

MOUNTAIN WATER DISTRICT
PIKE COUNTY, KY

RECEIVED

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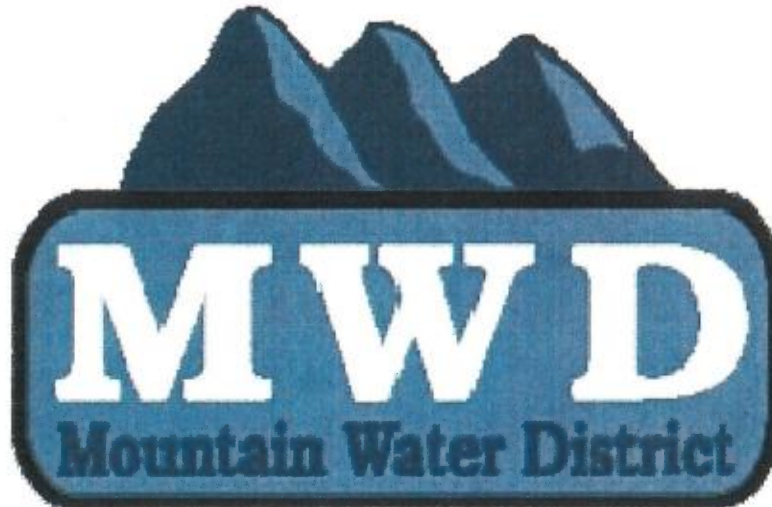
PUBLIC SERVICE
COMMISSION

PSC FIRST REQUEST FOR
INFORMATION

CASE NO. 2014-00342

Vol. 4 of 7

Q: 14 - 18



EMPLOYEE : CARRIE HATFIELD

BENEFITS	2012	2013
WAGES	\$52,000.00	\$54,079.93
RETIREMENT	\$9,859.20	\$10,394.17
INSURANCE	\$682.35	\$746.53
TOTAL FRINGE BENEFITS	\$62,541.55	\$65,220.63

EMPLOYEE: ROY SAWYERS

BENEFITS	2012	2013
WAGES	\$55,999.92	\$59,999.99
RETIREMENT	\$10,617.59	\$11,532.00
INSURANCE	\$0.00	
VEHICLE EXPENSE	\$9,000.00	\$9,000.00
TOTAL FRINGE BENEFITS	\$75,617.51	\$80,531.99

#15 Insurance Coverage for Employee's

- a. Health Insurance- Carrie Hatfield**
- b. Dental Insurance- Carrie Hatfield**
- c. Life Insurance – Carrie Hatfield**

ANTHEM BCBS KY INDIVIDUAL INDK-MB1 KY0303-A645
 1351 Wm Howard Taft
 Cincinnati, OH 45206-1775



An independent licensee of the Blue Cross and Blue Shield Association. ANTHEM Blue Cross and Blue Shield is the trade name of Anthem Health Plans of Kentucky, Inc. Registration marks Blue Cross and Blue Shield Association.

10/20/14 EFT14442

[REDACTED]
 [REDACTED]
 Hatfield, Carrie
 [REDACTED]

IDENTIFICATION

Due Date: 11-01-2014
 Billing Date: 10-24-2014
 Coverage Period From: 11-01-2014
 Coverage Period Through: 11-30-2014
 Total Amount Due: \$794.86

SEE REVERSE SIDE FOR BILLING DETAILS. Questions about your bill or interested in making your payment over the phone? For assistance, please call the Customer Service phone number listed on the back of your Identification Card.

Choosing to mail in your payment? Please allow 7 to 10 days to ensure timely processing of your payment. Please list your 9-digit Identification Number on your check, include the lower portion of this page and mail to the address specified.

If you pay by check, Anthem Blue Cross and Blue Shield charges a "Non-Sufficient Funds" (NSF) fee of \$25 for returned, unpaid checks.

IMPORTANT NOTICE: If you have received a reminder notice from Anthem regarding a past due payment, this bill includes all amounts that you owe to keep your policy in force. To avoid any lapse in coverage, the Total Amount Due listed on this bill must be received by the Due Date.

Anthem's issuance of this bill does not waive its contractual right to automatically terminate your coverage for failure to pay premiums in a timely manner. Payments recently mailed may not be reflected.

DETACH AND RETURN THIS SECTION WITH YOUR PAYMENT - DO NOT STAPLE

Hatfield, Carrie

MAKE CHECKS PAYABLE TO ANTHEM BLUE CROSS BLUE SHIELD AND MAIL TO THE ADDRESS BELOW

Subscriber ID #	From Date	Through Date	Due Date
[REDACTED]	11/01/2014	11/30/2014	11/01/2014
Amount Due		Amount Paid	
\$794.86			

Unit No. 003

INDK-MB1



ANTHEM BCBS KY INDIVIDUAL
 PO Box 105675
 Atlanta GA 30348-5675

1 4002177310000796225621131101201400000794860036

Si necesita ayuda en espa ol para emender este documento, puede solicitarla sin costo adicional, llamando al n mero de servicio al cliente que aparece al dorso de su tarjeta de identificaci n o en el folleto de inscripci n.

