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BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

SEP 0 1 2006

PUBLIC SERVICE
COMMISSION

In the Matter of

THE APPLICATION OF GALLATIN COUNTY WATER)
DISTRICT, GALLATIN COUNTY, KENTUCKY,)
(1) FOR A CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY AUTHORIZING CONSTRUCTION OF)
MAJOR EXTENSIONS AND ADDITIONS TO ITS) CASE
EXISTING MUNICIPAL WATER DISTRIBUTION) NO. *
SYSTEM, (2) SEEKING APPROVAL OF REVISED WATER) 2006-00399
SERVICE RATES AND CHARGES AND (3) SEEKING)
APPROVAL OF THE ISSUANCE OF CERTAIN SECURITIES.)

The Applicant, Gallatin County Water District (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 807KAR5:069 issuing a Certificate of Public Convenience and Necessity authorizing the District to construct major extensions and additions to its municipal water distribution system (the "System") for the purpose of assuring an adequate and potable water supply in the District, approving the adjustment of water rates and charges to be levied and collected by the District and approving the issuance of certain securities by the District. 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 originally created by an Order entered by the County Court of Gallatin County, Kentucky, on September 12, 1960 (and reaffirmed by the County Judge/Executive of Gallatin County in 1985), and exists as a statutory water district under KRS Chapter 74, serving defined areas in Gallatin County and small portions of Boone County and Grant County. 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(1)(a) the County Judge/Executive of Gallatin County, with the approval of the Fiscal Court, has entered appropriate orders from time to time appointing and reappointing Commissioners who were and are residents of the District. The present District Commissioners and officers are Vic Satchwell, Chairman, David Easton, Vice Chairman, and Lee Burgett, Secretary-Treasurer. The mailing address of the District is 4500 Highway 455, Sparta, Kentucky 41086.

3. In order to finance water service facilities and improvements, the District has previously issued, and there are presently outstanding, payable from the income and revenues of the System, the revenue bonds and obligations identified in the preamble of the draft of the proposed Bond-authorizing Resolution appended hereto as Exhibit E.

4. The District's consulting engineer, Gastineau and Associates, Inc., Nicholasville, Kentucky (the "Engineer"), has 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 extensions (the "Project") to serve the District. The Preliminary Engineering Report dated December, 2002, and the Final Engineering Report dated July, 2006, 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 Engineer showing the bids received and the recommendations of the Engineer 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 award appended hereto as Exhibit C.

The District hereby states, through its undersigned Chairman, 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 proposed adjusted water rates of the District will produce total revenue requirements as set out in Exhibit B; and that construction of the Project is expected to begin on or about October 1, 2006, and to end on or about April 1, 2007.

6. The proposed adjusted water rates and charges of the District are set out in a Notice of Adjustment of Water Rates, which is appended hereto as a part of Exhibit D and has been published in the legal newspapers for Gallatin County, Boone County and Grant County, respectively. Photocopies of newspaper clippings evidencing such publications are included as a part of Exhibit D. (Actual clippings and affidavits of publication will be filed when available.)

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

8. As shown in Exhibit B and Exhibit F, 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 2006A and Series 2006B" (the "Bonds"), in the total principal amount of \$1,894,000. A preliminary draft of the proposed Bond-authorizing Resolution of the District is appended hereto as Exhibit E.

The District has entered into a loan agreement with USDA pursuant to which USDA will make a loan of \$1,894,000 to the District, to be represented by the Bonds. Each series of the Bonds is to bear interest at a single, uniform rate not to exceed 5.00% per annum. Appended hereto as Exhibit F are copies of letters dated April 6, 2004, and August 18, 2006, from USDA to the District, setting forth terms, conditions and understandings relating to the loan, and related correspondence.

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, and in the event a bid or bids are received for the Bonds at an interest cost 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 Project has been completed. This procedure is in accord with USDA rules requiring interim financing of USDA projects. Accordingly, construction of the Project will be instituted and funded initially from the proceeds of

an interim financing loan to be obtained from the Kentucky Rural Water Finance Corporation at a rate not expected to exceed 5.00% 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 USDA at its current interest rate for loans of this type in the event other interim financing sources are not available or are unreasonable.

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, (b) approving the proposed schedule of water service rates and charges and (c) authorizing pursuant to KRS 278.300 the issuance of \$1,894,000 principal amount of Water System Revenue Bonds, Series 2006A and Series 2006B, by the District as described herein.

WHEREFORE, the Applicant, Gallatin County Water District, respectfully requests that such Order be issued.

Respectfully submitted,

GALLATIN COUNTY WATER DISTRICT

By *Vic Satchwell*
Vic Satchwell
Chairman of the Commission

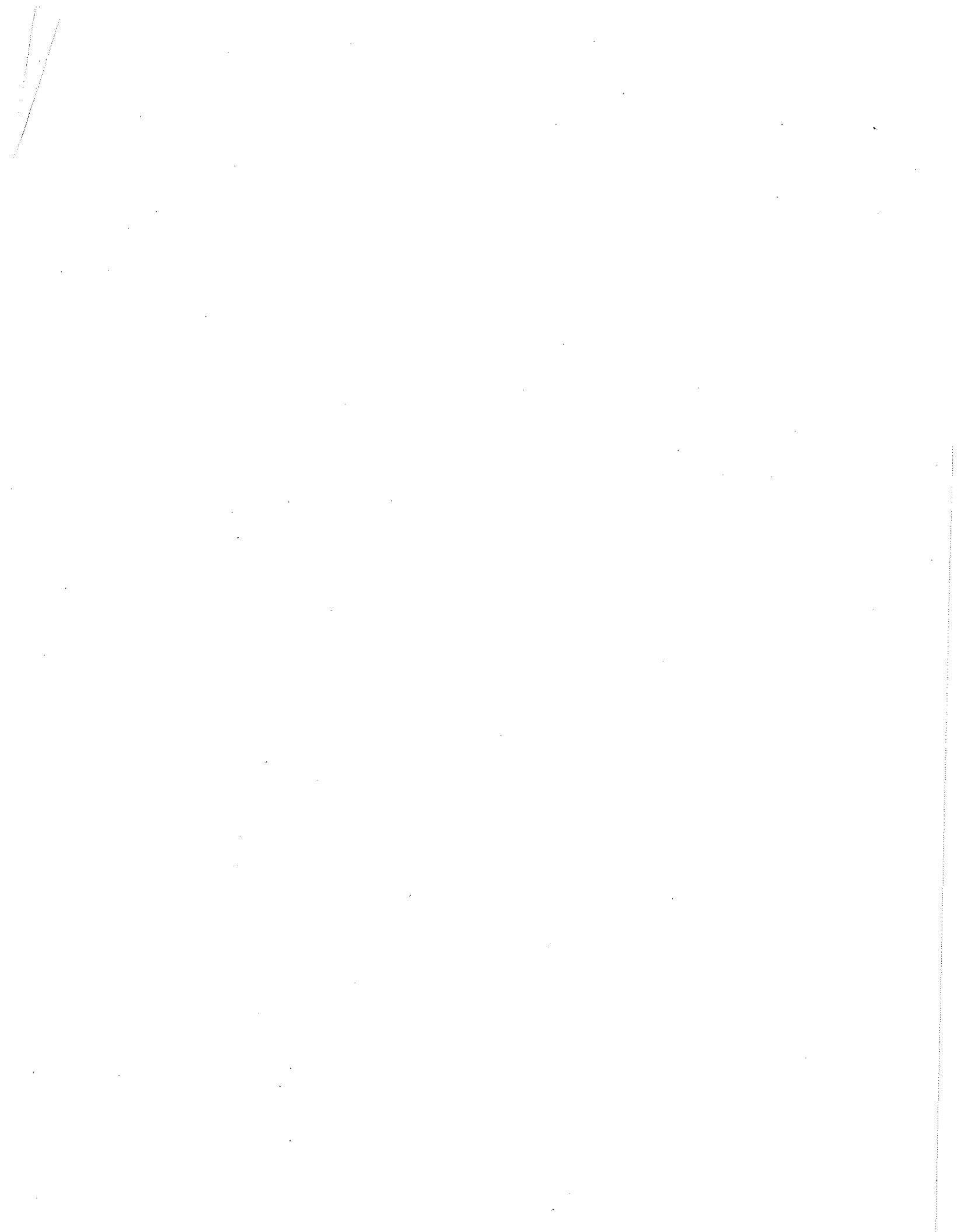


Exhibit A

**PRELIMINARY ENGINEERING REPORT
FOR
WATER SYSTEM IMPROVEMENTS AND EXTENSIONS
EXTENSION 5
GALLATIN COUNTY WATER DISTRICT
SPARTA, KENTUCKY**

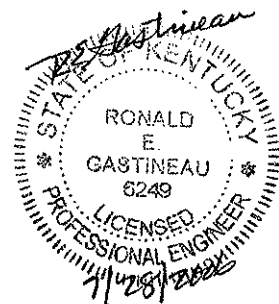
BOARD OF COMMISSIONERS

Denny French, Chairman
Lee Burgett
J. T. Dossett
Juanita Ethridge
Vic Satchwell

December, 2002

Prepared By:

GASTINEAU AND ASSOCIATES, Inc
104 Barkley Estates
Nicholasville, Kentucky 40503



**PRELIMINARY ENGINEERING REPORT
FOR
WATER SYSTEM IMPROVEMENTS AND EXTENSIONS
EXTENSION 5
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SPARTA, KENTUCKY**

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**PRELIMINARY ENGINEERING REPORT
FOR
GALLATIN COUNTY, KENTUCKY**

I. AREA TO BE SERVED AND DESCRIPTION OF THE WATER DISTRICT

The Gallatin County Water District has been established in accordance with existing statutes of the Commonwealth of Kentucky. All business of the Water District is transacted and administered by the Board of Commissioners of the District whose names appear on the front of this report. The Commissioners have been appointed by the county Judge Executive and approved by the Fiscal Court of Gallatin County.

The area where the new customers are located is in the eastern part of the county along U.S. Highway #42 along the Ohio River and just west of the junction of U.S. #42 and U.S. 127. All the customers of the Water District will benefit from the project as it will supply the District with adequate treated water for the foreseeable future at a reasonable cost. It will also provide adequate storage in the entire eastern section of the county.

Gallatin County is located along the Ohio River in the northern part of the state roughly 40 miles southwest of the city of Cincinnati, Ohio.

Physiographically, the area varies from gently rolling hills and wide river bottoms to moderately steep slopes with narrow valleys. The majority of the homes are

located along the Ohio River or along the ridge lines where most of the roads are located.

Agriculture is the dominant economic force in the area, however, a large portion of the residents work in the industrial areas of Boone and Kenton Counties in Kentucky and in the city of Cincinnati, Ohio.

II. EXISTING FACILITIES

The original system of the Gallatin County Water District was constructed in 1989-1990 with large extensions constructed in 1993, 1995 and 2002. In addition a special purpose project was constructed in 2000 which consisted of a new well and pumping station near the Ohio River at the city of Warsaw and a transmission line to supply a newly constructed NASCAR racing facility near the City of Sparta. The owners of the racetrack constructed a 500,000 gallon ground storage tank and later transferred ownership of the tank to the District. In addition to the storage tank at the race track, the basic components of the system are a 100,000 gallon overhead storage tank, a 100,000 gallon stand pipe, 54,480 feet of 8 inch water line, 195,050 feet of 6 inch water line, 226,720 feet of 4 inch water line 27,830 feet of 3 inch water line, and three (3) 250 gallon per minute water pumps.

The original system, constructed in 1989/90, served a total of 245 households. At this time the District is supplying water to 1,569 residences and 26 commercial customers.

III. PROPOSED FACILITIES AND SERVICE

A. GENERAL DESCRIPTION

The proposed project consists of 1-300,000 elevated water storage tank, 2-50,000 gallon storage tanks, a 160,000 gallon storage tank, a well with appurtenances, 3-pump stations, 10,400 feet of 10 inch water line, 10,800 feet of 8 inch water line, 1,000 feet of 6 inch water line, 9,000 feet of 4 inch water line and all other appurtenances to enhance the District's ability to serve its existing customers and also provide water service to 15 additional customers. These extensions and additions are shown in Exhibit II of this report.

B. LAND, WATER AND OTHER RIGHTS

1. Land: It will be necessary to purchase land for the new well and tank, the overhead storage tank on Ambrose Road, the tank on Ky. Highway # 16, and the booster pump station on Ky. Highway # 16.
2. Water Rights: Stream crossing permits and a letter of non-pollution of streams will be required from the Division of Water.
3. Other Rights: Easements and Permits: Water lines will be located on private property to the maximum extent. Highway encroachment permits from the State Highway Department may be required if this proves difficult. A State Highway Department permit will also be necessary where main lines cross state highways. Approval from the

Gallatin County Fiscal Court for any placement of main lines along or under county roads will also be necessary.

4. Problems in Acquisition: No unusual problems in the acquisition of rights of way are anticipated at this time.

C. WATER SUPPLY

1. Requirements: The proposed project will require an estimated 39,500 gallons of water per month (see Appendix "C"). This would be approximately 1,316 gallons per day.
2. Requirements As To Quality: State Department of Natural Resources and Environmental Protection requirements as to quality will be met, as this agency has to approve the source of supply and the existing distribution facilities.
3. Water Supply: The District has a current agreement to purchase water from the City of Warsaw at a rate of \$1.05 per 1,000 gallons. The project will allow the District to decrease the amount of water to be purchased. The existing Water Purchase Contract with the City of Warsaw is sufficient to meet the requirements of the proposed project.

IV. COST ESTIMATE:

The estimated cost of construction has been presented in this report as Appendix "A". All the prices indicated are in keeping with the present trends and are felt to be adequate for construction through the second quarter of 2004. The other

items of the Project Cost have been itemized and are included as data in "Appendix "B".

V. ANNUAL OPERATING FIGURES

- A. Income: The estimated income from these proposed extensions is given in this report as appendix "C". The income from existing customers including the proposed extensions to the system is also shown in Appendix "C".
- B. Operation and Maintenance Costs: Operation and maintenance costs for the proposed extensions are estimated and given in this report as Appendix "D". The expenses for the entire system including proposed facilities are also shown in Appendix "D".
- C. Debt Service and Bond Coverage: The District currently has an outstanding debt of \$2,257,400 (RUS - \$1,533,400 and KIA \$714,000) with an annual payment amount of \$115,007. New debt resulting from the proposed project is estimated to be \$1,344,000 with an additional annual payment of \$79,672. Debt service and bond coverage are given in Appendix "E".

VI. MAPS, DRAWINGS, AND SKETCHES

- A. Maps: A map showing proposed water lines and miscellaneous structures is given as Exhibit II to this report. Exhibit I shows a vicinity sketch of the Gallatin County water District in relation to the other counties of Kentucky.

B. Drawings and Photographs:

These items were not considered necessary for this Engineering Report, as there were no unusually complicated design problems.

