deed Book 113, at page 422.
17. Deed dated November 28, 1969, from the Owenton Municipal Housing Commission recorded in Deed Book 120, page 563.
18. Deed dated January 8, 1976, from Charles Maurice Clements and his wife, Audrey Clements recorded in Deed Book 133, at page 394.
19. Deed dated August 10, 1982, from Kraft, Inc. recorded in Deed Book 146, at page 219.
20. Deed dated September 24, 1987, from Owen County Industrial Development Corporation recorded in Deed Book 155, at page 252.
21. Deed dated October 12, 1987, from the Owen County Board of Education recorded in Deed Book 155, at page 366.
22. Deed dated November 30, 1987, from the Owen County Board of Education recorded in Deed Book 155, at page 533.
23. Deed dated December 11, 1987, from Owenton Manor, Inc. recorded in Deed Book 156, at page 11.
24. Deed dated January 13, 1988, from James Murphy and Teresa Murphy recorded in Deed Book 156, at page 278.
25. Deed dated December 29, 1987, from Robert A. Rose and his wife, Mary F. Rose and Eugene Rose and his wife, Alice Rose recorded in Deed Book 157, at page 276.
26. Deed dated February 5, 1993, from Calvin Cress and his wife, Mary Cress recorded in Deed Book 169, at page 479.
27. Deed dated May 30, 2003, from John Clifton and his wife, Jo Ann Clifton recorded in Deed Book 206, at page 671.
28. Deed dated November 19, 1987, from Charles E. Carter and his wife, Betty C. Carter recorded in Deed Book 155, at page 539.

EASEMENTS

1. Easement dated March 8, 1938, from Relda Hunt recorded in Deed Book 80, at page 164. Easement dated April 6, 1940, from Julia S. McBee and her husband, K.S. McBee recorded in Deed Book 80, at page 135.
2. Easement dated March 25, 1940, from E. Ransdell and his wife, Eunice Ransdell recorded in Deed Book 80, at page 136.
3. Easement dated March 25, 1940, from L.E. Doane and his wife, Corinne Doane recorded in Deed Book 80, at page 138.
4. Easement dated February 6, 1940, from Citizens Bank and Trust Company recorded in Deed Book 80, at page 139.
5. Easement dated February 12, 1940, from Charles Marshall and his wife, Willoughby Marshall recorded in Deed Book 80, at page 141.
6. Easement dated December 20, 1939, from Allie Johnson recorded in Deed Book 80, at page 142.
7. Easement dated December 20, 1939, from Owenton Independent School District recorded in Deed Book 80, at page 144.
8. Easement dated August 5, 1938, from Norah Gilbert recorded in Deed Book 80, at page 145.
9. Easement dated July 16, 1938, from Hiram Wilson recorded in Deed Book 80, at page 147.
10. Easement dated August 8, 1938, from Levi Bush, M.H. Reese and Vic Dorsey, Trustee of Second Baptist Church of Owenton recorded in Deed Book 80, at page 148.
11. Easement dated October 5, 1938, from Fred Honiker and his wife, Kate Honiker recorded in Deed Book 80, at page 149.
12. Easement dated August 2, 1938, from Stella Vallandingham and her husband, R.L. Vallandingham recorded in Deed Book 80, at page 151.
13. Easement dated October 5, 1938, from John G. Thomas and his wife, Maude Thomas recorded in Deed Book 80, at page 152.