Invoice #: 121687602

PRIOR BILLING PERIOD COVERAGE FROM 10/01/2014 THRU 10/31/2014

Previous Total Due		\$794.86	
Payment	Received on 10/07/2014	(\$794.86)	
Outstanding Balance as of 10-24-2014			\$0.00

CURRENT PERIOD COVERAGE FROM 11/01/2014 THRU 11/30/2014

	Life 2	\$5.50	
	Dental 3	\$63.50	
	Life 3	\$11.00	
	Plan 49	\$714.86	
Current Period Total			\$794.86

PLEASE PAY THIS AMOUNT \$794.86

i11388IND1/BI13_B_IND_00007563_000121687602

PSC Request No 16 (a)

There were no test year expenditures. Post test year are summarized by service provider as attached.

PSC Response to Item 16(a)

Post Test-Year Expenditures

<u>Service Provider</u>	<u>GL Account</u>	<u>Amounts Billed</u>				<u>Totals</u>	
		<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>		
Michael R. Spears, CPA	Rate Filing Expense	675	3,555	8,720	4,549	17,499	(1)

(1) Hourly rates are \$150/ hr for CPA, and \$80/hr for non CPA accountant. Amounts billed were discounted significantly from these amounts.

MICHAEL R. SPEARS, CPA, PSC
CERTIFIED PUBLIC ACCOUNTANT
P. O. BOX 1270
PRESTONSBURG, KY 41653

MOUNTAIN WATER DISTRICT
P. O. BOX 3607
PIKEVILLE, KY 41501

Client #: 33050

Invoice # 17522

July 31, 2014

For Professional Services Rendered:

RATE INCREASE WORK

675.00

AUDIT PREP

3,936.00

Total Due

\$4,611.00
=====

MICHAEL R. SPEARS, CPA, PSC
CERTIFIED PUBLIC ACCOUNTANT
P. O. BOX 1270
PRESTONSBURG, KY 41653

MOUNTAIN WATER DISTRICT
P. O. BOX 3607
PIKEVILLE, KY 41501

Client #: 33050

Invoice # 17581

August 31, 2014

For Professional Services Rendered:

2013 AUDIT PREP	6,050.00
2014 RF	3,555.00
2013 PSC RET	2,000.00

Total Due

\$11,605.00
=====

MICHAEL R. SPEARS, CPA, PSC
CERTIFIED PUBLIC ACCOUNTANT
P. O. BOX 1270
PRESTONSBURG, KY 41653

MOUNTAIN WATER DISTRICT
P. O. BOX 3607
PIKEVILLE, KY 41501

Client #: 33050

Invoice # 17663

September 30, 2014

For Professional Services Rendered:

RATE FILING, MEETINGS IN LEXINGTON

8,720.00

Total Due

\$8,720.00
=====

MICHAEL R. SPEARS, CPA, PSC
CERTIFIED PUBLIC ACCOUNTANT
P. O. BOX 1270
PRESTONSBURG, KY 41653

MOUNTAIN WATER DISTRICT
P. O. BOX 3607
PIKEVILLE, KY 41501

Client #: 33050

Invoice # 17717

October 31, 2014

For Professional Services Rendered:

RATE INCREASE

4,549.00

Total Due

\$4,549.00
=====

Invoice

Summit Engineering, Inc.
 131 Summit Drive
 Pikeville, Kentucky 41501
 Telephone 606-432-1447; Fax 606-432-1440
 www.summit-engr.com

September 19, 2014

Mountain Water District
 P.O. Box 3607
 Pikeville, KY 41502

Project No: 006375.052
 Invoice No: 000000072231

Project 006375.052 MWD Rate Study

DO NOT BILL

Paradox # 14-434

Professional Services from June 30, 2014 to September 19, 2014

Phase 1 Study and Report
 Fee

Billing Phase	Fee	Percent Complete	Earned	
Initial Rate Filing	10,000.00	75.00	7,500.00	
Total Fee	10,000.00		7,500.00	
		Previous Fee Billing	0.00	
		Current Fee Billing	7,500.00	
		Total Fee		7,500.00
			Total this Phase	\$7,500.00

Phase 2 Post Filing Testimony

Total this Phase 0.00

Total this Invoice \$7,500.00

Summit Engineering, Inc., is a full service firm specializing in Mining, Civil and Environmental Engineering along with Surveying and Architectural Designs.

Please visit our web site at <http://www.summit-engr.com/>

Invoice

Summit Engineering, Inc.
131 Summit Drive
Pikeville, Kentucky 41501
Telephone 606-432-1447; Fax 606-432-1440
www.summit-engr.com

October 25, 2014
Project No: 006375.052
Invoice No: 000000072479

Mountain Water District
P.O. Box 3607
Pikeville, KY 41502

Project 006375.052 MWD Rate Study

Paradox # 14-434

Professional Services from September 20, 2014 to October 25, 2014

Phase 1 Study and Report
Fee

Billing Phase	Fee	Percent Complete	Earned	
Initial Rate Filing	10,000.00	100.00	10,000.00	
Total Fee	10,000.00		10,000.00	
		Previous Fee Billing	7,500.00	
		Current Fee Billing	2,500.00	
		Total Fee		2,500.00
			Total this Phase	\$2,500.00

Phase 2 Post Filing Testimony

Total this Phase 0.00
Total this Invoice \$2,500.00

Summit Engineering, Inc., is a full service firm specializing in Mining, Civil and Environmental Engineering along with Surveying and Architectural Designs.