VII. CONSTRUCTION PROBLEMS

Construction of the proposed project is considered to be relatively simple with no complex problems expected.

VIII. CONCLUSIONS AND RECOMMENDATIONS

- A. There has been some growth in the areas where extensions are proposed, without having water available; but with water available, there is anticipated a minimal increase in building of new residences.
- B. Recommendations: It is recommended the District's officials proceed immediately to secure funding for the project and plan for construction beginning in 2003.

Respectfully submitted,

Ronald E. Gastineau, P.E.

APPENDICES

**APPENDIX "A"
GALLATIN COUNTY WATER DISTRICT**

ESTIMATED CONSTRUCTION COST

NEW WELL, PUMP STATION & TANKS

Item	Quantity	Unit	Unit Price	Cost
1. Well & Pumps	1	L.S.		\$140,000
2. Treatment Plant	1	L.S.		\$36,000
3. 50,000 Gallon Tank	1	L.S.		\$75,000
4. Pump Station	1	L.S.		\$70,000
5. Fencing	1	L.S.		\$10,000
6. Meter Pit	1	L.S.		\$10,000
Total				\$341,000

LINE & TANK AT AMBROSE ROAD

1. Tank	1			\$460,000
2. Controls	1			\$20,000
3. Fencing	1			\$8,000
4. Line				
10' DI	6,000		\$18.00	\$108,000
10' CL 200	4,400		\$11.00	\$48,400
10" GV	5		\$950.00	\$4,750
Connection	2		\$1,000.00	\$2,000
Total				\$651,150

I-71 CROSSING

Bore	300	LF	\$120.00	\$36,000
8" PVC CL 200	1000		\$9.00	\$9,000
Line Connection	2		\$1,000.00	\$2,000
Total				\$47,000

Sparta Connection

8"CL 200	9800		\$9.00	\$88,200
8" Gate Valves	4		\$750.00	\$3,000
Connection	2		\$1,000.00	\$2,000
Meter Pit	1		\$12,000.00	\$12,000

Total				\$105,200
SUB TOTAL Page 1				<u>\$1,144,350</u>

SUB TOTAL from page 1 \$1,144,350

Tank Site @ KY #16

160,000 Gallon Tank	1	LS		\$148,000
Controls		LS		\$20,000
Meter Pit		LS		\$12,000
Fencing		LS		\$5,000
6" CL 200	1,000		\$6.00	\$6,000
6" Gate Valve	2		\$550.00	\$1,100
Pump Station				\$50,000
Connection	3		\$1,000.00	\$3,000

Total \$245,100

Distribution Line at US 127 & US 42

4"CL 200	9,000		\$4.50	\$40,500
4" Gate Valve	2		\$500.00	\$1,000
Meters	15		\$450.00	\$6,750
Bored S/L	200		\$5.50	\$1,100
Trenched S/L	100		\$3.00	\$300
Connection	1			\$800

Total \$50,450

Tank & Pump Station @ Existing Well

50,000 Gallon Tank	LS			\$75,000
Pump Station	LS			\$70,000
Modification of Wells Controls				\$15,000

Total \$160,000

Telemetry				\$100,000
Crushed Stone				
Bedding	750	Tons	\$15.00	\$11,250
Driveway	200	Tons	\$14.00	\$2,800
Driveway Bore	84		\$20.00	\$1,680

Total \$115,730

TOTAL ESTIMATED CONSTRUCTION COST \$1,715,630

USE \$1,716,000

APPENDIX "B"
GALLATIN COUNTY WATER DISTRICT

**ESTIMATED PROJECT COST
AND
PROPOSED FUNDING**

ESTIMATED PROJECT COST

Total Estimated Construction Cost	\$1,716,000.00
Land and Rights of Way	\$57,000.00
Engineering	\$137,400.00
Other Engineering	\$8,000.00
Construction Observation	\$66,600.00
Legal and Administrative	\$15,000.00
Interest During Construction	\$60,000.00
Contingencies	\$210,000.00
Environmental	\$5,000.00
Site Work	<u>\$25,000.00</u>
Total	\$2,300,000.00

FUNDING

RUS Grant	\$950,000.00
RUS Loan	\$1,344,000.00
Connection Fees	<u>\$6,000.00</u>
Total	\$2,300,000.00

GALATIN COUNTY WATER DISTRICT
EXISTING RATE-- EXISTING CUSTOMERS

WATER BILLING RATE STRUCTURE

<u>GALLON INCREMENT</u>		<u>COST PER 1000 GALLONS</u>
FIRST	1000	\$11.50 (MINIMUM)
NEXT	2000	\$5.20
NEXT	2000	\$4.70
NEXT	5000	\$4.50
ALL OVER	10000	\$4.30

<u>NUMBER OF CUSTOMERS</u>	<u>MONTHLY USAGE</u>		<u>COST PER CUSTOMER</u>	<u>NET MONTHLY BILLINGS</u>
	<u>PER CUSTOMER</u>	<u>TOTAL</u>		
215	1,000	215,000	\$11.50	\$2,472.50
197	1,500	295,500	\$14.10	\$2,777.70
236	2,500	590,000	\$19.30	\$4,554.80
264	3,500	924,000	\$24.25	\$6,402.00
209	4,500	940,500	\$28.95	\$6,050.55
143	5,500	786,500	\$33.55	\$4,797.65
90	6,500	585,000	\$38.05	\$3,424.50
56	7,500	420,000	\$42.55	\$2,382.80
48	8,500	408,000	\$47.05	\$2,258.40
32	9,500	304,000	\$51.55	\$1,649.60
20	10,500	210,000	\$55.95	\$1,119.00
13	11,500	149,500	\$60.25	\$783.25
9	12,500	112,500	\$64.55	\$580.95
7	13,500	94,500	\$68.85	\$481.95
5	14,500	72,500	\$73.15	\$365.75
4	15,500	62,000	\$77.45	\$309.80
3	16,500	49,500	\$81.75	\$245.25
3	17,500	52,500	\$86.05	\$258.15
2	18,500	37,000	\$90.35	\$180.70
3	19,500	58,500	\$94.65	\$283.95
10	23,000	230,000	\$109.70	\$1,097.00

TOTALS	1,569	6,597,000 Gal.	\$42,476.25
YEARLY TOTALS		79,164,000 Gal.	\$509,715.00

GALATIN COUNTY WATER DISTRICT
EXISTING RATE- EXISTING CUSTOMERS
COMMERCIAL

WATER BILLING RATE STRUCTURE

<u>GALLON INCREMENT</u>		<u>COST PER 1000 GALLONS</u>	
FIRST	1000	\$11.50 (MINIMUM)	
NEXT	2000	\$5.20	
NEXT	2000	\$4.70	
NEXT	5000	\$4.50	
ALL OVER	10000	\$4.30	

<u>NUMBER OF CUSTOMERS</u>	<u>MONTHLY USAGE</u>		<u>COST PER CUSTOMER</u>	<u>NET MONTHLY BILLINGS</u>
	<u>PER CUSTOMER</u>	<u>TOTAL</u>		
5	1,000	5,000	\$11.50	\$57.50
2	1,500	3,000	\$14.10	\$28.20
1	2,500	2,500	\$19.30	\$19.30
3	4,500	13,500	\$28.95	\$86.85
1	5,500	5,500	\$33.55	\$33.55
1	8,500	8,500	\$47.05	\$47.05
2	9,500	19,000	\$51.55	\$103.10
1	10,500	10,500	\$55.95	\$55.95
1	11,500	11,500	\$60.25	\$60.25
1	13,500	13,500	\$66.85	\$66.85
1	15,500	15,500	\$77.45	\$77.45
1	19,500	19,500	\$94.65	\$94.65
5	23,000	115,000	\$109.70	\$548.50
1	60,000	60,000	\$268.80	\$268.80
1	66,000	66,000	\$294.60	\$294.60
1	108,000	108,000	\$475.20	\$475.20
TOTALS	28	476,500 Gal.		\$2,319.80
YEARLY TOTALS		5,718,000 Gal.		\$27,837.60

GALATIN COUNTY WATER DISTRICT
PROPOSED RATE-- EXISTING CUSTOMERS
RESIDENTIAL

WATER BILLING RATE STRUCTURE

<u>GALLON INCREMENT</u>		<u>COST PER 1000 GALLONS</u>		
FIRST	1000		\$14.00	
NEXT	2000		\$5.50	
NEXT	2000		\$5.30	
NEXT	5000		\$5.10	
ALL OVER	10000		\$5.00	

<u>NUMBER OF CUSTOMERS</u>	<u>MONTHLY USAGE PER CUSTOMER</u>	<u>MONTHLY USAGE TOTAL</u>	<u>COST PER CUSTOMER</u>	<u>NET MONTHLY BILLINGS</u>
215	1,000	215,000	\$14.00	\$3,010.00
197	1,500	295,500	\$16.75	\$3,299.75
236	2,500	590,000	\$22.25	\$5,251.00
264	3,500	924,000	\$27.65	\$7,299.60
209	4,500	940,500	\$32.95	\$6,886.55
143	5,500	786,500	\$38.15	\$5,455.45
90	6,500	585,000	\$43.25	\$3,892.50
56	7,500	420,000	\$48.35	\$2,707.60
48	8,500	408,000	\$53.45	\$2,565.60
32	9,500	304,000	\$58.55	\$1,873.60
20	10,500	210,000	\$63.60	\$1,272.00
13	11,500	149,500	\$68.60	\$891.80
9	12,500	112,500	\$73.60	\$662.40
7	13,500	94,500	\$78.60	\$550.20
5	14,500	72,500	\$83.60	\$418.00
4	15,500	62,000	\$88.60	\$354.40
3	16,500	49,500	\$93.60	\$280.80
3	17,500	52,500	\$98.60	\$295.80
2	18,500	37,000	\$103.60	\$207.20
3	19,500	58,500	\$108.60	\$325.80
10	23,000	230,000	\$126.10	\$1,261.00
TOTALS	1,569	6,597,000 Gal.		\$48,761.05
YEARLY TOTALS		79,164,000 Gal.		\$585,132.60

GALATIN COUNTY WATER DISTRICT
PROPOSED RATE-- EXISTING CUSTOMERS
COMMERCIAL

WATER BILLING RATE STRUCTURE

<u>GALLON INCREMENT</u>		<u>COST PER 1000 GALLONS</u>
FIRST	1000	\$14.00
NEXT	2000	\$5.50
NEXT	2000	\$5.30
NEXT	5000	\$5.10
ALL OVER	10000	\$5.00

<u>NUMBER OF CUSTOMERS</u>	<u>MONTHLY USAGE</u>		<u>COST PER CUSTOMER</u>	<u>NET MONTHLY BILLINGS</u>
	<u>PER CUSTOMER</u>	<u>TOTAL</u>		
5	1,000	5,000	\$14.00	\$70.00
2	1,500	3,000	\$16.75	\$33.50
1	2,500	2,500	\$22.25	\$22.25
3	4,500	13,500	\$32.95	\$98.85
1	5,500	5,500	\$38.15	\$38.15
1	8,500	8,500	\$53.45	\$53.45
2	9,500	19,000	\$58.55	\$117.10
1	10,500	10,500	\$63.60	\$63.60
1	11,500	11,500	\$68.60	\$68.60
1	13,500	13,500	\$78.60	\$78.60
1	15,500	15,500	\$88.60	\$88.60
1	19,500	19,500	\$108.60	\$108.60
5	23,000	115,000	\$126.10	\$630.50
1	60,000	60,000	\$311.10	\$311.10
1	66,000	66,000	\$341.10	\$341.10
1	108,000	108,000	\$551.10	\$551.10

TOTALS	28	476,500 Gal.	\$2,675.10
YEARLY TOTALS		5,718,000 Gal.	\$32,101.20

GALATIN COUNTY WATER DISTRICT
PROPOSED RATES-- NEW CUSTOMERS

WATER BILLING RATE STRUCTURE

<u>GALLON INCREMENT</u>		<u>COST PER 1000 GALLONS</u>		
FIRST	1000			\$14.00
NEXT	2000	\$5.50		
NEXT	2000	\$5.30		
NEXT	5000	\$5.10		
ALL OVER	10000	\$5.00		

<u>NUMBER OF CUSTOMERS</u>	<u>MONTHLY USAGE</u>		<u>COST PER CUSTOMER</u>	<u>NET MONTHLY BILLINGS</u>
	<u>PER CUSTOMER</u>	<u>TOTAL</u>		
2	1,000	2,000	\$14.00	\$28.00
3	1,500	4,500	\$16.75	\$50.25
4	2,500	10,000	\$22.25	\$89.00
4	3,500	14,000	\$27.65	\$110.60
2	4,500	9,000	\$32.95	\$65.90
TOTALS	15	39,500 Gal.		\$343.75
YEARLY TOTALS		474,000 Gal.		\$4,125.00

GALLATIN COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES AND EXPENSES - REGULATORY BASIS
 For the Years Ended December 31, 2001 & 2000

<u>OPERATING REVENUES</u>	<u>2000</u>	<u>2001</u>	<u>2004</u> Projected
Metered Sales to Customers	\$496,009.00	\$546,583.37	\$621,358
Service Charges	\$14,539.82	\$11,482.35	\$16,100
Reconnection Fees/Penalties	\$17,521.39	\$18,446.77	<u>\$20,000</u>
Excess Connection Fees Collected/Miscellaneous Income	<u>\$8,467.69</u>	<u>\$9,031.96</u>	\$1,500
Total Operating Revenues	<u>\$536,537.90</u>	<u>\$585,544.45</u>	<u>\$658,958</u>
 <u>OPERATING EXPENSES</u>			
Administrative Per Diem	\$10,450.00	\$9,100.00	\$11,100
Advertising	\$1,479.41	\$957.30	\$2,000
Amortization Expense	\$460.00	\$678.00	\$1,500
Bad Debts	\$3,355.20	\$3,525.42	\$4,000
Depreciation Expense	\$107,835.00	\$150,809.00	\$229,000
Dues	\$908.70	\$514.60	\$1,000
Employee Health Insurance	\$30,895.30	\$33,965.25	\$45,000
Insurance	\$12,789.45	\$11,575.10	\$16,000
Labor	\$123,416.84	\$127,114.61	\$140,000
Maintenance of Utility Plant	\$32,908.97	\$27,983.85	\$41,000
Miscellaneous	\$248.75	\$1,183.72	\$1,200
Office Supplies and Expense	\$13,078.26	\$16,837.48	\$18,000
Other Interest Expense	\$296.16	\$112.77	\$60
Payroll Taxes	\$10,122.88	\$10,184.81	\$11,500
Professional Fees	\$6,945.00	\$9,523.14	\$10,000
Public Service Assessment/Other Taxes	\$1,090.11	\$1,883.35	\$1,200
Purchased Water	\$86,377.30	\$89,163.90	\$40,000
Rent Expense	\$3,600.00	\$300.00	
Retirement Expenses	\$8,988.78	\$8,855.80	\$10,000
Truck Expenses/Travel	\$13,142.95	\$12,602.51	\$15,000
Uniforms	\$3,049.03	\$3,317.45	\$4,000
Utilities - Office	\$5,383.84	\$8,302.66	\$7,000
Utilities - Pumping	\$15,614.55	\$22,738.24	\$32,000
Water Testing Fees	<u>\$2,125.00</u>	<u>\$1,975.00</u>	<u>\$3,500</u>
Total Operating Expenses	<u>\$494,561.48</u>	<u>\$553,203.96</u>	<u>\$644,060</u>
Operating Income	<u>\$41,976.42</u>	<u>\$32,340.49</u>	<u>\$14,898</u>
 <u>NONOPERATING REVENUES (EXPENSE)</u>			
Interest Income	\$13,780.95	\$13,780.95	\$12,000
(Loss) on Equipment Sold/Abandoned	(\$3,800.00)	(\$3,800.00)	
Interest Paid on Bonds	<u>(\$57,913.08)</u>	<u>(\$57,913.08)</u>	<u>(\$143,164)</u>
Total Nonoperating Revenues (Expense)	<u>(\$47,932.13)</u>	<u>(\$47,932.13)</u>	<u>(\$131,164)</u>
Net Nonoperating Revenues (Expenses)	<u>(\$5,955.71)</u>	<u>(\$15,591.64)</u>	<u>(\$116,266)</u>