14. Easement dated October 5, 1938, from Mrs. J.M. Starnes recorded in Deed Book 80, at page 154.
15. Easement dated October 9, 1938, from W.E. King and his wife, Hattie King recorded in Deed Book 80, at page 155.
16. Easement dated October 5, 1938, from Mary Elizabeth Vallandingham and her husband, George Vallandingham recorded in Deed Book 80, at page 157.
17. Easement dated October 4, 1938, from Nellie Adams Hunter and M. D. Hunter, her husband; Reuben Hunter; Clarice Toole and Clyde Tools, her husband; Cora Belle Wood and William B. Wood, her husband; K.L. Hunter; Lovell Hunter and Opal Hunter, his wife; and Stanley Hunter recorded in Deed Book 80, at page 159.
18. Easement dated March 30, 1938, from J.P. Sidebottom and his wife, Ollie Sidebottom recorded in Deed Book 80, at page 161.
19. Easement dated March 10, 1938, from B.F. Holbrook recorded in Deed Book 80, at page 163.
20. Easement dated March 15, 1938, from Ruby Ransdell recorded in Deed Book 80, at page 166.
21. Easement dated October 15, 1938, from Allen B. Cammack and his wife, Louella A. Cammack recorded in Deed Book 80, at page 167.
22. Easement dated September 4, 1940, from John Joslin and his wife, Marie Joslin recorded in Deed Book 80, at page 281.
23. Easement dated August 26, 1940, from Mattie Fortner recorded in Deed Book 80, at page 282.
24. Easement dated August 29, 1940, from Helen F. Porter and her husband, William Porter recorded in Deed Book 80, at page 283.
25. Easement dated June 29, 1940, from Fred Honiker recorded in Deed Book 80, at page 284.
26. Easement dated July 3, 1940, from B.B. Welch and his wife, Ethel Welch recorded in Deed Book 80, at page 285.
27. Easement dated June 29, 1940, from C.L. True and his wife, Hattie Belle True recorded in Deed Book 80, at page 286.
28. Easement dated November 30, 1949, from Newt Cobb and his wife, Eura Cobb recorded in Deed Book 88, at page 475.

29. Easement dated April 5, 1964, from Earl Powell and his wife, Emma Powell recorded in Deed Book 107, at page 431.
30. Easement dated December 2, 1963, from James R. Ford and Helen Ford recorded in Deed Book 107, at page 469.
31. Easement dated October 25, 1965, from Albert Hammond and his wife, Clemmie Hammond recorded in Deed Book 109, at page 461.
32. Easement dated February 8, 1951, from W.T. Forsee, et al. recorded in Deed Book 114, at page 263.
33. Easement dated July 7, 1969, from Mable Turner recorded in Deed Book 114, at page 620.
34. Easement dated July 7, 1969, from J.R. Holbrook recorded in Deed Book 114, at page 621.
35. Easement dated July 21, 1969, from Howard Rose, Jr. and his wife, Viola Potts Rose recorded in Deed Book 114, at page 622.
36. Easement dated July 18, 1969, from Austin Cobb, et al. recorded in Deed Book 114, at page 623.
37. Easement dated July 11, 1969, from Elzie McCormick and his wife, Fannie McCormick recorded in Deed Book 114, at page 624.
38. Easement dated September 18, 1969, from Victor Kelly recorded in Deed Book 115, at page 75.
39. Easement dated September 25, 1969, from Virgil Cobb and his wife, Dorothy Cobb recorded in Deed Book 115, at page 96.
40. Easement dated October 24, 1969, from Jack Welch and his wife, Mary B. Welch recorded in Deed Book 115, at page 224.
41. Easement dated July 30, 1973, from Dorman Baldwin and his wife, Carolyn Baldwin, and Derwood Mefford and his wife, Joyce Ann Mefford, recorded in Deed Book 125, at page 165.
42. Easement dated November 5, 1973, from John C. Thomas and his wife, Peggy Thomas recorded in Deed Book 125, at page 524.
43. Easement dated October 1, 1973, from O.H. Curtis, Jr. and his wife, Ella Curtis, and Frances Beverly recorded in Deed Book 126, at page 449.

44. Easement dated October 1, 1973, from Jessie S. Henry recorded in Deed Book 126, at page 452.
45. Easement dated October 1, 1973, from Aileen Moffett Miller and her husband, James D. Miller, Jr. recorded in Deed Book 126, at page 454.
46. Easement dated October 12, 1973, from John C. Thomas and his wife, Peggy Thomas recorded in Deed Book 126, at page 456.
47. Easement dated October 12, 1973, from John C. Thomas and his wife, Peggy Thomas, and Robert Allen Rose and Mary Rose, his wife, recorded in Deed Book 126, at page 458.
48. Easement dated November 8, 1976, from Marvin Keith and Gladys Keith recorded in Deed Book 133, at page 204.
49. Easement dated January 7, 1977, from James Hudnall and his wife, Margaret Hudnall recorded in Deed Book 133, at page 406.
50. Easement dated February 22, 1977, from Cantrell Duncan recorded in Deed Book 133, at page 525.
51. Easement dated June 9, 1977, from Raymond Lee Lamb and Mary W. Lamb recorded in Deed Book 134, at page 393.
52. Easement dated January 22, 1979, from O.D. Hawkins and Bessie C. Hawkins and James Farris Bush and Sandra Kaye Bush recorded in Deed Book 139, at page 213.
53. Easement dated November 21, 1979, from Charles E. Carter and his wife, Betty C. Carter recorded in Deed Book 141, at page 554.
54. Easement dated April 11, 1980, from Michael Dennis Callaghan and his wife, Elaine Callaghan recorded in Deed Book 142, at page 348.
55. Easement dated April 27, 1981, from Mable J. Clifton recorded in Deed Book 144, at page 44.
56. Easement dated April 27, 1981, from Margaret Burke recorded in Deed Book 144, at page 45.
57. Easement dated May 21, 1981, from Robert Duncan recorded in Deed Book 144, at page 676.