Please visit our web site at <http://www.summit-engr.com/>

PSC Response to Item 16(b)

See attached.

Appendix D PSC Rate Case Expense

Service	Cost
Professional Services: Cost of Service Study	\$ 26,000.00
Professional Services: CPA	\$ 15,000.00
Professional Services: Rate Filing Attorney	\$ 60,000.00
MWD Attorney	\$ 13,500.00
Reproduction / Notices / Misc.	<u>\$ 10,000.00</u>
Total	<u>\$ 124,500.00</u>

$$\text{Annual Cost Over 3 Years} = \frac{\$124,500.00}{3} = \$ 41,500.00$$

Pro Rated between Water and Sewer using ratios established by UMG (Appendix C-1)

Annual Cost for Water	=	83%	×	\$41,500.00	=	<u>\$ 34,445.00</u>
Annual Cost for Sewer	=	17%	×	\$41,500.00	=	<u>\$ 7,055.00</u>

MICHAEL R. SPEARS, CPA, PSC
CERTIFIED PUBLIC ACCOUNTANT
P. O. BOX 1270
PRESTONSBURG, KY 41653

MOUNTAIN WATER DISTRICT
P. O. BOX 3607
PIKEVILLE, KY 41501

Client #: 33050

Invoice # 17663

September 30, 2014

For Professional Services Rendered:

RATE FILING, MEETINGS IN LEXINGTON

8,720.00

Total Due

\$8,720.00
=====

Invoice

Summit Engineering, Inc.
131 Summit Drive
Pikeville, Kentucky 41501
Telephone 606-432-1447; Fax 606-432-1440
www.summit-engr.com

October 25, 2014

Mountain Water District
P.O. Box 3607
Pikeville, KY 41502

Project No: 006375.052
Invoice No: 000000072479

Project 006375.052 MWD Rate Study

Paradox # 14-434

Professional Services from September 20, 2014 to October 25, 2014

Phase 1 Study and Report

Fee

Billing Phase	Fee	Percent Complete	Earned
Initial Rate Filing	10,000.00	100.00	10,000.00
Total Fee	10,000.00		10,000.00
		Previous Fee Billing	7,500.00
		Current Fee Billing	2,500.00
		Total Fee	2,500.00
		Total this Phase	\$2,500.00

Phase 2 Post Filing Testimony

Total this Phase 0.00

Total this Invoice \$2,500.00

Summit Engineering, Inc., is a full service firm specializing in Mining, Civil and Environmental Engineering along with Surveying and Architectural Designs.

Please visit our web site at <http://www.summit-engr.com/>

STATEMENT OF ACCOUNT

John N. Hughes, PSC
 Attorney at Law
 124 West Todd St.
 Frankfort, KY 40601

Invoice to:
 Mountain Water District
 % Dan Stratton
 Stratton Law Office
 111 Pike St.
 Box 1530
 Pikeville, KY 41502

Date of Invoice: October 15, 2014

Date	Reference	Time (Hrs)
9/9	Information to KH re: case issues, cost of service study	.59
9/10	Prepare documents, information for rate conference w/KH	.91
9/11	Rate conference w/KH, MS	3.5
	Mileage Lexington 42@\$.50	\$21.00
9/12	Prepare summary of rate meeting, prepare exhibit/case assignments; tele. DS, MS, KH	.75
9/15	Telephone DS re: rate issues	.09
9/17	Response KH re: COS issues	.16
9/18	Response DS re: rate case procedural matters	.42
9/19	Telephone DS, MS, KH re: case issues	.83
9/22	Research issues for rate application	5.25
9/24	Outline testimony issues	2.67
9/29	Response DS, MS re: sewer rate issues; conference KH, MS re: COS, case preparation	4
	Mileage Lexington 42@ \$.50	\$21.00
9/30	Draft KH COS testimony; tele. DS re: wholesale rate issues, customer notice	3.5
Expenses	Travel Summit Eng. Lexington – 84 miles @ \$.50	\$ 42.00
Sub total		22.67 <u>hrs@\$350.00</u> =\$7,934.50

Previous balance		\$3,262.00
Payment		\$3,262.00
Total Due		\$7,934.50

Invoice

Summit Engineering, Inc.
131 Summit Drive
Pikeville, Kentucky 41501
Telephone 606-432-1447; Fax 606-432-1440
www.summit-engr.com

September 19, 2014
Project No: 006375.052
Invoice No: 000000072231

Mountain Water District
P.O. Box 3607
Pikeville, KY 41502

Project 006375.052 MWD Rate Study

Paradox # 14-434

Professional Services from June 30, 2014 to September 19, 2014

Phase	1	Study and Report		
Fee				
Billing Phase	Fee	Percent Complete	Earned	
Initial Rate Filing	10,000.00	75.00	7,500.00	
Total Fee	10,000.00		7,500.00	
		Previous Fee Billing	0.00	
		Current Fee Billing	7,500.00	
		Total Fee	7,500.00	
			Total this Phase	\$7,500.00

Phase	2	Post Filing Testimony		
			Total this Phase	0.00
			Total this Invoice	\$7,500.00

Summit Engineering, Inc., is a full service firm specializing in Mining, Civil and Environmental Engineering along with Surveying and Architectural Designs.