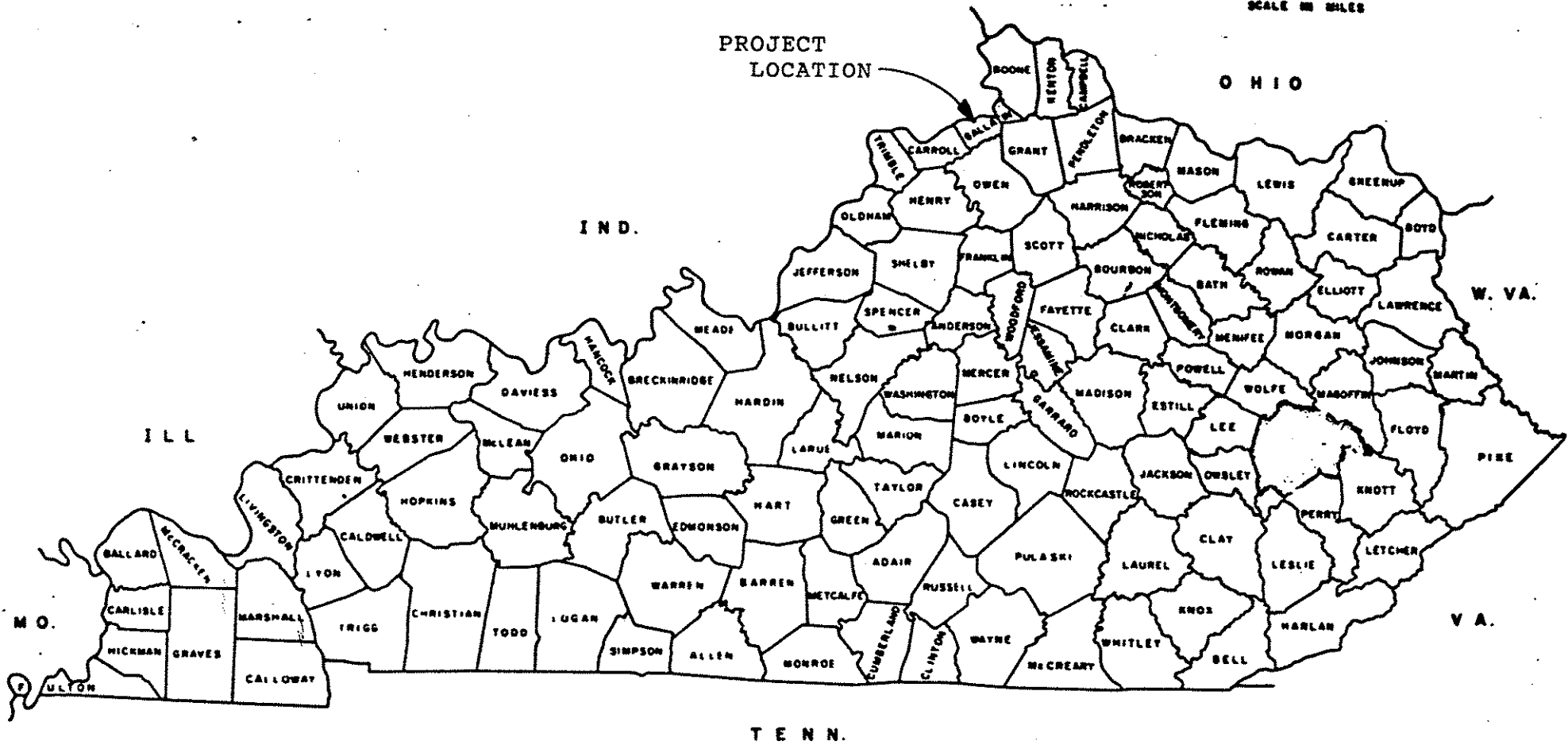
APPENDIX "E"
GALLATIN COUNTY WATER DISTRICT
ESTIMATED INCOME, EXPENSE, DEBT SERVICE
AND BOND COVERAGE

ESTIMATED INCOME		\$640,146
ESTIMATED EXPENSE		\$644,060
NET OPENING INCOME		\$3,914
PLUS INTEREST INCOME		\$12,000
PLUS DEPRECIATION		\$229,000
AVAILABLE FOR DEBT SERVICE		\$237,086
DEBT SERVICE		
EXISTING		
RUS -----		\$98,334
KIA -----		\$31,012
PROPOSED		
\$1,344,000 X 0.05928		\$79,672
TOTAL DEBT SERVICE		\$178,006
BOND COVERAGE		
\$237,086 / \$178,006 =	1.33	

MAPS











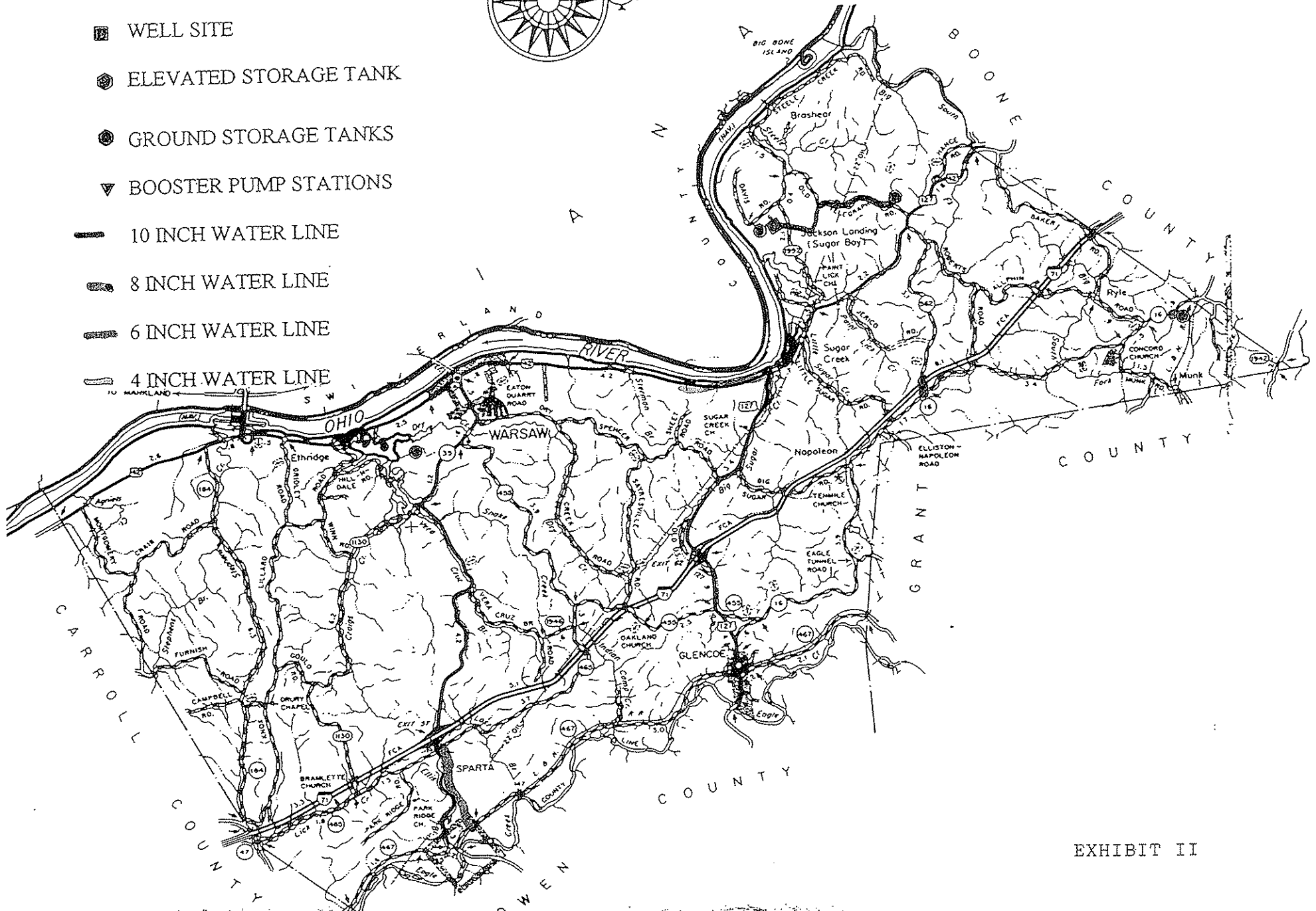
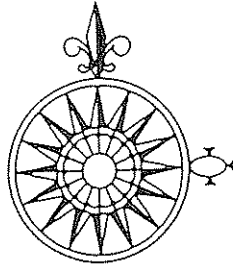
PROJECT
LOCATION



Gallatin County

LEGEND

-  WELL SITE
-  ELEVATED STORAGE TANK
-  GROUND STORAGE TANKS
-  BOOSTER PUMP STATIONS
-  10 INCH WATER LINE
-  8 INCH WATER LINE
-  6 INCH WATER LINE
-  4 INCH WATER LINE



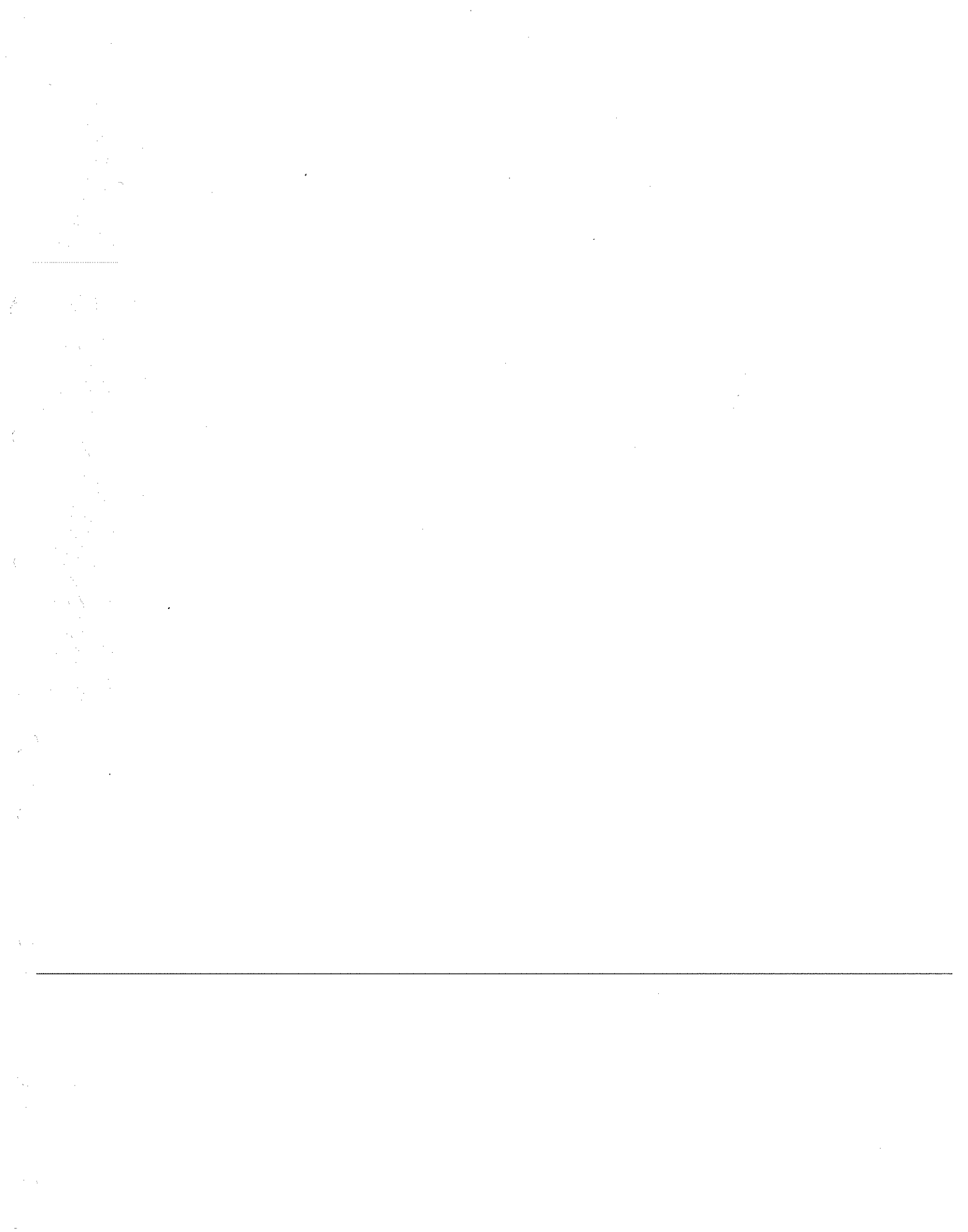


Exhibit B

**FINAL ENGINEERING REPORT
FOR
WATER SYSTEM IMPROVEMENTS AND EXTENSIONS
EXTENSION 5
GALLATIN COUNTY WATER DISTRICT
SPARTA, KENTUCKY**

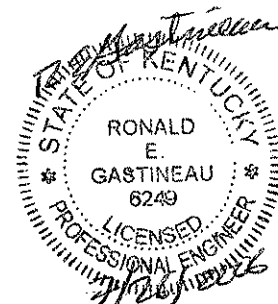
BOARD OF COMMISSIONERS

Vic Satchwell, Chairman
Lee Burgett
David Easton

July 2006

Prepared By:

GASTINEAU AND ASSOCIATES, Inc
104 Barkley Estates
Nicholasville, Kentucky 40503



**FINAL ENGINEERING REPORT
FOR
WATER SYSTEM IMPROVEMENTS AND EXTENSIONS
EXTENSION 5
GALLATIN COUNTY WATER DISTRICT
SPARTA, KENTUCKY**

BOARD OF COMMISSIONERS

Vic Satchwell, Chairman
Lee Burgett
David Easton

July 2006

Prepared By:

**GASTINEAU AND ASSOCIATES, Inc
104 Barkley Estates
Nicholasville, Kentucky 40503**

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**FINAL ENGINEERING REPORT
FOR
GALLATIN COUNTY WATER DISTRICT**

I. AREA TO BE SERVED AND DESCRIPTION OF THE WATER DISTRICT

The Gallatin County Water District has been established in accordance with existing statutes of the Commonwealth of Kentucky. All business of the Water District is transacted and administered by the Board of Commissioners of the District whose names appear on the front of this report. The Commissioners have been appointed by the county Judge Executive and approved by the Fiscal Court of Gallatin County.