58. Easement dated March 17, 1981, from Catrell Duncan recorded in Deed Book 144, at page 677.
59. Easement dated April 7, 1981, from Donald Perkins and his wife, Nancy Perkins recorded in Deed Book 144, at page 678.
60. Easement dated February 17, 1981, from Marvin Keith and his wife, Helen Keith recorded in Deed Book 144, at page 679.
61. Easement dated February 24, 1981, from James E. Bush and his wife, Sandra Bush recorded in Deed Book 144, at page 680.
62. Easement dated March 6, 1981, from Joe Duncan and his wife, Carmen Duncan recorded in Deed Book 144, at page 681.
63. Easement dated April 11, 1981, from O.D. Hawkins and his wife, Bessie Hawkins recorded in Deed Book 144, at page 682.
64. Easement dated April 11, 1981, from Catrell Duncan recorded in Deed Book 144, at page 683.
65. Easement dated February 19, 1981, from Glen A. Duke and his wife, Eleanor J. Duke recorded in Deed Book 144, at page 684.
66. Easement dated October 29, 1981, from Hide-A-Way Hills Property Owners Association recorded in Deed Book 144, at page 685.
67. Easement dated February 19, 1981, from Lake-Land Development Service, Inc. recorded in Deed Book 144, at page 686.
68. Easement dated February 20, 1981, from Robert L. Walker and his wife, Frances S. Walker recorded in Deed Book 144, at page 687.
69. Easement dated February 18, 1981, from Larry D. Pierson and his wife, Judy Pierson recorded in Deed Book 144, at page 688.
70. Easement dated March 13, 1987, from James Perkins and his wife, Ann Perkins recorded in Deed Book 154, at page 148.
71. Easement dated November 30, 1987, from Virgil Cobb and his wife, Dorothy Cobb recorded in Deed Book 156, at page 1.
72. Easement dated October 9, 1987, from Owenton Partnership II recorded in Deed Book 156, at page 3.

73. Easement dated October 9, 1987, from Owenton Associates recorded in Deed Book 156, at page 5.
74. Easement dated December 11, 1987, from B & J Associates recorded in Deed Book 156, at page 7.
75. Easement dated October 22, 1987, from Lillian Kemper recorded in Deed Book 156, at page 9.
76. Easement dated December 21, 1987, from Jack Marston and his wife, Dotty L. Marston recorded in Deed Book 156, at page 13.
77. Easement dated December 21, 1987, from Ben L. Lykins and his wife, Linda Lykins recorded in Deed Book 156, at page 15.
78. Easement dated January 13, 1988, from Herschel Stewart recorded in Deed Book 157, at page 280.
79. Easement dated December 7, 1988, from James D. Miller and Aileen Miller recorded in Deed Book 158, at page 45.
80. Easement dated December 2, 1988, from Charles E. Carter and Betty Carter, his wife, recorded in Deed Book 158, at page 46.
81. Easement dated June 12, 1995, from Gene Allen Thomas recorded in Deed Book 178, at page 100.
82. Easement dated June 13, 1995, from Robert Swigert and Melanie Swigert recorded in Deed Book 178, at page 102.
83. Easement dated May 8, 1995, from Oleta Powell recorded in Deed Book 178, at page 104.
84. Easement dated May 9, 1995, from Eugene S. Rose and his wife, Alice Rose recorded in Deed Book 178, at page 106.
85. Easement dated September 19, 1988, from Nina Cobb recorded in Deed Book 183, at page 435.
86. Easement dated September 20, 1988, from Gerald Minch and Shirley Minch recorded in Deed Book 183, at page 436.
87. Easement dated September 20, 1988, from Charles E. Howard and Nannie Margaret Howard in Deed Book 183, at page 437.