Please visit our web site at <http://www.summit-engr.com/>

STATEMENT OF ACCOUNT

John N. Hughes, PSC
 Attorney at Law
 124 West Todd St.
 Frankfort, KY 40601

Invoice to:
 Mountain Water District
 % Dan Stratton
 Stratton Law Office
 111 Pike St.
 Box 1530
 Pikeville, KY 41502

Date of Invoice: September 5, 2014

Date	Reference	Time (Hrs)
6/9	Telephone DS; draft letter to PSC re: staff rate audit	.75
6/16	Review PSC cases re: recovery of contract costs; rate issues	.83
6/20	Review PSC letter re: staff audit; message DS	.25
6/25	Message DS re: Summit rate study	.09
7/14	Telephone DS re: rate issues	.16
7/15	Review rate case timeline and letter from DS	.67
7/16	Response to DS re: case timeline; message re: PSC case checklist for rate application	.91
7/30	Telephone DS re: rate issues	.09
8/20	Prepare documents, information for 8/22 rate case meeting	1.25
8/21	Review information for case meeting	.75
8/22	Rate conference KH, MS 9:30 – 12:30	3
8/28	Telephone DS re: rate issues	.09
8/29	Response KH re: COS/rate issues	.42
Expenses	Travel Summit Eng. Lexington 8/22 42 miles@. \$50	\$ 21.00
Sub total		9.26 <u>hrs@\$350.00</u> =\$3,241.00
Previous balance		\$ 0
Total Due		\$3,262.00

PSC Response to Item 16(c)

See 16(a) as it incorporate all test year and post test year to date.

**Mountain Water District
Current Water Loans.**

Funding Source	Project Name	Loan Number	Project Description
KIA	Feds Creek Water Plant	F01-07	This Project was for construction of a new water treatment plant and intake.
			The project also included a connection between the old plant and the new
			plant.
KIA	Indian Creek	B291-01	This project provided new water line along KY-610, Indian Creek and Long
			Fork, serving 548 new customers. In addition, the project increased pressure
			to 245 existing customers.
KIA	Multi-Area	B291-07	This project consists of twenty-one subprojects well distributed over Pike
			County. This project consisted of 66.6 miles of water lines with 12 booster
			pump stations.
RD	WTP Upgrades	91-40	This project is to increase the capacity of the existing the capacity of the
			existing Russell Fork Water Treatment Plant from 2 MGD to MGD by
			adding a third Actiflo treatment unit, an additional high service pump.
RD	Lower Johns Creek	91-33	This project provided water to approximately 322 households located in
			the Johns Creek area of Pike County.
RD	Russel Fork WTP	91-24	This project consists of the construction of a two-MGD water plant to
			supplement of the Water Districts main water supply which comes from
			the City of Pikeville. This project was considered Phase I.
Regions Bank	Consolidated Loan		This was to pay off prior RD bonds.

Indian Creek
3

KENTUCKY INFRASTRUCTURE AUTHORITY
ASSISTANCE AGREEMENT
FUND B2

PROJECT NUMBER B291-01

BORROWER: Mountain Water District

BORROWER'S ADDRESS P.O. Box 3157
Pikeville, Kentucky 41502

DATE OF ASSISTANCE AGREEMENT: April 1, 1993

ASSISTANCE AGREEMENT

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ASSISTANCE AGREEMENT

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

W I T N E S S E T H

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

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

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of September 1, 1989 (the "Indenture") between the Authority and First Kentucky Trust Company (the "Trustee") in order to provide funding for its Program; and

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

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

WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained to levy, collect, and enforce and remit adequate Service Charges, as hereinafter defined, for the services provided by the Governmental Agency's System, as hereinafter defined, and to apply the necessary portion of said Service Charges to the repayment of the Loan and the interest thereon, as hereinafter specifically provided; and

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

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

ARTICLE I

DEFINITIONS

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

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

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

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

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

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

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

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

"Commonwealth" shall mean the Commonwealth of Kentucky.

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

"Debt Obligations" shall mean those outstanding obligations of the Governmental Agency identified in the Project Specifics outstanding as of the date of this Assistance Agreement or issued in the future in accordance with the terms hereof, payable from the income and revenues of the System.

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

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

"Indenture" shall mean the General Trust Indenture dated as of September 1, 1989 between the Authority and the Trustee.

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

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

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

"Program" shall mean the program authorized by KRS 224A.112 and the Indenture as the "infrastructure revolving fund" for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

"Project" shall mean, when used generally, an infrastructure project as defined in the Act, and when used in specific reference to the Governmental Agency, the Project described in the Project Specifics.

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

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

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

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

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

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

ARTICLE II

REPRESENTATIONS AND WARRANTIES

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

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

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

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

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

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

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

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

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

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

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

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Assistance Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout;

such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

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

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

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

ARTICLE III

AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

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

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

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

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

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

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

Notwithstanding the foregoing, upon the determination by the Authority that it intends to issue revenue bonds secured by a pledge of the payments on the Loan, the Authority shall

advise the Governmental Agency (i) of its intention to proceed with the authorization of such bonds (ii) of the limitation on prepayments after such bonds are issued and (iii) that the Governmental Agency has thirty (30) days from its receipt of said notice to exercise its option to prepay the Loan. Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Loan shall be limited to the terms described in such notice.