The project is located primarily in the eastern part of the county. All the customers of the Water District will benefit from the project as it will supply the District with adequate treated water for the foreseeable future at a reasonable cost. It will also provide adequate storage in the entire eastern section of the county.

Gallatin County is located along the Ohio River in the northern part of the state roughly 40 miles southwest of the city of Cincinnati, Ohio.

Physiographically, the area varies from gently rolling hills and wide river bottoms to moderately steep slopes with narrow valleys. The majority of the homes are located along the Ohio River or along the ridge lines where most of the roads are located.

Agriculture is the dominant economic force in the area, however, a large portion of the residents work in the industrial areas of Boone and Kenton Counties in Kentucky and in the city of Cincinnati, Ohio.

II. EXISTING FACILITIES

The original system of the Gallatin County Water District was constructed in 1989-1990 with large extensions constructed in 1993, 1995 and 2002. In addition a special purpose project was constructed in 2000 which consisted of a new well and pumping station near the Ohio River at the city of Warsaw and a transmission line to supply a newly constructed NASCAR racing facility near the City of Sparta. The owners of the racetrack constructed a 500,000 gallon ground storage tank and a pumping system. Ownership of those facilities were later transferred to the Water District. In addition to the facilities at the race track, the basic components of the system are a 100,000 gallon overhead storage tank, a 100,000 gallon stand pipe, 64,800 feet of 8 inch water line, 195,050 feet of 6 inch water line, 260,800 feet of 4 inch water line 33,700 feet of 3 inch water line, one well with a 500 GMP pump and three (3) 250 gallon per minute water pumps.

The original system, constructed in 1989/90, served a total of 245 households. At this time the District is supplying water to a total of 1829 customers.

III. PROPOSED FACILITIES AND SERVICE

A. GENERAL DESCRIPTION

The proposed project consists of 1-200,000 and 1- 100,000 elevated water storage tanks, 2-68,000 gallon storage tanks, a well with appurtenances, 3-pump stations, 10,400 feet of 10 inch water line, 1,000 feet of 6 inch water line, and other appurtenances to enhance the District's ability to serve its existing customers. These extensions and additions are shown in Exhibit I of this report.

B. LAND, WATER AND OTHER RIGHTS

1. Land: It will be necessary to purchase land for the new well and tank, the overhead storage tanks on Ambrose Road, and Ky. Highway # 16, and the booster pump station on Ky. Highway # 16.
2. Water Rights: Stream crossing permits and a letter of non-pollution of streams will be required from the Division of Water.
3. Other Rights: Easements and Permits: Water lines will be located on private property to the maximum extent. Highway encroachment permits from the State Highway Department may be required if this proves difficult. A State Highway Department permit will also be necessary where main lines cross state highways. Approval from the Gallatin County Fiscal Court for any placement of main lines along or under county roads will also be necessary.

4. Problems in Acquisition: No unusual problems in the acquisition of rights of way are anticipated at this time.

C. WATER SUPPLY

1. Requirements: The project will not require any additional water per month. However the water supply source will consist of 2 - deep wells, owned and operated by the Gallatin County Water District, and a connection to the city of Warsaw, KY.
2. Requirements As To Quality: State Department of Natural Resources and Environmental Protection requirements as to quality will be met, as this agency has to approve the source of supply and the existing distribution facilities.
3. Water Supply: The District has a current agreement to purchase water from the City of Warsaw at a rate of \$1.05 per 1,000 gallons. The project will allow the District to decrease the amount of water to be purchased. The existing Water Purchase Contract with the City of Warsaw is sufficient to meet the requirements of the proposed project.

IV. COST ESTIMATE:

Competitive bids were received by the District on June 26, 2006. The lowest bids of the five construction contracts totaled \$2,060,442.90. Additional telemetry will be installed at a cost of \$96,448. The other items of the Project Cost have been itemized and are included as data in "Appendix "B".

V. ANNUAL OPERATING FIGURES

- A. **Income:** The estimated income from 1829 customers is estimated in Appendix C for both for existing rates and proposed rates.
- B. **Operation and Maintenance Costs:** Operation and maintenance costs for the proposed extensions are estimated and given in this report as Appendix "D". The expenses for the entire system including proposed facilities are also shown in Appendix "D".
- C. **Debt Service and Bond Coverage:** The District currently has an outstanding debt of \$2,314,715 as of December 31, 2005. The 2007 annual payment is in the amount of \$134,174. New debt resulting from the proposed project is estimated to be \$1,894,000 with an additional annual payment of \$103,603. Debt service and bond coverage are given in Appendix "E".

VI. MAPS, DRAWINGS, AND SKETCHES

- A. **Maps:** A map showing proposed project elements is given as Exhibit I to this report.
- B. **Drawings and Photographs:**
These items were not considered necessary for this Engineering Report, as there were no unusually complicated design problems.

VII. CONSTRUCTION PROBLEMS

Construction of the proposed project is considered to be relatively simple with no complex problems expected.

VIII. CONCLUSIONS AND RECOMMENDATIONS

- A. A rate increase is required to fund the proposed project. The proposed rates are reasonable when compared to the rates of near by similar utilities.
- B. Recommendations: It is recommended that the District's officials issue a tentative Notice of Award to the low bidders and proceed with meeting the letter of condition for securing the final USDA Rural Development funding for the project.

Respectfully submitted,

Ronald E. Gastineau, P.E.

APPENDICES

APPENDIX A
CONSTRUCTION COST BASED ON
LOW BIDS RECEIVED 6-26-06
GALLATIN COUNTY WATER DISTRICT

LOW BID CONTRACT GCWD EXT5-1

ITEM NO.	ITEM	UNIT	QUANTITY	UNIT PRICE	COST OF ITEM
1	6" CI 200 PVC Pipe	LF	1,460	\$6.70	\$9,782.00
2	10" CI 200 PVC Pipe	LF	6,610	\$12.48	\$82,492.80
3	10" DI PIPE	LF	2,970	\$20.53	\$60,974.10
4	10" Resilient Seat Gate Valve	LF	1	\$1,260.00	\$1,260.00
5	4" Resilient Seat Gate Valve	EA	6	\$540.00	\$3,240.00
6	6" Tapping Sleeve and Valve	EA	1	\$2,000.00	\$2,000.00
7	Tie to Existing 6" Blow off valve	EA	1	\$400.00	\$400.00
8	6" Blow Off Assembly	EA	1	\$775.00	\$775.00
9	6" 90 Deg. bend w/ retainer glands	EA	3	\$300.00	\$900.00
10	10" 45 Deg. bend w/ retainer glands	EA	2	\$730.00	\$1,460.00
11	10" 90 Deg. bend w/ retainer glands	EA	3	\$750.00	\$2,250.00
12	20" Steel Casing, Open cut	LF	100	\$75.00	\$7,500.00
13	20" Steel Casing, Highway bore & jack	LF	58	\$170.00	\$9,860.00
14	12" Steel Casing, Highway bore and jack	LF	40	\$135.00	\$5,400.00
15	I-71 crossing w/ 12" steel casing, B & J	LF	378	\$140.00	\$52,920.00
16	Roadway construction, grading	LS	1	\$2,000.00	\$2,000.00
17	Roadway construction, 48" BCMP	LF	60	\$60.00	\$3,600.00
18	Roadway construction, #2 stone base	Tons	300	\$13.00	\$3,900.00
19	Roadway construction, DGA surface	Tons	240	\$12.00	\$2,880.00

TOTAL BID CONTRACT GCWD EXT 5-1
--

\$253,593.90

LOW BID CONTRACT GCWD EXT5-2

ITEM NO.	ITEM	UNIT	QUANTITY	UNIT PRICE	COST OF ITEM
EXISTING WELL					
1	Remove an replace motor	LS	1	\$2,500.00	\$2,500.00
2	Modify existing pump	LS	1	\$6,100.00	\$6,100.00
3	Modify existing electrical service	LS	1	\$8,060.00	\$8,060.00
STEELE BOTTOM WELL					
	Drill new well	FT	150	\$50.00	\$7,500.00
5	Installing screen and casing seals	LS	1	\$52,446.00	\$52,446.00
6	Installing Pump	EA	1	\$15,333.00	\$15,333.00
7	Installing valve vault	EA	1	\$14,666.00	\$14,666.00
8	10" D.I. Pipe	LF	52	\$30.00	\$1,560.00
9	Electrical Service for new well	EA	1	\$4,500.00	\$4,500.00
10	Testing and sterilization	LS	1	\$6,000.00	\$6,000.00

TOTAL BID CONTRACT GCWD EXT5-2

\$118,665.00

APPENDIX A
CONSTRUCTION COST BASED ON
LOW BIDS RECEIVED 6-26-06
GALLATIN COUNTY WATER DISTRICT

LOW BID CONTRACT GCWD EXT5-3

ITEM NO.	ITEM DESCRIPTION	COST OF ITEM
----------	------------------	--------------

EXISTING WELL SITE TANK

1	Foundation design and construction	\$41,000.00
2	Furnishing and erecting storage tank	\$50,047.00
3	Painting	N/A
4	Testing and sterilization	\$750.00
5	Cathodic protection	\$1,200.00
6	Site preparation, piping and surface restoration	\$2,000.00
7	Repair access road	\$500.00
8	Mobilization and bonds	\$1,000.00

BID EXISTING WELL SITE TANK**\$96,497.00****STEELE BOTTOM WELL SITE TANK**

1	Foundation design and construction	\$31,800.00
2	Furnishing and erecting storage tank	\$50,047.00
3	Painting	N/A
4	Testing and sterilization	\$750.00
5	Cathodic protection	\$1,200.00
6	Site preparation, piping and surface restoration	\$1,500.00
7	Repair access road	\$500.00
8	Mobilization and bonds	\$1,000.00

BID STEELE BOTTOM WELL SITE TANK**\$86,797.00****TOTAL BID CONTRACT GCWD EXT5-3****\$183,294.00**

APPENDIX A
CONSTRUCTION COST BASED ON
LOW BIDS RECEIVED 6-26-06
GALLATIN COUNTY WATER DISTRICT

LOW BID CONTRACT GCWD EXT5-4

ITEM NO.	ITEM DESCRIPTION	COST OF ITEMS
AMBROSE ROAD TANK		
1	Foundation design and construction	\$77,500.00
2	Furnishing and erecting storage tank	\$256,980.00
3	Painting	\$48,500.00
4	Testing and sterilization	\$1,000.00
5	Cathodic protection	\$9,000.00
6	Valve vault and piping	\$15,000.00
7	Chain link fence including gate	\$13,000.00
8	Site preparation and surface restoration	\$2,000.00
9	Repair access road	\$1,500.00
10	Mobilization and bonds	\$22,000.00

BID AMBROSE ROAD TANK

\$446,480.00

KY 16 TANK SITE

1	Foundation design and construction	\$76,500.00
2	Furnishing and erecting storage tank	\$194,640.00
3	Painting	\$44,000.00
4	Testing and sterilization	\$1,000.00
5	Cathodic protection	\$9,000.00
6	Valve vault and piping	\$12,000.00
7	Chain link fence including gate	\$11,000.00
8	Site preparation, piping and surface restoration	\$2,000.00
9	Repair access road	\$1,500.00
10	Mobilization and bonds	\$18,000.00

BID KY 16 SITE TANK

\$369,640.00

TOTAL BID CONTRACT GCWD EXT5-4

\$816,120.00

APPENDIX A
CONSTRUCTION COST BASED ON
LOW BIDS RECEIVED 6-26-06
GALLATIN COUNTY WATER DISTRICT

LOW BID CONTRACT GCWD EXT5-5

ITEM NO.	ITEM DESCRIPTION	COST OF ITEMS
EXISTING WELL SITE TANK		
1	Foundation	\$5,880.00
2	Furnishing and installing pump station	\$169,385.00
3	Electrical	\$4,500.00
4	Yard piping and valves	\$17,445.00
5	Modification of chlorine and fluoride systems	\$6,025.00
6	Site preparation, and surface restoration	\$1,650.00
7	Maintenance of access road	\$1,200.00
8	Mobilization and bonds	\$12,920.00

BID EXISTING WELL SITE PUMPING STATION**\$219,005.00****STEELE BOTTOM WELL SITE TANK**

1	Foundation	10120
2	Furnishing and installing pump station	262520
3	Electrical	7500
4	Yard piping and valves	\$13,120.00
5	Chlorine and fluoride system	\$42,235.00
6	Chain link fence including gate	19750
7	Site preparation, and surface restoration	\$2,650.00
8	Maintenance of access road	\$3,750.00
9	Mobilization and bonds	\$12,435.00

BID STEELE BOTTOM PUMPING STATION**\$374,080.00****KY 16 BOOSTER PUMP STATION**

1	Excavation and foundation	\$3,000.00
2	Furnish and install booster pump station including electric	\$75,905.00
3	Piping and valves	\$11,140.00
4	Site preparation, and surface restoration	\$650.00
5	Mobilization and bonds	\$2,240.00
6	Chain link fence including gate	\$2,750.00

BID KY 16 BOOSTER PUMP STATION**\$95,685.00****TOTAL BID CONTRACT GCWD EXT5-5****\$688,770.00**

APPENDIX "B"
FINAL ENGINEERING REPORT
GALLATIN COUNTY WATER DISTRICT
ESTIMATED PROJECT COST
AND
PROPOSED FUNDING

ESTIMATED PROJECT COST

Total Estimated Construction Cost	
Contract GCWD EXT5-1	\$253,593.90
Contract GCWD EXT5-2	\$118,665.00
Contract GCWD EXT5-3	\$183,294.00
Contract GCWD EXT5-4	\$816,120.00
Contract GCWD EXT5-5	\$688,770.00
Telemetry	\$96,448.00
SUB TOTAL ESTIMATED CONSTRUCTION COST	\$2,156,890.90
Land and Rights of Way	\$57,000.00
Engineering	\$157,710.00
Other Engineering	\$8,000.00
Construction Observation	\$75,710.00
Legal and Administrative	\$38,700.00
Interest During Construction	\$46,750.00
Contingencies	\$254,239.10
Environmental	\$5,000.00
Total	\$2,800,000.00