88. Easement dated September 20, 1988, from Herman Waldrop, Jr. and his wife, Elizabeth Waldrop recorded in Deed Book 183, at page 438.
89. Easement dated September 20, 1988, from Louise Botkins recorded in Deed Book 183, at page 439.
90. Easement dated September 20, 1988, from Gayle Allen Parsons recorded in Deed Book 183, at page 440.
91. Easement dated September 22, 1988, from Thomas G. Miller and Doris Miller recorded in Deed Book 183, at page 441.
92. Easement dated June 12, 2000, from Doris Bourne recorded in Deed Book 195, at page 247.
93. Easement dated May 25, 2000, from Acton Lusby and his wife, Edna Lusby recorded in Deed Book 195, at page 250.
94. Easement dated March 17, 1995, from Schlumberger Industries, Inc. recorded in Deed Book 199, at page 598.
95. Easement dated March 31, 1995, from Owen County Industrial Development Corporation recorded in Deed Book 199, at page 601.

Exhibit 3
Legal Proceedings

None

Exhibit 4
Contracts

1. A Contract between the City of Owenton and the Hide-A-Way Hills Water Committee dated May, 1981.

2. A Contract between the City of Owenton and the Pleasant Home Water Subscribers dated July 13, 1981.

3. A Contract between the City of Owenton and the Gratz Road Water Subscribers dated April 14, 1981.

4. A Contract between the City of Owenton and Tri-Village Water District dated January 5th 1993.

5. A Contract between the City of Owenton and Glen O. Duke dated April 12, 2005.

Exhibit 5
Employees

<u>Name</u>	<u>SS#</u>	<u>DOB</u>	<u>HIRE DATE</u>
Marshall Gibson	401-82-2249	1/3/55	7/24/1985
David Clifton	407-74-6060	5/25/51	5/9/1975
Steve Dempsey	404-04-8785	12/9/59	6/29/1999
Bobby O'Banion	405-88-1470	12/20/59	4/18/1979
Anthony Callan	302-50-1179	6/29/50	4/4/1994
Terry Kincaid	406-78-4222	5/18/53	6/26/1980
LeeAnn Osborne	402-90-0709	9/7/69	4/1/1999

Exhibit 6
Employee Benefits
As of April 1, 2005

Group Health Insurance – PPO Health Plan

Horizon BCBS ***Preferred Provider Organization*** (a network of physicians, facilities and other service providers with discounted service fees)

- Plan typically pays 90% of covered expenses or 100% after a co-payment.
- Annual deductible: None
- Co-pay: \$15 for office visit, \$25 emergency room (\$0 if admitted); 10% hospitalization
- Out-of-Pocket Maximum: \$1,000 single/ \$3,000 family (including deductible/co-pay)
- Lifetime Maximum: Unlimited
- Out of network provider coverage available with deductibles and higher co-pays.
- Preventive care services included.

Employee monthly contributions:

	<u>2005</u>
Single	\$22
Family	\$55

*Indemnity plan available in areas where PPO not available.

*\$100 per month bonus payable to those electing no group health coverage.

*Group health insurance is available until retirement.

Also included under the group health plan are the following benefits:

Vision Care – part of group health insurance plan

- One routine eye exam every 24 months under group health plan.
- Vision Care Program – discount program for eye-care needs, i.e., glasses and contact lenses

Prescription Drugs – part of group health insurance plan

- Retail (34-day supply): You pay 10% for generic drugs; you pay 20% for brand-name drugs.
- Mail Order (up to a 90-day supply): You pay \$5 for generic drugs; you pay \$15 for brand-name drugs

Dental/Orthodontia Plan – Aetna Dental PPO

- Annual deductible: \$50 individual; \$100 family
- Annual maximum benefit: \$1,000 per covered person
- Preventive care: You pay 0%, subject to reasonable and customary charges
- Restorative and major care: You pay 20%, after deductible

- Orthodontia Benefits: You pay 50%, after deductible
- Separate Lifetime Maximum Benefit for Orthodontia: \$1,500

Flexible Spending Account

Two pre-tax savings accounts:

Health Care Savings Account - Set aside to pay for health services not covered by health plan such as:

- Deductions
- Co-payments
- Glasses/Eye Exams
- Hearing Aids
- Psychiatric Treatment (portion not reimbursed by group health insurance)
- Annual amount you may contribute:
- Minimum: \$120
- Maximum: \$2500
- Use or Lose

Dependent Care Spending Account - Set aside to pay for dependent care expenses because you (and your spouse if you are married) work. Covers:

- Wages paid to baby sitter or companion (expenses not covered if care is provided by someone claimed as a dependent)
- Services of a nursery school/day care center
- Wages paid to a housekeeper for providing care for an eligible dependent
- Dependent child under age 13
- Any person you claim as a dependent who is physically or mentally incapable of self care
- Annual amount you may contribute: \$5000 (\$2500 if married and file separately)
- Use or Lose

Basic Life Insurance

This coverage is valued at one and one-half times your projected base annual regular earnings up to \$200,000 maximum. This benefit is available until retirement.

Voluntary Life Insurance

Option to purchase 1, 2, or 3 times your projected annual base pay up to \$300,000 without proof of insurability. Premiums based on age. Option to purchase \$20,000 spouse life insurance, and \$10,000 each dependent life insurance. This benefit is available until retirement.

Travel Accidental Death & Dismemberment

If the company requires an employee to travel on company business outside the service territory and an accident occurs, an additional \$400,000 or \$500,000 could be payable to a named beneficiary depending upon the type of loss and the employee's annual salary.

Special Death Benefit

Over and above the life insurance benefits, upon the death of an active employee, a special benefit is paid to the beneficiary equal to one or one and one-half month's wages depending upon years of service. This benefit is paid to the beneficiary within three (3) working days following the employee's death.

Sick Leave

Two weeks (10 days) of paid sick leave available annually.

Temporary Disability Benefits

After sick leave benefits are exhausted, 75% of income is payable for up to 26 weeks with certified disability.

Long Term Disability Benefits

Benefit payments approximately 60% of the regular wages are payable (less any Social Security Disability and other disability income) after a 6-month qualifying period.

Pension Plan

- Vesting after 5 years of service
- Full retirement at age 62 with 20 years of service
- Eligible for early retirement at age 55 with 15 years of service
- Automatic surviving spouse benefit if death of employee precedes retirement.
- All contributions made by the company.
- Retirement based on average earnings (highest consecutive 5 years within last 10 years preceding retirement).
- Average benefit: 20 years – 32% of average earnings; 25 years – 40% of average earnings.

401(k) Savings Plan

- You can invest from 1% to 20% of your eligible compensation in the 401(k) Savings Plan before taxes are withheld from your pay, subject to federal maximums.
- The Company contributes 50 cents to your account through American Water Works Company Stock Fund for every dollar you invest, up to 5% of your base pay.
- You are 100% immediately vested in these Company contributions.
- Company contributions, earnings and dividends accumulate tax free until you withdraw, usually at age 59-1/2 or when you retire.
- Several investment options available through Merrill Lynch.
- Special provisions for loans or hardship withdrawals if you need money before you retire.

Random Drug Testing Program

Kentucky American recognizes that a drug free workplace is a goal that will enable all employees to work in a safe and healthy environment. We expect all employees to report to work each day unimpaired. To achieve this goal, the Company has instituted a random drug testing procedure that will occur a minimum of six (6) times per year.

Employee Assistance Plan (EAP)

Kentucky American is proud to offer its employees an Employee Assistance Program known as an EAP. This program is available to all employees and their families through an 800 number for assistance in a variety of areas such as marital or financial problems, drug or alcohol abuse problems, legal or emotional problems. This is a voluntary and confidential program. Provides you and each eligible dependent with up to six (6) sessions per year for evaluation, short-term counseling and/or referral for all behavioral health care issues at no cost.

Education Assistance

The American System offers its employees financial assistance for those who wish to improve their education for the mutual benefit of the individual and the Company. Reimbursement for job related, undergraduate and graduate work is available to employees. The maximum expenditure per employee is the IRS limit of \$5,250 per calendar year.

Kentucky American Training

In addition to assistance for education through accredited institutions, Kentucky American also offers in-house training for hourly, supervisory, and managerial personnel. All in-house training is directed toward developing and enhancing current and future job skills.