Section 3.4. Subordination of Loan. The Authority hereby agrees that the security interest and source of payment for the Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT;
REQUISITION FOR FUNDS

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

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

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

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

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

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

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

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

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

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

(J) Prior to the award of the construction contract and prior to the commencement of construction, the Governmental Agency will arrange and conduct a conference as to the Project said conference to include representatives of the Authority, the Governmental Agency, and any other participating federal or state agency, the Engineers, and all construction contractors. A written brief of said conference summarizing the construction schedule, fund requirements schedule, payment authorizations, responsible parties for approval of all facets of the construction work and payment therefor, and other pertinent matters shall be prepared and distributed to each agency involved, and all construction contractors and Engineers.

Provided, however, that in the event construction shall have been initiated as of the date of this Assistance Agreement, this provision may be waived.

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

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

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

(N) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers to the Governmental Agency and approved by state and federal agencies, but only to the extent such approvals may be required.

(O) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Authority noting the participation of the Authority in the financing of the Project.

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

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

(R) The Governmental Agency shall require that any bid for any portion of the Construction of the Project be accompanied by a bid bond, certified check or other negotiable

instrument payable to the Governmental Agency, as assurance that the bidder will, upon acceptance of such bid, execute the necessary contractual documents within the required time.

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

(T) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Authority. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor, shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Authority, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

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

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

Section 4.2. Disbursements of Loan; Requisition for Funds. The Governmental Agency may submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) a Requisition for Funds during the first ten days of each month (or such other designated period as is acceptable

to the Authority), in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

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

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

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

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

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

ARTICLE V

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

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

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

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

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

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment period set forth in the Project Specifics, and shall be remitted to the Authority by the Governmental Agency with a report showing collections and any delinquencies. A report of all collections and delinquencies shall be made at least semi-annually on or before each Payment Date identified in the Schedule of Payments.

Section 5.5. Covenant to Establish Maintenance and Replacement Reserve. The Governmental Agency shall establish a special account identified as a "Maintenance and Replacement Reserve". On or before each payment date identified in the Schedule of Payments, the Governmental Agency shall deposit into the Maintenance and Replacement Reserve an amount equal to ten percent (10%) of the amount of such Loan payment until the amount on deposit in such fund is equal to five percent (5%) of the original principal amount of the Loan (the "Required Balance"). Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the costs of replacing worn or obsolete portions of the Project. If amounts are withdrawn from such fund, the Governmental Agency shall again make the periodic deposits hereinabove required until the Required Balance is reinstated.

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

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

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

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

(D) That it will notify the Authority in writing of its intention to issue bonds or notes payable from the revenues of the System not less than thirty (30) days prior to the sale of said obligations.

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

Section 5.8. Mandatory Sewer Connection. In the event that the Project consists of sanitary sewer facilities, the Governmental Agency hereby irrevocably covenants and agrees with the Authority that it will, to the maximum extent permitted by Kentucky law, and by means of ordinance, or other appropriate legislative order or action, mandatorily require the connection to and use of, the sanitary sewers constituting the Project by all persons owning, renting or occupying premises generating pollutants where such sanitary sewers are reasonably available to such premises, and to exhaust, at the expense of the Governmental Agency, all remedies for the collection of Service Charges, including, either directly or indirectly, pursuant to authority granted by Sections 96.930 to 96.943, inclusive, of the Kentucky Revised Statutes, and the Act, causing termination of water services to any premises where the bill for sewer services is delinquent and foreclosure and decretal sale in respect of improvement benefit assessments which are delinquent.

Section 5.9. Termination of Water Services to Delinquent Users. In the event the Project consists of water facilities the Governmental Agency covenants and agrees that it shall, pursuant to applicable provisions of law, to the maximum extent authorized by law, enforce and collect the Service Charges imposed upon users of the Project and facilities constituting the System, and will promptly cause water service to be discontinued to any premises where any billing for such facilities and services shall not be paid in a timely manner.

ARTICLE VI

OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

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

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

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

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

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

Section 6.6. Tax Covenant. In the event the Authority issues Bonds which are intended to be excludable from gross income for federal income tax purposes to provide the

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

Section 6.7. Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the System, which shall at all reasonable times be subject to the inspection of the Authority.

Section 6.8. Financial Statements. Within ninety (90) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principals on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity.

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

Section 6.10. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not sell, mortgage, or in any manner dispose of, or surrender

control or otherwise dispose of any of the facilities of the System or any part thereof (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 6.11. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act and this Assistance Agreement in accordance with the terms of such provisions including the Additional Covenants and Agreements, if any, set forth in Exhibit G hereto.

ARTICLE VII

MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

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

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

Section 7.3. Compliance with State and Federal Standards. The Governmental Agency agrees that it will at all times provide operation and maintenance of the Project to comply with the water quality standards, if any, established by any state or federal agency. The Governmental Agency agrees that qualified operating personnel properly certified by the Commonwealth will be retained to operate the Project during the entire term of this Assistance Agreement.