FUNDING

RUS Grant	\$900,000.00
RUS Loan @ 4 3/8% Interest	\$1,394,000.00
RUS Loan @ 4 1/2% Interest	\$500,000.00
Owner contribution	\$6,000.00
Total	\$2,800,000.00

APPENDIX C
FINAL ENGINEERING REPORT
GALLATIN COUNTY WATER DISTRICT
REVISED RATES AND REVENUE

	Bills	Gallons	1,000	2,000	2,000	5,000	10,000
First 1,000	4,028	924,365	924,365				
Next 2,000	5,647	11,597,207	5,647,000	5,950,207			
Next 2,000	5,862	22,889,678	5,862,000	11,724,000	5,303,678		
Next 5,000	5,042	33,758,680	5,042,000	10,084,000	10,084,000	8,548,680	
Over 10,000	1,371	24,065,378	1,371,000	2,742,000	2,742,000	6,855,000	10,355,378
Total	21,950	93,235,308	18,846,365	30,500,207	18,129,678	15,403,680	10,355,378
	Bills	Gallons	Rate	Revenue			
First 1,000	21,950	18,846,365	\$ 16.60	\$ 364,370			
Next 2,000		30,500,207	5.80	176,901			
Next 2,000		18,129,678	5.50	99,768			
Next 5,000		15,403,680	5.20	80,099			
Over 10,000		10,355,378	5.00	51,777			
Total	21,950	93,235,308		\$ 772,915			
Kentucky Speedway				\$35,000			
Kentucky American		6,719,600	1.46	\$9,811			
Total Revenue From Sales				\$ 817,725			
Other Revenue				\$39,791			
Total Revenue				\$ 857,516			

OTHER REVENUE
NON RECURRING CHARGES

5/8 Inch X 3/4 Inch METER CONNECTION/TAP-ON CHARGES	\$530.00
ALL LARGE METERS	Actual Cost
CONNECTION/TURN-ON CHARGE	\$35.00
CONNECTION/TURN-ON CHARGE-AFTER HOURS	\$60.00
DISCONNECT/RECONNECT	\$70.00
FIELD COLLECTION CHARGE	\$35.00
LATE PAYMENT PENALTY	10 %
METER RE-READ	\$35.00
METER TEST CHARGE	\$60.00
RETURNED CHECK	\$25.00
SERVICE LINE INSPECTION	\$35.00
METER RELOCATION	Actual Cost
CREDIT CARD PAYMENT	\$2.00

APPENDIX "D"
GALLATIN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES AND EXPENSES - REGULATORY BASIS

<u>OPERATING REVENUES</u>	<u>2005</u>	<u>Adjustments</u>	<u>2007</u> Projected
Metered Sales to Customers	\$640,974		\$772,915
Service Charges	\$23,465		\$23,465
Reconnection Fees/Penalties	\$14,140		\$14,140
Miscellaneous Income	\$2,186		\$2,186
KY Speedway			\$35,000
KY American			\$9,811
	<hr/>		<hr/>
Total Operating Revenues	\$680,765		\$857,517
<u>OPERATING EXPENSES</u>			
Bank Charges	\$2,308		\$2,308
Commissioners Fees	\$5,700	\$570	\$6,270
Contractual Service-Sampling	\$10,000	\$1,200	\$11,200
Dues	\$784		\$784
Employee Health Insurance	\$40,237	\$8,048	\$48,285
Insurance	\$18,648	\$5,594	\$24,242
Labor	\$159,915	\$22,388	\$182,303
Maintenance of Mains	\$23,632	\$4,726	\$28,358
Miscellaneous	\$775		\$775
Office Supplies and Expense	\$20,703	\$4,140	\$24,843
Other Interest Expense	\$128		\$128
Payroll Taxes	\$11,860	\$1,660	\$13,520
Professional Services	\$7,285	\$728	\$8,013
Purchased Water	\$68,083		\$72,000
Regulatory Fees	\$1,132		\$1,132
Retirement Expenses	\$15,457	\$2,164	\$17,621
Travel/Transportation Expense	\$19,358	\$7,744	\$27,102
Uniforms	\$2,454	\$246	\$2,700
Utilities-Office	\$9,341	\$1,868	\$11,209
Utilities-Pumping	\$37,437	\$7,488	\$44,925
Depreciation Expense	\$197,060	\$38,000	\$235,060
Replacement Reserves (See Appendix D, Page 2)			\$73,407
	<hr/>		<hr/>
Total Operating Expenses	\$652,297		\$836,185
Operating Income	\$28,468		\$21,332

APPENDIX D
 FINAL ENGINEERING REPORT
 GALLATIN COUNTY WATER DISTRICT
 REPLACEMENT RESERVES-SHORT LIVED ASSETS

TYPE OF RESERVE	USER DESCRIPTION	REPLACEMENT COST	RESERVE ON HAND	ANNUAL RESERVE
1-5 YEARS	Pickup Trucks	\$130,000	\$0	\$26,000
1-5 YEARS	Computer System Upgrade	\$12,000	\$0	\$2,400
1-5 YEARS	Commercial Lawn Mower	\$8,700	\$0	\$1,740
1-5 YEARS	Tank Painting	\$68,500	\$0	\$13,700
SUBTOTAL 1-5 YEARS		\$219,200	\$0	\$43,840
5-10 YEARS	Telemetry System Upgrade	\$93,000	\$0	\$9,300
5-10 YEARS	Backhoe	\$62,000	\$0	\$6,200
5-10 YEARS	Dump Truck	\$58,000	\$0	\$5,800
SUBTOTAL 5-10 YEARS		\$213,000	\$0	\$21,300
10-15 YEARS	Tank Painting	\$124,000	\$0	\$8,267
SUBTOTAL 10-15 YEARS		\$124,000	\$0	\$8,267
TOTAL REPLACEMENT RESERVE-SHORT LIVED ASSETS				\$73,407

APPENDIX "E"
FINAL ENGINEERING REPORT
GALLATIN COUNTY WATER DISTRICT
ESTIMATED INCOME, EXPENSE, DEBT SERVICE
AND BOND COVERAGE

ESTIMATED INCOME		\$857,517
ESTIMATED EXPENSE		\$836,185
NET OPERATING INCOME		\$21,332
PLUS INTEREST INCOME		\$5,100
PLUS DEPRECIATION		\$235,060
AVAILABLE FOR DEBT SERVICE		\$261,492
DEBT SERVICE (FOR YEAR ENDING 2007)		
EXISTING		
RUS -----		\$104,113
KIA -----		\$30,061
PROPOSED		
\$1,394,000 @	4.38% (0.05445)	\$75,903
\$500,000 @	4.50% (0.0554)	\$27,700
TOTAL DEBT SERVICE		\$237,777

BOND COVERAGE

$$\$261,492 / \$237,777 = 1.10$$



Exhibit C



United States Department of Agriculture
Rural Development
Kentucky State Office


August 28, 2006

SUBJECT: Gallatin County Water District
Water System Extension- Phase 5
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 1, Coomer Constructions, in the amount of \$253,593.90, the low bidder on contract 2, National Water Service, Inc., in the amount \$118, 665.00, the low bidder on contract 3, Kentucky Glass Lined Tanks, Inc., in the amount of \$183,294.00, the low bidder on contract 4, Caldwell Tanks, Inc., in the amount of \$816,120.00, and the low bidder on contract 5, Lykins Contracting, Inc., in the amount of \$688,770.00. \$96,000 will be spent to expand telemetry into the newly serviced areas.

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


KENNETH SLONE
State Director
Rural Development

cc: Gasintean and Associates, Inc.
Nicholasville, Kentucky

Stoll, Kennon, Ogden
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 D

NOTICE OF ADJUSTMENT OF WATER RATES

Gallatin County Water District
Gallatin County, Kentucky

Notice is hereby given that, pursuant to an application filed with the Public Service Commission of Kentucky under KRS 278.023 by the Gallatin County Water District (the "District"), the District proposes to adjust its monthly water service rates and charges as follows:

<u>Present Rates</u>		<u>Proposed Rates</u>	
First 1,000 gallons	\$ 11.50 (minimum)	First 1,000 gallons	\$16.60 (minimum)
Next 2,000 gallons	5.20 per 1,000 gal.	Next 2,000 gallons	5.80 per 1,000 gal.
Next 2,000 gallons	4.70 per 1,000 gal.	Next 2,000 gallons	5.50 per 1,000 gal.
Next 5,000 gallons	4.50 per 1,000 gal.	Next 5,000 gallons	5.20 per 1,000 gal.
All Over 10,000 gallons	4.30 per 1,000 gal.	All Over 10,000 gallons	5.00 per 1,000 gal.

Bulk Sales to Kentucky-American Water Co. will be at the bulk rate of \$1.46 (formerly \$1.40) per 1,000 gallons. Sales to Kentucky Speedway will be a flat rate equivalent to \$2,917 monthly, or a minimum of \$35,000 annually (no change).

<u>Non-Recurring Charges:</u>	<u>Present</u>	<u>Proposed</u>
5/8 x 3/4 Inch Meter Connection/Tap-on Charges	\$500.00	\$530.00
All Large Meters	Actual Cost	Actual Cost
Connection/Turn-on Charge	None Existing	35.00
Connection/Turn-on Charge - After Hours	None Existing	60.00
Disconnect/Reconnect	30.00	70.00
Field Collection Charge	20.00	35.00
Late Payment Penalty	10%	10%
Meter Re-read	None Existing	35.00
Meter Test Charge	None Existing	60.00
Returned Check	25.00	25.00
Service Line Inspection	None Existing	35.00
Meter Relocation	Actual Cost	Actual Cost
Credit Card Payment	1.00	2.00

* * *

By use of federal loan and grant proceeds and local funds, the District plans to construct and install new water lines, 3 pump stations, 4 water storage tanks, a well with appurtenances, and related facilities primarily in eastern Gallatin County.

GALLATIN COUNTY WATER DISTRICT
4500 Highway 455
Sparta, Kentucky 41086

...and extended insurance coverage
 ...from the date of sale until the
 ...fully paid, with a loss payable
 ...er Commissioner of the Gallatin
 ...of the purchaser to effect such
 ...ffect the validity of the sale or the
 ...thereunder, but shall entitle, but
 ...older herein, after giving notice to
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 ...licy or evidence thereof to the
 ...er, and the premium thereon or
 ...thereof shall be charged to the
 ...er's cost. The property shall be
 ...foretaxes for the year 2006 and
 ...thereafter; easements, restric-
 ...ons of record; assessments for
 ...ns levied against the property, if
 ...ng ordinances, statutes, laws, or
 ...y facts which an inspection and
 ...the property may disclose. **BID-**
SSHALLE **PREPARED TO COMPLY WITH**
SE TERMS

RHONDA W. HUDDLESTON, MASTER
COMMISSIONER,
GALLATIN CIRCUIT COURT
 P.O. Box 807, WARSAW, KY 41095
 859-567-2818
 34-3c

PUBLIC NOTICE:
COMMISSIONER'S SALE
GALLATIN CIRCUIT COURT,
CAUSE NO. 06-CI-00091
EquiCredit Corporation of Ky
PLAINTIFF
VERSUS)
Charles Donovan Young,
Maureen Rebecca Young,
County of Gallatin
DEFENDANTS
NOTICE OF SALE

By virtue of judgment and order of sale of the
 Gallatin Circuit Court entered August 7, 2006 in the
 above case, I shall proceed to offer for sale inside the
 north door of the Gallatin County Courthouse in
 Warsaw, Kentucky, to the highest bidder, at public

NOTICE OF ADJUSTMENT OF WATER RATES
 Gallatin County Water District
 Gallatin County, Kentucky

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Present Rates		Proposed Rates	
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Next 2,000 gallons	4.70 per 1,000 gal.	Next 2,000 gallons	5.50 per 1,000 gal.
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All Over 10,000 gallons	4.30 per 1,000 gal.	All Over 10,000 gallons	5.00 per 1,000 gal.

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Non-Recurring Charges:	Present	Proposed
5/8 x 3/4 Inch Meter Connection/Tap-on Charges	\$500.00	\$530.00
All Large Meters	Actual Cost	Actual Cost
Connection/Turn-on Charge	None Existing	35.00
Connection/Turn-on Charge - After Hours	None Existing	60.00
Disconnect/Reconnect	30.00	70.00
Field Collection Charge	20.00	35.00
Late Payment Penalty	10%	10%
Meter Re-read	None Existing	35.00
Meter Test Charge	None Existing	60.00
Returned Check	25.00	25.00
Service Line Inspection	None Existing	35.00
Meter Relocation	Actual Cost	Actual Cost
Credit Card Payment	1.00	2.00

By use of federal loan and grant proceeds and local funds, the District plans to construct and install new water lines, 3 pump stations, 4 water storage tanks, a well with appurtenances, and related facilities primarily in eastern Gallatin County.

GALLATIN COUNTY WATER DISTRICT
 4500 Highway 455
 Sparta, Kentucky 41086
 35-1c



Meadow Creek Townhomes
Supervisor Gone Crazy!
Move-In Special!
NO SECURITY DEPOSIT!



2 B - 2 Bedroom Apartments Now Available!

B8 - GRANT COUNTY NEWS, Thursday, August 31, 2006

Master Commissioner Sales & Public Notice

ORDINANCE NO. 625-2006

AN ORDINANCE OF THE CITY OF DRY RIDGE, KENTUCKY, ADOPTING THE VALUATION AND ASSESSMENT MADE BY THE KENTUCKY REVENUE CABINET FOR THE CALENDAR-YEAR OF 2007 FOR ALL MOTOR VEHICLES AND WATERCRAFT SUBJECT TO THE CITY'S TAXING AUTHORITY AND HEREBY FIXING, ESTABLISHING AND LEVYING A TAX RATE UPON ALL SUCH MOTOR VEHICLES AND WATERCRAFT FOR THE CALENDAR-YEAR OF 2007.

WHEREAS, the City of Dry Ridge must acquire and have sufficient monies and revenues to adequately maintain and operate the city; and

WHEREAS, a method of generating such monies and revenues, allowed by statute, is by levy of a property tax upon the value of motor vehicles and watercraft within the limits of the city for each calendar-year, beginning on the 1st day of January of such calendar-year.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY OF DRY RIDGE, KENTUCKY, AS FOLLOWS:

Section One

That pursuant to law and for the purposes of the hereinafter property tax rate established, fixed and levied upon the valuation of motor vehicles and watercraft so located within an under the taxing authority of the City of Dry Ridge, Kentucky, the said City Council of the City of Dry Ridge, Kentucky, does for and on behalf of the City of Dry Ridge, Kentucky, so hereby adopt the valuation and assessment made by the Commonwealth of Kentucky, Revenue Cabinet, or the Grant County Property Valuation Administrator, as the case may be, for the calendar-year of 2007 for all motor vehicles and watercraft covered by this taxing ordinance, and with such valuation and assessment so fixed and established as of the 1st day of January, 2007.