Vacation Based on Completed Years of Continuous Service

1 year	10 days	14 years	19 days
2 years	11 days	15 years	20 days
3 years	12 days	16 years	20 days
4 years	13 days	17 years	21 days
5 years	15 days	18 years	21 days
6 years	15 days	19 years	22 days
7 years	16 days	20 years	22 days
8 years	16 days	21 years	23 days
9 years	17 days	22 years	23 days
10 years	17 days	23 years	24 days
11 years	18 days	24 years	24 days
12 years	18 days	25 years plus	25 days
13 years	19 days		

Employees hired during the current vacation year will be entitled to 1 day of vacation for each "Completed Month of Continuous Service" up to 10 days. This vacation must be taken any time after a "Completed Month of Continuous Service," but must be taken before the end of the calendar year.

Holidays

9 paid holidays each year.
2 floating holidays

Affirmation of EEO & Sexual Harassment Policy

Every year Kentucky American reaffirms its policy on equal opportunity in employment and all employment decisions towards minorities, females, veterans, disabled veterans and persons with disabilities as well as ethnic heritage, religious beliefs, race, color and age. This policy is posted on all bulletin boards in compliance with federal law for federal contractors.

Posted at the same time is our policy on maintaining a working environment free of harassment in any form. There is a procedure for reporting, investigating and taking the appropriate disciplinary measures.

Code of Ethics

As a part the American Water, all Kentucky American employees are required to abide by a basic Code of Ethics, which addresses how we do business, conflicts of interest and actions taken for favored treatment. The Code of Ethics also addresses political activities and contributions and dealing with inside information. All officers of the Company and senior employees must report to the President who in turn reports to the Board of Directors each year regarding compliance with this policy. All employees are asked to sign a written statement of compliance with this policy annually. A special hotline is established for anonymously reporting violations of the Code of Ethics.

Employees' Guide for Conduct

All American Water properties abide by a printed and distributed Guide for Conduct which lists 34 offensive acts and the disciplinary penalties applied to each. The Guide for Conduct is presented and explained to each employee and a verification of receipt and understanding is required and placed in an employee's personnel file.

Safety Code

Along the same lines as the Guide for Conduct, the American System complies with all OSHA standards as well as industry-specific safety standards. This policy is posted and thoroughly discussed with each employee, and a verification of receipt and understanding is required in each personnel file. Kentucky American insists that employees have a safe working environment and adhere to safe work practices.

Safety Program

Employee education combined with constant feedback and vigilant monitoring of safe work practices is the guiding principle of our statewide safety program. Our proactive stance has resulted in reduced vehicle accidents as well as fewer lost time injuries.

Leaves of Absence

Paid leaves of absence are available for three reasons:

- Jury duty
- Death in Family – length of leave determined by relationship to the deceased to the employee (1 or 3 days)
- Absence under the Veterans' Reemployment Act and the Family Medical Leave Act.

Service Awards

- American Water has a program to commemorate years of service in five-year increments. Depending upon the level of service, an employee may select from a brochure of items.
- Employees with 25 years' service are presented a Quarter Century gold ring featuring two diamonds and sapphire.
- Special tribute gifts available to retirees.

Performance Evaluation

During the first quarter of each year, all employees have their previous year's performance evaluated. This process utilizes goals and objectives agreed upon by the employee and his/her supervisor. These goals are consistent with individual, department, and company goals. Annual merit increases are effective April 1 when awarded.

Compensation Administration

In order to attract and retain a highly skilled and diversified workforce, KENTUCKY AMERICAN provides a competitive compensation program. In support of this objective is a program designed to:

- Provide a framework for assigning positions to salary ranges on a fair and consistent basis.
- Establish and maintain salary ranges that are competitive in the marketplace
- Ensure that each salary decision is based on an evaluation of each employee's performance.

Leadership Evaluation and Development (L.E.A.D.)

American Water is committed to growth and quality service and recognizes the importance of employee development for the future success of the company. The program includes a process that allows each employee's skills to be assessed against a predetermined set of criteria to identify strengths as well as

areas for development. The assessment provides the framework for an individual's development plan to be created by the employee and his/her immediate supervisor. The individual development plan strongly encourages the attainment of new skill sets. American's goal is to develop employees in order that future opportunities can be filled from within the organization.

Benefits will be reviewed on a regular basis and are subject to be modified or cancelled at the discretion of the Company.