Section 7.4. Access to Records. The Governmental Agency agrees that it will permit the Authority and any state or federal agency and their respective agents to have access to the records of the Governmental Agency pertaining to the operation and maintenance of the Project at any reasonable time following completion of construction of the Project, and commencement of operations thereof.

Section 7.5. Covenant to Insure - Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political

subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.

Section 7.6. Authority as Named Insured. Any insurance policy issued pursuant to Section 7.5 hereof, shall be so written or endorsed as to make losses, if any, payable to the Governmental Agency, and to the Authority, as their interests may appear.

Section 7.7. Covenant to Insure - Liability. The Governmental Agency agrees that it will carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in the Commonwealth, insuring against such risks (including but not limited to personal inquiry, death and property damage) and in such amounts as are set forth in the Project Specifics, and naming the Authority as an additional insured.

Section 7.8. Covenant Regarding Worker's Compensation. Throughout the entire term of this Assistance Agreement, the Governmental Agency shall maintain worker's compensation coverage, or cause the same to be maintained.

Section 7.9. Application of Casualty Insurance Proceeds. If, prior to the completion of the term of this Assistance Agreement, the Project shall be damaged or partially or totally destroyed by fire, windstorm or other casualty, there shall be no abatement or reduction in the amount payable by the Governmental Agency pursuant to the terms of this Assistance Agreement, and the Governmental Agency will (1) promptly repair, rebuild or restore the Project damaged or destroyed; and (2) apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for such losses, as well as any additional moneys of the Governmental Agency necessary therefor. All net proceeds of insurance resulting from claims for such losses shall be paid to the Governmental Agency, and shall be promptly applied as herein provided.

Section 7.10. Eminent Domain. In the event that title to, or the temporary use of, the Project, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the minimum amounts payable by the Governmental Agency to the Authority pursuant to the terms of this Assistance Agreement, and any and all net proceeds received from any award made in such eminent domain proceedings shall be paid to and held by the Governmental Agency in a separate condemnation award account and shall be applied by the Governmental Agency in either or both of the following ways, as shall be determined by the Governmental Agency in its sole discretion:

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

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

Any balance of the net proceeds of the award in such eminent domain proceedings after the carrying out of the mandatory proceedings stipulated in (A) and (B) of this Section 7.10, shall be paid to the Governmental Agency upon delivery to the Authority of a certificate signed by an authorized officer of the Governmental Agency to the effect that the Governmental Agency has complied with either subparagraph (A) or (B), or both, of this Section, and written approval of such certificate by an authorized officer of the Authority. In no event will the Governmental Agency voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Project or any part thereof without the written consent of the Authority.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

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

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

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

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

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

Section 8.2. Remedies on Default. Whenever any Event of Default referred to in Section 8.1 has occurred and is continuing, the Authority may, without any further demand or notice, take one or any combination of the following remedial steps:

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

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

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

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

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

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

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

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

ARTICLE IX

MISCELLANEOUS PROVISIONS

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

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

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

Section 9.4. Binding Effect. This Assistance Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Assistance Agreement shall not be revocable by either of the parties, nor assignable by either parties without the written consent of the other party.

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

Section 9.6. Execution in Counterparts. This Assistance Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 9.7. Applicable Law. This Assistance Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 9.8. Venue. The parties hereto agree that in the event of a default by the Governmental Agency pursuant to the provisions of Article 8 of this Agreement, the Authority shall, to the extent permitted under the laws of the Commonwealth, have the right to file any necessary actions with respect thereto in Franklin Circuit Court.

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

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

ATTEST:

KENTUCKY INFRASTRUCTURE
AUTHORITY

Marilyn Eaton Thomas
Title Secretary/Treasurer

BY Gene Ziegler
Title Executive Director

ATTEST:

GOVERNMENTAL AGENCY:
MOUNTAIN WATER DISTRICT

By: Rudy Collis
Title: Secretary

By: Leon Huffman
Title: Chairman

APPROVED:

[Signature]
SECRETARY/FINANCE AND
ADMINISTRATION CABINET OF THE
COMMONWEALTH OF KENTUCKY

EXAMINED:

Beck, Shaffer + Williams
LEGAL COUNSEL TO THE KENTUCKY
INFRASTRUCTURE AUTHORITY

EXHIBIT A
PROJECT SPECIFICS
B291-01

NAME: Mountain Water District (Indian Creek)
CONTACT PERSON: Ernie Chaney, Executive Director
ADDRESS: P.O. Box 3157
Pikeville, Kentucky 41502-3157
TELEPHONE: 606-631-9162
or
Will Linder/Rob Nichols
Will Linder & Associates
218 Swiss Hills
Berea, Kentucky 40403
606-986-8406

ENGINEER: NAME: Kenvirons Engineers, Inc.
ADDRESS: P.O. Drawer V
452 Versailles Rd.
Frankfort, Kentucky 40601
CONTACT: Doug Griffin
TELEPHONE: 502-695-4357

LIABILITY INSURANCE

COVERAGE:

Death or Personal Injury (per person)	<u>2,000,000</u>
Death or Personal Injury (per occurrence)	<u>5,000,000</u>
Property Damage on System	<u>5,000,000</u>

ADMINISTRATIVE FEE: .20%

DEFAULT RATE: 10%

PROJECT COST

BREAKDOWN:

Acquisition	\$ 12,000
Construction	
Contract 24: Alpha Reclamation	925,879
Contract 25: Alpha Reclamation	831,467
Contract 26: KY Glass Lined Tanks	205,000
Contract 33: Micro Comm Telemetry	52,683
Additive: Shelby Creek Ext.	79,004
Additive: Hopkins Fork	49,000
Additive: KY 122	31,500
Sub-total	<u>2,174,533</u>
Engineering Design	155,342
Engineering Inspection	79,717
Legal	35,689
Planning	12,500
Administration	47,500
Capitalized Interest	74,252
Contingencies	<u>108,727</u>
TOTAL	<u>\$2,700,260</u>

SERVICE CHARGE

PAYMENT PERIOD: Monthly

PAYMENT DATES: The December 1 or June 1 succeeding the project completion date which is at least three months, but no more than nine months, after the project completion date.

LOAN RATE: 0%
 LOAN AMOUNT: \$337,760
 FINAL LOAN TERM
 (APPROXIMATELY): 20 Years
 ESTIMATED ANNUAL
 DEBT SERVICE: \$ 22,580 annual debt service
 675 administrative fee
 2,258 coverage for maintenance
 \$ 25,513 Total

OTHER FINANCING SOURCES:

FmHA (grant)	\$ 838,000
FmHA (loan)	662,000
CDBG	737,500
Mountain Water District Contribution	100,000
Tap-on Fees	25,000

DEBT OBLIGATIONS

CURRENTLY OUTSTANDING:

As  991

Bonds Payable

FmHA Bond Payable (Shelby Valley)	\$ 493,691
FmHA Bond Payable (Pond Creek)	689,135
FmHA Bond Payable (Grapevine)	488,195
FmHA Bond Payable (Raccoon)	1,488,895
FmHA Bond Payable (Dorton; not closed)	1,500,000
EDA Bond Payable (Payments have been halted until completion of current negotiations)	270,000

Notes Payable

3 - J.I. Case Credit	45,348
1 - Ford Motor Credit	54,202

PROJECT DESCRIPTION

The project will provide new water lines along KY-610, Indian Creek and Long Fork, serving 548 new customers. In addition, the project will provide increased pressure and an ample water supply to 245 existing customers on an undersized 4" line with supply and pressure problems. A total of 3 water storage tanks as well as 2 booster pump stations will also be constructed as part of the project.

EXHIBIT B

REQUEST FOR PAYMENT WITH RESPECT TO
ASSISTANCE AGREEMENT DATED _____

Request No. _____

Dated _____

ORIGINAL SENT TO: Kentucky Infrastructure Authority
Room 075, Capitol Annex
Frankfort, Kentucky 40601

COPY SENT TO: Ms. Nancy Sanders
Director, Community Programs
Department for Local Government
1024 Capitol Center Drive
Frankfort, Kentucky 40601

FROM: _____ ("Govenmental Agency")

Gentlemen:

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

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

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

ELIGIBLE PROJECT EXPENSES INCURRED

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

Total

ALLOCATION OF FUNDING FOR EXPENSES

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

Totals

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

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

Respectfully submitted,

Governmental Agency

By _____

Title _____

Certificate of Consulting Engineers as to
Payment Request

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

Engineer/Consultant

Firm Name

EXHIBIT C

SCHEDULE OF SERVICE CHARGES

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Third Revised Sheet No. 3

Cancelling P.S.C. Ky. No. 1

Second Revised Sheet No. 3

CLASSIFICATION OF SERVICE

6-Inch

First 150,000 gallons \$487.35 Minimum Bill
Over 150,000 gallons 3.20 per 1,000 gallons

Meter Rates for Monthly Usage in accordance with an order of the Public Service Commission of Kentucky in Case No. 93-060 dated March 11, 1993.

Wholesale Rate for Nolin Public Service District
All Usage is \$1.87 per 1,000 gallons

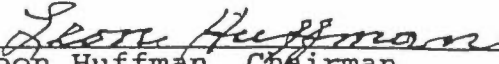
Wholesale Rate for City of Pikeville
All Usage is \$1.31 per 1,000 gallons

As per contract with the South Williamson Development Company, the following charges will be billed to users within the Southside Mall. These charges are not a part of the DISTRICT'S rate structure but are based on Mall charges relative to meter size.

5/8-Inch	\$11.30
3/4-Inch	\$15.05
1-Inch	\$33.88
1 1/2-Inch	\$60.27
2-Inch	\$80.30
3-Inch	\$125.47

Date Issued: March 18, 1993 Effective Date: March 18, 1993

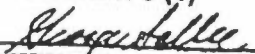
ISSUED BY: Mountain Water District, P.O. Box 3157,
Pikeville, Kentucky 41502-3157


Leon Huffman, Chairman

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

MAR 18 1993

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: 
CHIEF OF SERVICE

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Fourth Revised Sheet No. 2

Cancelling P.S.C. Ky No. 1

Third Revised Sheet No. 2

CLASSIFICATION OF SERVICE

Meter Rates for Monthly Usage in accordance with an order of the Public Service Commission of Kentucky in Case No. 93-060 dated March 11, 1993.