Section Two

That a property tax at the rate and amount of TWENTY-NINE CENTS (29¢/\$0.290) per each One Hundred Dollars (\$100.00), or fractional part thereof, of the said valuation/assessment made, is so hereby set, established, fixed and levied for the calendar-year of 2007 upon the valuation/assessment of each and every motor vehicle and watercraft within the incorporated limits of the City of Dry Ridge, Kentucky, as of January 1, 2007, the date upon which the herein property tax and the rate thereof is so hereby fixed and levied on and upon all covered motor vehicles and watercraft.

Section Three

The property tax at the rate herein above fixed and levied upon all covered motor vehicles and watercraft as of January 1, 2007, is to be collected, and, thereafter remitted to the City of Dry Ridge, Kentucky, by the sheriff, county court clerk, or other officers or entities to whom such tax is paid, or collected from, or remitted by the taxpayer or taxpayer's agent.

Section Four

That the foregoing property tax hereby established, fixed and levied for the calendar-year of 2007 upon motor vehicles and watercraft, shall be due and payable to the city on the date established by statute applicable to motor vehicles and watercraft; and, if such tax be not paid when due, then say and all penalties, interest, costs and charges allowed to the city and the collecting entity, shall be added to the tax due, all for which the city shall have a lien for debt due and owing, and which the city, its agents and assigns may enforce, foreclose and collect by actions appropriate.

First Reading: August 7, 2006
Second Reading: August 21, 2006
PASSED, ADOPTED, ORDAINED AND ORDERED PUBLISHED, THIS THE 21st DAY OF August, 2006.

WILLIAM CULL, MAYOR

ATTEST:
CINDY L. HARRIS, CITY CLERK

NOTICE OF ADJUSTMENT OF WATER RATES

Gallatin County Water District
Gallatin County, Kentucky

Notice is hereby given that, pursuant to an application filed with the Public Service Commission of Kentucky under KRS 278.023 by the Gallatin County Water District (the "District"), the District proposes to adjust its monthly water service rates and charges as follows:

Table with 2 columns: Present Rates and Proposed Rates. Rows include First 1,000 gallons, Next 2,000 gallons, Next 3,000 gallons, Next 4,000 gallons, All Over 10,000 gallons.

Bulk Sales to Kentucky-American Water Co. will be at the bulk rate of \$1.46 (formerly \$1.40) per 1,000 gallons. Sales to Kentucky Speedway will be a flat rate equivalent to \$2.917 monthly, or a minimum of \$35,000 annually (no change).

Table with 3 columns: Present, Proposed, and Actual Cost. Rows include Non-Recurring Charges, 5/8 x 3/4 Inch Meter Connection/Tap-on Charges, All Large Meters, Connection/Turn-on Charge, etc.

By use of federal loan and grant proceeds and local funds, the District plans to construct and install new water lines, 3 pump stations, 4 water storage tanks, a well with appurtenances, and related facilities primarily in eastern Gallatin County.

GALLATIN COUNTY WATER DISTRICT
4500 Highway 435
Sparta, Kentucky 41086

Pursuant to K1 of September 7 Building, 31(B) public regard calendar year 2

Proceeding Year & Revenue Ge Tax Rate Propc Revenue Expect Compensating Revenue Expect Generated from Expected Revenue Generated from The City of Dry tax rate of \$21 \$100 of assess through the fire THE KENTUCK ADVERTISEM

Change Your Address Don

Don't forget to let us know when you move! Call 859-824-3343

COMM CIVI WELLS FARGO BANK, NA AS TRUSTEE VS. DAVID E. HOUZE TERESA R. HOUZE COUNTY OF GRANT BENEFACTIC KENTUCKY, INC.

By virtue of a Judgment and Order of Sale sell at public auction to the highest and be hour of 11:00 a.m. on Wednesday, Septemb Said real estate is situated in Grant County, Kentucky 41030, and more particularly desc A certain tract of parcel of land lying and b of U.S. Highway 25, and described more pa Beginning at a point, the center of the Sh degrees 27 1/2 E, 221.3 feet to a point; thence thence N. 2 degrees 13' W, 221.3 feet to a Wagner, thence with the center of Shady L. Subject to easements and restrictions of rec Being the same property conveyed to Dav Houze), a married man, by Deed dated Nov Book 285 Page 608, in the Office of the Shady Lane, Crittenden, KY 41030. There is no mobile or manufactured home. The amount of money to be raised and for due to Plaintiff on its first lien on this prop from June 1, 2005 until paid, together with the protection of the property including but fees. The real estate shall be sold on the terms of days, except that the deposit shall be wa

POSTED!

No trespassing, hunting, fishing, trapping of any kind on the property of Valadine West Marsh located on 2975 Falmouth Road. Violators will be prosecuted to the fullest extent of the law. 11-02-06

No trespassing or hunting on the property of Carlis and Wanda Evans on Mann Road, Crittenden, Ky. Violators will be prosecuted to the fullest extent of the law. 11-23-06

No trespassing, hunting or 4-wheeling on the Tuch property located between Heathen Ridge and Sherman-Newtown Road and along Grassy Creek. Violators will be prosecuted. 02-19-07

Absolutely no trespassing, no hunting, no fishing, no trapping, on Conrad Property, located on Simpson Ridge Road, Heekin Lawrenceville and Chipman Ridge Road, Williamsstown. Violators will be prosecuted to the fullest extent of the law. 10-24-06

No hunting or trespassing on the Cuzick property at 3120 Ford's Mill Road, Dry Ridge. 11-02-06

No trespassing, hunting, trapping and fishing on Dishon property on Vallingingham, Arnold's Creek and Verona-Mt. Zion Road. 10-19-06

No trespassing on the Ida Marie Morgan residence, 3575 Gardnersville. Violators will be prosecuted to the fullest extent of the law. 09-21-06

No hunting, trespassing, fishing, trapping or 4-wheeling of any kind on the property of Dan

(Boone County Recorder)

Thursday, August 31, 2006

NOTICE OF ADJUSTMENT OF WATER RATES

Gallatin County Water District
Gallatin County, Kentucky

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Non-Recurring Charges:

	Present	Proposed
5 1/2 x 3/4 Inch Meter Connection/Tap-on Charges	\$500.00	\$530.00
All Large Meters	Actual Cost	Actual Cost
Connection Turn-on Charge	None Existing	35.00
Connection Turn-on Charge - After Hours	None Existing	60.00
Disconnect/Reconnect	30.00	70.00
Field Collection Charge	20.00	35.00
Late Payment Penalty	10%	10%
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Meter Test Charge	None Existing	60.00
Returned Check	25.00	25.00
Service Line Inspection	None Existing	35.00
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GALLATIN COUNTY WATER DISTRICT
4500 Highway 455
Sparta, Kentucky 41086

COMMISSIONER'S SALE
BOONE CIRCUIT COURT, CASE NO. 06-CI-278

BANK OF NEW YORK

PLAINTIFF(S)

NOTICE OF SALE

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Exhibit E

- BOND-AUTHORIZING RESOLUTION -

A RESOLUTION OF THE COMMISSION OF GALLATIN COUNTY WATER DISTRICT, GALLATIN COUNTY, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE DISTRICT'S WATER DISTRIBUTION SYSTEM; AUTHORIZING THE ISSUANCE OF SAID DISTRICT'S \$1,894,000 WATER SYSTEM REVENUE BONDS, SERIES 2006A AND SERIES 2006B, TO PAY THE COSTS THEREOF (TO THE EXTENT NOT OTHERWISE PROVIDED TO BE PAID); CONFIRMING, RATIFYING AND CONTINUING PRE-EXISTING PROVISIONS HERETOFORE ADOPTED BY THE DISTRICT RELATING TO THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE INCOME AND REVENUES OF SAID WATER DISTRIBUTION SYSTEM; CONFIRMING, RATIFYING AND CONTINUING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM THE INCOME AND REVENUES OF THE SYSTEM AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED AND OTHER PARITY BONDS OUTSTANDING; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

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A RESOLUTION OF THE COMMISSION OF GALLATIN COUNTY WATER DISTRICT, GALLATIN COUNTY, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE DISTRICT'S WATER DISTRIBUTION SYSTEM; AUTHORIZING THE ISSUANCE OF SAID DISTRICT'S \$1,894,000 WATER SYSTEM REVENUE BONDS, SERIES 2006A AND SERIES 2006B, TO PAY THE COSTS THEREOF (TO THE EXTENT NOT OTHERWISE PROVIDED TO BE PAID); CONFIRMING, RATIFYING AND CONTINUING PRE-EXISTING PROVISIONS HERETOFORE ADOPTED BY THE DISTRICT RELATING TO THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE INCOME AND REVENUES OF SAID WATER DISTRIBUTION SYSTEM; CONFIRMING, RATIFYING AND CONTINUING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM THE INCOME AND REVENUES OF THE SYSTEM AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED AND OTHER PARITY BONDS OUTSTANDING; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

WHEREAS, upon petition and hearing after public notice according to the provisions of Chapter 74 of the Kentucky Revised Statutes ("KRS"), Orders were duly entered by the County Judge/Executive of Gallatin County, Kentucky, on September 12, 1960, determining necessity for and creating and establishing the Gallatin County Water District (the "District") and appointing Commissioners, the same thereupon constituting and being a public body corporate with all powers and authority as provided in KRS Chapter 74; such establishment was duly reaffirmed by official action of the County Judge/Executive of Gallatin County in 1985; and the District is at this time a *de jure* Water District situated in Gallatin County, Kentucky, with small areas in Boone County and Grant County, Kentucky; and

WHEREAS, by Resolution of the Commission of the District adopted on October 7, 1988 (the "1988 Resolution"), the District authorized and thereafter issued \$398,000 original principal amount of its Water System Revenue Bonds, 1988 Series A and B (the "1988 Bonds"), for the purpose of providing funds for the initial construction and installation of a water distribution system (the "System") to serve the area of the District; and

WHEREAS, it is provided in and by Section 9 of the 1988 Resolution that the District may issue additional bonds ranking on a basis of parity and equality with the District's 1988 Bonds for the purpose of adding new water distribution system facilities upon meeting certain coverage conditions and restrictions or upon obtaining the waiver thereof by the holder of the 1988 Bonds, being the United States of America, Department of Agriculture ("USDA"); and pursuant to such a consent and waiver of USDA, the District authorized and issued (a) under a

Resolution of January 14, 1993 (the "1993 Resolution"), \$420,000 original principal amount of its Water System Revenue Bonds, Series of 1993 (the "1993 Bonds"), (b) under a Resolution of January 10, 1996 (the "1996 Resolution"), \$371,000 original principal amount of its Water System Revenue Bonds, Series of 1996 (the "1996 Bonds") and (c) under a Resolution of June 8, 2000 (the "2000 Resolution") \$370,000 original principal amount of its Water System Revenue Bonds, Series of 2000, and \$112,000 Water System Revenue Bonds, Second Series of 2000 (together the "2000 Bonds"); and further, pursuant to such coverage conditions and restrictions (described in the following paragraph), the District authorized and issued under a Resolution of October 31, 2002 (the "2002 Resolution"), \$130,000 original principal amount of its Water System Revenue Bonds, Series of 2002 (the "2002 Bonds"); and

WHEREAS, the District also has outstanding a loan repayment obligation in the total principal amount of \$_____ to the Kentucky Infrastructure Authority under an Assistance Agreement dated May 1, 2000 (the "KIA Assistance Agreement"), which obligation is subject and subordinate to the pledge securing the 1988, 1993, 1996, 2000 and 2002 Bonds (collectively the "Prior Bonds"); and the KIA Assistance Agreement recognizes that the District may issue additional bonds on a parity with the Prior Bonds, on a basis superior to the pledge securing the District's loan repayment obligations under the KIA Assistance Agreement, upon satisfying the coverage test (annual net revenues over maximum annual debt service on the Prior Bonds and the additional parity bonds of at least 1.20 times) contained in Section 9(A)(iii) of the 2000 Resolution; and

WHEREAS, the District has determined that the above-described parity bond test can and shall be satisfied so that the additional parity bonds herein authorized may be issued on a basis of parity with the Prior Bonds; and

WHEREAS, in proceedings before the Public Service Commission of Kentucky, the District has obtained the right and authority to construct and operate major extensions and additions to the System, and plans and specifications have heretofore been prepared by Gastineau & Associates, Inc., Nicholasville, 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 aforesaid project will be \$2,800,000, 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 \$1,894,000, which will be supplemented by a USDA grant in the sum of \$900,000 and available funds of the District in the amount of at least \$6,000; and

WHEREAS, it is now appropriate for the District to provide for borrowing said sum of \$1,894,000 through issuance and sale of its Water System Revenue Bonds, Series 2006A, in the principal amount of \$1,394,000, and Series 2006B, in the principal amount of \$500,000

(collectively the "2006 Bonds"), according to authority of Kentucky Revised Statutes ("KRS") Chapters 74 and 106 and the provisions of the 1988, 1993, 1996, 2000 and 2002 Resolutions (the "Prior Resolutions") permitting the issuance of parity bonds; and the 2006 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 GALLATIN COUNTY WATER DISTRICT, GALLATIN COUNTY, 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 acquisition, construction and installation of additions and extensions to the District's public water distribution system (the "Project"), all substantially according to the plans, specifications and designs prepared for the District by Gastineau & Associates, Inc., Nicholasville, Kentucky (the "Engineers"). 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 District's public water distribution system, as expanded and improved from time to time (the "System"), and so long as any of the 2006 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 2006 Bonds and all other parity bonds outstanding heretofore or hereafter issued. The Project is to be undertaken and the System is to be operated pursuant to the provisions of KRS Chapters 74 and 106, now in full force and effect.

SECTION 3

2006 BOND ISSUE AUTHORIZED; CERTAIN
TERMS AND DETAILS

For the purpose of providing funds to defray the costs of the Project (to the extent not otherwise provided to be paid), including all necessary and proper appurtenances, and expenses incident thereto and incident to the issuance of the 2006 Bonds hereinafter authorized, there are hereby authorized to be issued the District's Water System Revenue Bonds, Series 2006A, in the principal amount of \$1,394,000, and Series 2006B, in the principal amount of \$500,000 (collectively the "2006 Bonds"), 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 on a parity, one with the other, subject to the conditions and restrictions hereinafter adopted and set forth. The 2006 Bonds hereby authorized shall be offered at public sale as provided in Section 4 hereof, and each such series shall be issuable in the form of a single fully registered bond as provided in Section 5 hereof.

The 2006 Bonds shall be dated as of the date of delivery to the original purchaser thereof; shall mature as to principal in installments on January 1 in each of the years 2009 to 2046, inclusive, as set forth in the schedules 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 rates as may be established by a supplemental Resolution upon the basis of competitive sale of the 2006 Bonds as hereinafter provided. The installments of principal of the 2006 Bonds, each series in fully registered form as aforesaid, shall be as set forth in the following schedule:

Series 2006A (\$1,394,000)

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2009	\$ 15,000	2022	\$ 26,000	2035	\$ 45,000
2010	16,000	2023	27,000	2036	47,000
2011	16,000	2024	28,000	2037	50,000
2012	17,000	2025	30,000	2038	52,000
2013	18,000	2026	31,000	2039	54,000
2014	19,000	2027	32,000	2040	56,000
2015	19,000	2028	34,000	2041	59,000
2016	20,000	2029	35,000	2042	61,000
2017	21,000	2030	37,000	2043	64,000
2018	22,000	2031	38,000	2044	66,000
2019	23,000	2032	40,000	2045	69,000
2020	24,000	2033	42,000	2046	72,000
2021	25,000	2034	44,000		

Series 2006B (\$500,000)

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2009	\$ 5,200	2022	\$ 9,200	2035	\$ 16,300
2010	5,400	2023	9,600	2036	17,100
2011	5,700	2024	10,100	2037	17,800
2012	5,900	2025	10,500	2038	18,600
2013	6,200	2026	11,000	2039	19,500
2014	6,500	2027	11,500	2040	20,400
2015	6,800	2028	12,000	2041	21,300
2016	7,100	2029	12,500	2042	22,200
2017	7,400	2030	13,100	2043	23,200
2018	7,700	2031	13,700	2044	24,300
2019	8,100	2032	14,300	2045	25,400
2020	8,400	2033	15,000	2046	26,600
2021	8,800	2034	15,600		

provided, however, that installments of principal of 2006 Bonds maturing on and after January 1, 2018, 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, 2017, 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 2006 Bonds; provided, that so long as USDA, or any of its assigns, is the owner of any of the 2006 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 2006 Bonds may be prepaid only in increments of \$100.

Both principal of and interest on the 2006 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 2006 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 2006 Bond. The 2006 Bonds, together with the Prior Bonds, and the interest thereon, and any bonds which may hereafter be issued on a basis of parity therewith subject to the conditions and restrictions hereinafter set forth, shall be payable only out of the Water System Bond and Interest Sinking Fund created by the 1988 Resolution, 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 and hereby pledges to said Fund, subject to the terms hereof.

SECTION 4

PROVISIONS RELATING TO SALE OF 2006 BOND ISSUE

The 2006 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 newspapers published in Gallatin, Boone and Grant 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.

Each such Notice shall state the name and amount of 2006 Bonds to be sold, the time of the sale and other details concerning the 2006 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 2006 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 2006 Bonds and who are not purchasing for more than one account and do not intend to redistribute the 2006 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 2006 Bonds.

(B) A single interest rate for each series of the 2006 Bonds must be stipulated in a multiple of 1/8 or 1/10 of one percent.

(C) Bids will be considered only for both series of 2006 Bonds.

(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 2006 Bonds, which good faith deposit may be applied as partial payment for the 2006 Bonds, or as liquidated damage 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 2006 Bonds bid for, computed from the first day of the month following the date of sale of the 2006 Bonds (even though the 2006 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 or bidders must be prepared to accept delivery of and pay for, the 2006 Bonds at the office of the District within 45 days after notice is given of the award. If the 2006 Bonds are not ready for delivery and payment within 45 days from the aforesaid date of sale, the successful bidder or bidders shall be relieved of any liability to accept delivery of the 2006 Bonds, except that 2006 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 2006 Bonds, together with evidence of approval of the 2006 Bond issue by the Public Service Commission of Kentucky pursuant to the requirements of KRS Chapter 278 and customary closing documents, including no-litigation certificate.

(J) The successful bidder will receive the approving legal opinion of Stoll Keenon Ogden PLLC, Bond Counsel, Louisville, Kentucky, as to the legality of and tax-exempt status of interest on the 2006 Bonds, without additional cost to the successful bidder.

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 sale of the 2006 Bonds.

SECTION 5

2006 BONDS TO BE ISSUED IN FULLY REGISTERED FORM; FULLY REGISTERED BOND FORM

Upon the sale of the 2006 Bonds, the District shall issue a single fully registered 2006 Bond numbered R-1 (hereinafter referred to as a "Fully Registered Bond") for each series. Each Fully Registered Bond shall be in the aggregate principal amount of the 2006 Bonds it represents, maturing as to principal in installments as set out in Section 3 hereof. Each 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. Each 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 2006 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 each Fully Registered Bond shall be kept by the Secretary, who is hereby appointed as Bond Registrar in connection with such 2006 Bond. Each 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 each 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.

Each 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
GALLATIN, BOONE AND GRANT COUNTIES, KENTUCKY
GALLATIN COUNTY WATER DISTRICT
WATER SYSTEM REVENUE BOND, SERIES _____

No. R-1

\$ _____

KNOW ALL MEN BY THESE PRESENTS:

That Gallatin County 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 Gallatin, Boone and Grant 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

_____ (\$_____) 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 2006 Bonds,
Series 2006A and Series 2006B, respectively]

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 said Department of Agriculture from time to time.

This Bond is the Bond in fully registered form representing a duly authorized series of Bonds designated "Water System Revenue Bonds, Series ____" in the principal amount of \$_____ issued by the District pursuant to the Constitution and Statutes of the Commonwealth of Kentucky, including 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 (to the extent not otherwise provided to be paid) of acquiring, constructing and installing extensions and additions to the District's public water distribution system (the "System"), together with appurtenant facilities, and incidental expenses.

This Bond and the series which it represents, together with the bonds ranking on a parity therewith that have previously been and are concurrently being issued and are outstanding and such additional bonds that may subsequently 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 of which it forms a part, and any 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 Revenue Bond and Interest Sinking Fund." This Bond and the series it represents rank on a parity with certain identically styled bonds designated Series ____ and issued concurrently herewith pursuant to the Bond-authorizing Resolution.

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 and by the aforesaid Resolution for the benefit and protection of the holder of this Bond, and the same shall remain in effect until payment in full of the principal of and interest on this Bond.

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 issue of Bonds, and all other bonds ranking on a parity therewith as may be issued and outstanding from time to time in accordance with the conditions and restrictions prescribed in that connection, 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, 2017, 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 \$100 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 the 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 series of which this Bond forms a part, 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 Gallatin County 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 _____.

GALLATIN COUNTY 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 Gallatin County 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 2006 Bonds)

SECTION 6

DISPOSITION OF 2006 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 the First Farmers Bank & Trust Company, Warsaw, Kentucky, or in such other 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 2006 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 2006 Bonds shall be applied as follows:

Upon the issuance and delivery of the 2006 Bonds authorized by this Resolution, the entire proceeds thereof shall be deposited in an account designated "Gallatin County Water District 2006 Construction Fund" (the "Construction Fund"), which is hereby created. Said 2006 Bond proceeds 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 2006 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 2006 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 2006 Bonds (following delivery thereof) during construction and development of the Project shall be earmarked, used and applied to the payment of interest on the 2006 Bonds next becoming due.

Disbursements from the Construction Fund shall be made by checks signed by the District Treasurer, and such disbursements shall be authorized and approved in writing by the District Chairman and 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 2006 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 unexpended balance shall remain in the Construction Fund after completion of the Project, and payment of all of the costs thereof, as certified by the Engineers, 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 Revenue Bond and Interest Sinking Fund, hereinafter referred to, and shall be used at the earliest practicable date for the retirement of 2006 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 2006 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 2006 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 2006 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 any 2006 Bonds herein authorized or permitted to be issued, and so long as any thereof remain outstanding and unpaid, the System shall be operated on a fiscal year basis beginning each January 1 and ending on the next December 31, and on that basis the income and revenues shall be collected, segregated, accounted for and distributed as set out in the following paragraphs of this Section 7.

A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was heretofore created by the 1988 Resolution, and is designated and identified as the "Gallatin County Water District Water Revenue Fund" (the "Revenue Fund"), which Fund is hereby continued and shall be maintained with the Depository Bank; and the District covenants and agrees that it will continue to deposit therein, promptly as received from time to time, all income and revenues of the System as hereinafter defined. The moneys in the Revenue Fund from time to time shall be used and disbursed and applied by the District only for the purposes, and in the manner and order of priorities, specified in the succeeding subsections of this Section 7, all as permitted by applicable statutes, and in accordance with pre-existing contractual commitments, as follows:

(A) A separate and special fund or account of the District was created by the 1988 Resolution and is designated and identified as the "Gallatin County Water District Water Revenue Bond and Interest Sinking Fund" (the "Bond Fund"), which Fund is hereby continued and shall continue to be maintained so long as any of the Prior Bonds and 2006 Bonds or additional parity bonds permitted to be issued 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 outstanding Prior Bonds and 2006 Bonds, and additional parity bonds, if any are issued.

There shall continue to be transferred on or before the 20th day of each month from the Revenue Fund to the Bond Fund on account of the Prior Bonds sums prescribed by the Prior Resolutions. In addition, there shall be transferred from the Revenue Fund into the Bond Fund on account of the 2006 Bonds sums not less than:

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

(ii) beginning on January 20, 2008, a sum equal to one-twelfth (1/12) of the principal of all 2006 Bonds maturing on the next succeeding January 1.

In the event additional parity bonds are issued pursuant to the conditions and restrictions set forth hereinafter, 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 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.

(B) A separate and special fund or account of the District was heretofore created by the 1988 Resolution, distinct and apart from all other funds and accounts of the District, and is designated and identified as the "Gallatin County Water District Reserve and Depreciation Fund" (the "Reserve Fund"), which Fund is hereby continued.

After observing the priority of deposits set forth in (A) above, which are cumulative, there shall be set apart and paid into the Reserve Fund each month not less than \$1,947 (or more, if fixed by Resolution of the Commission of the District) from the remaining funds in the Revenue Fund, such monthly deposits to continue so long as any bonds payable from the income and revenues of the System remain outstanding and unpaid.

In addition to the above deposits from the Revenue Fund, there shall also be deposited in the Reserve 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. Any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System shall, unless otherwise directed by the Commission of the District, be paid, as received, into the Reserve Fund. The term "cash revenues" of the System, as used in Section 7 hereof, means all proceeds of water service rates and charges, and does not include any of the cash items enumerated in this paragraph.

The Reserve Fund shall be available and may be withdrawn and used by the District, upon appropriate certification as to the authorization for such withdrawal, 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 higher 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 Reserve 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 after 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 Reserve 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.

(C) A separate and special fund or account of the District was heretofore created by the 1988 Resolution, distinct and apart from all other funds and accounts of the District, and is designated and identified as the "Gallatin County Water District Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), which Fund shall continue to be maintained for the benefit of the System and all bonds payable from the income and revenues of the System. The District covenants that it will transfer monthly from the funds in the Revenue Fund, after making the transfers required by (A) and (B) of this Section 7 (which are cumulative), to the Operation and Maintenance Fund sums sufficient to pay as they accrue 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.

(D) Subject to the provisions of subparagraphs (A), (B) and (C) 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 inverse 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 2006 Bonds and parity bonds at any time issued and outstanding pursuant to authority of this Resolution 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 2006 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 2006 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 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 2006 Bonds or parity bonds in accordance with the provisions governing prepayment of 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 so long as USDA owns any of the 2006 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 and other debt 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 2006 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 2006 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 Reserve 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 make the monthly payments specified by subsection (B) of 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 the Prior Resolutions and in this Resolution, in the amount 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 2006 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 2006 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 2006 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 2006 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 Reserve 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 per centum (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 Workmen's 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 2006 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 2006 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 2006 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 2006 Bonds herein authorized, and the outstanding Prior 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 2006 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 Prior Bonds and 2006 Bonds;
- (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 net revenues (defined as gross revenues less essential operation and maintenance expenses) of the System for the fiscal year preceding the year of issuance of additional parity bonds (with adjustments as hereinafter provided) are certified by an independent certified public accountant to have been equal to at least one and twenty hundredths (1.20) times the maximum annual requirement for principal of and interest on all Prior Bonds, 2006 Bonds and parity bonds, if any, then outstanding and on the additional bonds proposed to be issued. Such net revenues may be adjusted for the purpose of the foregoing computations to reflect

(a) any revisions in the schedule of water rates and charges being imposed at the time of the issuance of the additional bonds proposed to be issued and (b) any increase in such net revenues projected by reason of the revenues reasonably anticipated to be derived from the new water service facilities (to be made a part of the System) being financed in whole or in part by such additional bonds; provided that such latter adjustment shall be made only if a contract or contracts for the immediate construction and acquisition of such new water service facilities have been entered into prior to the issuance of such additional bonds. All of such adjustments shall be based upon the written certification of a recognized independent consulting engineer or firm of consulting engineers. The foregoing conditions and limitations prescribed in this subparagraph (iii) may be waived or modified by the written consent of the holders of at least seventy-five percent (75%) in principal amount of the outstanding Prior Bonds, 2006 Bonds and parity bonds, if any.

(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(A) hereof to reflect the annual debt service on the additional bonds;
- (ii) adjust and increase appropriately the monthly amount to be deposited into the Reserve Fund 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 2006

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 2006 Bonds and parity bonds herein authorized to be issued. 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 2006 Bonds and parity bonds herein otherwise referred to, without any proof of previous earnings or net revenues, but only if (a) such bonds or other obligations are issued to provide for additions or extensions or improvements of the System, (b) 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 2006 Bonds and parity bonds herein authorized and permitted to be issued, and (c) if such bonds or obligations are to be issued to the Kentucky Infrastructure Authority or its successor ("KIA") or on a parity with any such outstanding KIA obligations, the District shall deliver to KIA a written certificate of the Chairman to the effect that the net revenues as provided in Section 9(A)(iii) were at least 1.10 times the maximum annual principal and interest requirement on all outstanding obligations payable from the revenues of the System and the obligations to be issued, subject to the adjustment provisions provided for in Section 9(A)(iii) hereof. Provided, however, that nothing in this Section is intended or shall be construed as a restriction upon the ordinary refunding of the 2006 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 2006 Bonds herein authorized and any parity bonds herein permitted to be issued, and after the issuance of any of the 2006 Bonds, no change, variation or alteration of any kind of the provisions of this Resolution shall be made in any manner without the written consent of the holder or holders of the 2006 Bonds, except as herein provided, until such time as all of the 2006 Bonds and parity bonds issued hereunder, 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 Section 106.080 of the Kentucky Revised Statutes for the benefit and protection of the holders of the Prior Bonds, 2006 Bonds and parity bonds permitted to be issued under authority of this Resolution, and of the interest payable thereon; and said statutory mortgage lien is hereby recognized and shall be effective with respect to the 2006 Bonds upon the delivery thereof 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 2006 Bonds and any 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 2006 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 2006 Bonds that so long as any of the 2006 Bonds remain outstanding, moneys on deposit in any fund or account in connection with the 2006 Bonds, whether or not such moneys were derived from the proceeds of the sale of the 2006 Bonds or from any other sources, will not be invested or used in a manner which will cause the 2006 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, as the same presently exist or may from time to time hereafter be amended, supplemented or revised. The Chairman and/or Secretary, as the officers of the District charged with the responsibility for issuing the 2006 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 term of the 2006 Bonds (i) less than 10% of the proceeds of the 2006 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 2006 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 2006 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 2006 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 2006 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 2006 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 2006 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 2006 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 2006 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 2006 Bonds. If for any reason the arbitrage rebate requirements of Section 148(f) of the Code should be deemed to apply to the 2006 Bonds, the District will take all action necessary to comply therewith.

(C) It is reasonably expected that during the term of the 2006 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 2006 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 2006 Bonds, other than (a) certain preliminary expenditures such as engineering and planning costs not exceeding 20% of the 2006 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 2006 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 2006 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 2006 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 2006 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 GALLATIN COUNTY WATER DISTRICT, GALLATIN COUNTY, KENTUCKY, at a meeting held on the ____ day of September, 2006, signed by the Chairman, attested by the Secretary, and declared to be in full force and effect.

Attest:

Chairman of the Commission

Secretary

Certification

The undersigned, Secretary of the Commission of Gallatin County Water District, Gallatin County, Kentucky, hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission of said District at a properly convened meeting of the Commission of said District held on the ____ day of September, 2006, signed by the Chairman thereof and attested by me as Secretary, as shown by the official records in my custody and under my control.

WITNESS my hand this September __, 2006.

Secretary

Exhibit F



United States Department of Agriculture
Rural Development
Kentucky State Office

AUG 25 2006

August 18, 2006

Mr. Victor B. Satchwell, Chairman
Gallatin County Water District
4500 Highway 455
Sparta, Kentucky 41086

Re: Letter of Conditions Dated April 6, 2004

Dear Mr. Satchwell:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated April 6, 2004. The purpose of this amendment is to provide amended requirements and conditions of approval in conjunction with an additional \$500,000 RUS loan.

The Second Paragraph on Page 1 is revised to read as follows:

“ 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 \$1,894,000 and a RUS grant not to exceed \$900,000. ”

Paragraph numbered “1” is revised to read as follows:

“ 1. Number of Users and Their Contribution:

There shall be 1,829 water users, of which 1,814 are existing users and 15 are new users contributing \$6,000 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 Area Director will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids.

There shall also be two large, bulk users in addition to the 1,829 users mentioned above:

- A. Water will be sold to Kentucky American Water Company at the bulk rate of \$1.46 per 1,000 gallons. The District will submit a satisfactory Water Purchase Contract with Kentucky American wherein Kentucky American agrees to purchase at least 559,967 gallon per month from the District.

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7336 • Fax: (859) 224-7444 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

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1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

- B. Water will also be sold to the Kentucky Speedway. The District will submit a satisfactory contract with the Kentucky Speedway wherein they agree to purchase a minimum of \$35,000 of water annually. ”

Paragraph numbered “6” is revised to read as follows:

“ 6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The District will be required to deposit \$865 per month into a "Funded Depreciation Reserve Account" until the account reaches \$103,800. The deposits are to be resumed any time the account falls below the \$103,800.

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

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.

The District also needs to fund an account for short-lived assets by depositing a sum of \$5,535 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District’s water system. ”

Paragraph numbered “13” is revised to read as follows:

“ 13. Insurance and Bonding:

The following insurance and bonding will be required:

- C. Fidelity Bond - The 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 \$211,000. ”

Paragraph numbered “15” is revised to read as follows:

“ 15. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap. ”

Paragraph numbered "24" is revised to read as follows:

“ 24. Cost of Facility:

Breakdown of Costs:

Development	\$ 2,156,890
Land and Rights	57,000
Legal and Administrative	38,700
Engineering	241,420
Interest	46,750
Environmental	5,000
Contingencies	<u>254,240</u>

TOTAL \$ 2,800,000

Financing:

RUS Loan	\$ 1,894,000
RUS Grant	900,000
Applicant Connection Fees	<u>6,000</u>
TOTAL	\$ 2,800,000 ”

Paragraph numbered “26” is revised to read as follows:

“ 26. Use of Remaining Project Funds:

The applicant connection fees shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS grant funds and refunded to RUS. If the amount of unused project funds exceeds the grants, that part would be RUS loan funds. ”

Paragraph numbered “27” is revised to read as follows:

“ 27. Rates and Charges:

Rates and charges for facilities and services rendered by the 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	1,000	gallons @ \$	16.60 - Minimum Bill.
Next	2,000	gallons @ \$	5.80 - per 1,000 gallons.
Next	2,000	gallons @ \$	5.50 - per 1,000 gallons.
Next	5,000	gallons @ \$	5.20 - per 1,000 gallons.
All Over	10,000	gallons @ \$	5.00 - per 1,000 gallons.

Bulk sales to Kentucky American will be at the bulk rate of \$1.46 per 1,000 gallons. Sales to Kentucky Speedway will be a flat rate equivalent to \$2,917 monthly, or a minimum of \$35,000 annually.

Non-Recurring Charges:

5/8 x 3/4 Inch Meter Connection/Tap-on Charges	530.00
All Large Meters	Actual Cost
Connection/Turn-on Charge	35.00
Connection/Turn-on Charge - After Hours	60.00
Disconnect/Reconnect	70.00
Field Collection Charge	35.00
Late Payment Penalty	10%
Meter Re-read	35.00
Meter Test Charge	60.00
Returned Check	25.00
Service Line Inspection	35.00
Meter Relocation	Actual Cost
Credit Card Payment	2.00 ”

Paragraph numbered "32" is added to read as follows:

" 32. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the District will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA). "

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,


KENNETH SLONE
State Director

cc: Area Director - Shelbyville, Kentucky
Rural Development Manager - Williamstown, Kentucky
Northern Kentucky ADD - Florence, Kentucky
Steven P. Huddleston - Warsaw, Kentucky
Ogden, Newell Welch - Louisville, Kentucky
Gastineau & Associates - Nicholasville, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



Rural Development
A mission area of the
United States Department of Agriculture

771 Corporate Drive, Suite 200
Lexington, KY 40503-5477
859/224-7336 Fax 859/224-7344
TTY 859/224-7422

Rural Business
Cooperative Service

April 6, 2004

Rural Housing
Service

Rural Utilities
Service

Mr. Denny French, Chairman
Gallatin County Water District
4500 Highway 455
Sparta, Kentucky 41086

Dear Mr. French:

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 \$1,394,000 and a RUS grant not to exceed \$900,000.

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 1,612 water users, of which 1,597 are existing users and 15 are new users contributing \$6,000 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 Area Director 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.

2. 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.

3. 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."

4. 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.

5. 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 Area Director will furnish the necessary forms and further guidance on the PAD procedure.

6. Funded Depreciation Reserve Account:

The Water District will be required to deposit \$645.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$77,400. The deposits are to be resumed any time the account falls below the \$77,400.

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.

7. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds, if possible. If this is not possible, the bond will be subordinate and junior to the existing bonds, in which case the Water District will be required to abrogate its right to issue additional bonds ranking on a parity with the existing bonds, so long as any unpaid indebtedness remains on this bond issue.

8. 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.

9. Organization:

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

10. 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.

11. 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.

12. 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.

13. 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 \$183,000.
- 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.

14. 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 "24" 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 Area Director 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.

15. 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.

16. 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.

17. 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.

18. Treatment Plant/System Operator:

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

19. 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.

20. 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.

21. 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.

22. 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.

23. 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.

24. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,716,000
Land and Rights	57,000
Legal and Administrative	15,000
Engineering	242,000
Interest	60,000
Contingencies	<u>210,000</u>
TOTAL	\$ 2,300,000

Financing:

RUS Loan	\$ 1,394,000
RUS Grant	900,000
Applicant Contribution	<u>6,000</u>
TOTAL	\$ 2,300,000

25. 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.

26. 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 grant funds and refunded to RUS. If the amount of unused grant funds exceeds the grant, that part would be RUS loan funds.

27. 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	1,000 gallons @ \$	14.00 - Minimum Bill.
Next	2,000 gallons @ \$	5.50 - per 1,000 gallons.
Next	2,000 gallons @ \$	5.30 - per 1,000 gallons.
Next	5,000 gallons @ \$	5.10 - per 1,000 gallons.
All Over	10,000 gallons @ \$	5.00 - per 1,000 gallons.

28. Water Purchase Contract:

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

29. 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.

30. Mitigation Measures:


- A. The project shall be in compliance with all requirements noted in the Kentucky Department for Local Government letter dated January 15, 2003, from Mr. Ronald A. Cook, Manager.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated September 18, 2002, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without affect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

31. 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 Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,


KENNETH SLONE
State Director

Enclosures

cc: Area Director - Shelbyville, Kentucky *Gene Floyd*
Rural Development Manager - Williamstown, Kentucky
Northern Kentucky ADD - Florence, Kentucky
Steven P. Huddleston - Warsaw, Kentucky
Harper, Ferguson & Davis - Louisville, Kentucky
Gastineau & Associates - Nicholasville, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

August 24, 2006

Attn: William W. Davis
Stoll Keenon Ogden
1700 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202-2874

Re: Gallatin County Water District
\$1,394,000 Series A and \$500,000 Series B Bond Issues

Dear Mr. Davis:

We are enclosing the Maturity Schedule for the referenced Bond Issues. The required deposits to the Funded Depreciation Reserve Account are \$865 per month with a required level of \$103,800. The Rural Development Series A loan of \$1,394,000 was approved at an interest rate of 4.375% and the Series B loan of \$500,000 at 4.500%.

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 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
Gastineau & Associates - Nicholasville, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7336 • Fax: (859) 224-7444 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

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To file a complaint of discrimination write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

BOND SCHEDULE, 8/21/2006

Name of Borrower: Gallatin County Water District			
Amount of Loan	1394000	Annual Interest Rate	0.04375
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
2007	1	1	60988	60988	0	1394000
2008	1	2	60988	60988	0	1394000
2009	1	3	75988	60988	15000	1379000
2010	1	4	76332	60332	16000	1363000
2011	1	5	75632	59632	16000	1347000
2012	1	6	75932	58932	17000	1330000
2013	1	7	76188	58188	18000	1312000
2014	1	8	76400	57400	19000	1293000
2015	1	9	75569	56569	19000	1274000
2016	1	10	75738	55738	20000	1254000
2017	1	11	75863	54863	21000	1233000
2018	1	12	75944	53944	22000	1211000
2019	1	13	75982	52982	23000	1188000
2020	1	14	75975	51975	24000	1164000
2021	1	15	75925	50925	25000	1139000
2022	1	16	75832	49832	26000	1113000
2023	1	17	75694	48694	27000	1086000
2024	1	18	75513	47513	28000	1058000
2025	1	19	76288	46288	30000	1028000
2026	1	20	75975	44975	31000	997000
2027	1	21	75619	43619	32000	965000
2028	1	22	76219	42219	34000	931000
2029	1	23	75732	40732	35000	896000
2030	1	24	76200	39200	37000	859000
2031	1	25	75582	37582	38000	821000
2032	1	26	75919	35919	40000	781000
2033	1	27	76169	34169	42000	739000
2034	1	28	76332	32332	44000	695000
2035	1	29	75407	30407	45000	650000
2036	1	30	75438	28438	47000	603000
2037	1	31	76382	26382	50000	553000
2038	1	32	76194	24194	52000	501000
2039	1	33	75919	21919	54000	447000
2040	1	34	75557	19557	56000	391000
2041	1	35	76107	17107	59000	332000
2042	1	36	75525	14525	61000	271000
2043	1	37	75857	11857	64000	207000
2044	1	38	75100	9100	66000	140000
2045	1	39	75169	6169	69000	70000
2046	1	40	75150	3150	72000	0
TOTALS			3004323	1610323	1394000	

Warning: This schedule is an estimate of payments. Rural Development calculates interest amounts and principle reduction as of the date the payment is processed. Because over the life of the loan payments will be processed on dates other than the due date, the actual interest amounts and principle reduction will not match the schedule provided here.

BOND SCHEDULE, 8/21/2006

Name of Borrower: Gallatin County Water District			
Amount of Loan	500000	Annual Interest Rate	0.045
Number of Initial Interest Only Payments	2	Number of principal and/or Interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	100	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2007	1	1	22500	22500	0	500000
2008	1	2	22500	22500	0	500000
2009	1	3	27700	22500	5200	494800
2010	1	4	27666	22266	5400	489400
2011	1	5	27723	22023	5700	483700
2012	1	6	27667	21767	5900	477800
2013	1	7	27701	21501	6200	471600
2014	1	8	27722	21222	6500	465100
2015	1	9	27730	20930	6800	458300
2016	1	10	27724	20624	7100	451200
2017	1	11	27704	20304	7400	443800
2018	1	12	27671	19971	7700	436100
2019	1	13	27725	19625	8100	428000
2020	1	14	27660	19260	8400	419600
2021	1	15	27682	18882	8800	410800
2022	1	16	27686	18486	9200	401600
2023	1	17	27672	18072	9600	392000
2024	1	18	27740	17640	10100	381900
2025	1	19	27686	17186	10500	371400
2026	1	20	27713	16713	11000	360400
2027	1	21	27718	16218	11500	348900
2028	1	22	27701	15701	12000	336900
2029	1	23	27661	15161	12500	324400
2030	1	24	27698	14598	13100	311300
2031	1	25	27709	14009	13700	297600
2032	1	26	27692	13392	14300	283300
2033	1	27	27749	12749	15000	268300
2034	1	28	27674	12074	15600	252700
2035	1	29	27672	11372	16300	236400
2036	1	30	27738	10638	17100	219300
2037	1	31	27669	9869	17800	201500
2038	1	32	27668	9068	18600	182900
2039	1	33	27731	8231	19500	163400
2040	1	34	27753	7353	20400	143000
2041	1	35	27735	6435	21300	121700
2042	1	36	27677	5477	22200	99500
2043	1	37	27678	4478	23200	76300
2044	1	38	27734	3434	24300	52000
2045	1	39	27740	2340	25400	26600
2046	1	40	27797	1197	26600	0
TOTALS			1097766	597766	500000	

Warning: This schedule is an estimate of payments. Rural Development calculates interest amounts and principle reduction as of the date the payment is processed. Because over the life of the loan payments will be processed on dates other than the due date, the actual interest amounts and principle reduction will not match the schedule provided here.