General Customers*

Monthly Rates

5/8 x 3/4-Inch

First 2,000 gallons \$13.75 Minimum Bill
Over 2,000 gallons 3.20 per 1,000 gallons

1-Inch

First 15,000 gallons \$55.35 Minimum Bill
Over 15,000 gallons 3.20 per 1,000 gallons

2-Inch

First 50,000 gallons \$167.35 Minimum Bill
Over 50,000 gallons 3.20 per 1,000 gallons

3-Inch

First 75,000 gallons \$247.35 Minimum Bill
Over 75,000 gallons 3.20 per 1,000 gallons

4-Inch

First 100,000 gallons \$327.35 Minimum Bill
Over 100,000 gallons 3.20 per 1,000 gallons

Date Issued: March 18, 1993

Date Effective: **PUBLIC SERVICE COMMISSION**
March 18, 1993 **OF KENTUCKY**
EFFECTIVE

ISSUED BY: Mountain Water District, P.O. Box 3157,
Pikeville, Kentucky 41502-3157

MAR 18 1993

Leon Huffman
Leon Huffman, Chairman

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: George Salter
PUBLIC SERVICE COMMISSION MANAGER

EXHIBIT D

RESOLUTION _____

RESOLUTION OF THE _____, KENTUCKY
APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT
BETWEEN THE _____, KENTUCKY AND THE
KENTUCKY INFRASTRUCTURE AUTHORITY.

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

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

WHEREAS, in order to obtain such monies, the
Governmental Agency is required to enter into an Assistance
Agreement with the Authority;

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

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

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

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

ADOPTED on _____, 1993.

Presiding Officer

Attest:

Title: _____

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Recording Officer of the _____; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said District at a meeting duly held on _____, 1993; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this _____ day of _____, 1993.

Recording Officer

EXHIBIT E

OPINION OF COUNSEL

[Letterhead of Counsel to Governmental Agency]

[Date]

Kentucky Infrastructure Authority
Room 075 Capitol Annex
Frankfort, Kentucky

RE: Assistance Agreement by and between Kentucky
Infrastructure Authority and _____
_____ dated as of _____

Ladies and Gentlemen:

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

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency, the resolution or ordinance of the governing authority authorizing the execution and delivery of said Assistance Agreement and the plans, designs and specifications prepared by the Engineers for the Governmental Agency with respect to the Project.

Based upon my review I am of the opinion that:

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

2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in

accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

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

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

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

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

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

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

Very truly yours,

EXHIBIT F

TO ASSISTANCE AGREEMENT BETWEEN

("GOVERNMENTAL AGENCY") AND
THE KENTUCKY INFRASTRUCTURE AUTHORITY

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

Principal and Interest Payable
on Each _____ and _____

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

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

KENTUCKY INFRASTRUCTURE AUTHORITY

By _____

Title _____

Governmental Agency

By _____

Title _____

ATTEST:

Title _____

EXHIBIT G

ADDITIONAL COVENANTS AND AGREEMENTS

NONE

RESOLUTION 93:73

RESOLUTION OF THE MOUNTAIN WATER DISTRICT APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT BETWEEN THE MOUNTAIN WATER DISTRICT AND THE KENTUCKY INFRASTRUCTURE AUTHORITY.

WHEREAS, the Board of Commissioners, ("governing authority") of the Mountain Water District, ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain water facilities and improvements to the Governmental Agency's Water System (the "Project") and

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

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an Assistance Agreement with the Authority;

NOW, THEREFORE, BE IT RESOLVED by the Mountain Water District, as follows:

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

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

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

ADOPTED on September 16, 1993.


Leon Huffman
Presiding Officer

Attest:
Joni Akers
Title Treasurer

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Recording Officer of the Mountain Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said District at a meeting duly held on September 16, 1993; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 16th day of September, 1993.



Recording Officer

MOUNTAIN WATER DISTRICT
MONTHLY MEETINGC
9-16-93

A regular meeting of the Commissioners of the Mountain Water District was held at 10:00 A.M., September 16, 1993 at the US 119 Winn's Branch office located in Pike County, Kentucky.

A quorum of duly appointed Commissioners were present. Those Commissioners present were: Jim C. Justice, Rudy Pollis, Leon Huffman, Gayle Pinson and Toni Akers. Others attending the meeting were: Ernest R. Chaney, Doug Griffin, Doug Woods, Deloris A. Cauley, Rick Bartley, Kevin McAnallen, William Horton, Debbie Horton, Imogene Mullins and Rhonda Mullins.

Chairman Huffman called the meeting to order at 10:00 A.M. .

Approval of the Minutes was the first item on the agenda. The Commissioners reviewed the Minutes . Commissioner Pinson made a motion to accept the Minutes with the noted change of showing Commissioner Jim C. Justice absent at the Special Called Meeting instead of being present, Commissioner Pollis seconded the motion. Vote was unanimous. (Resolution 93:72)

Three visitors attended the meeting from Anderson Fork of Indian Creek. These visitors were: Debbie & William Horton and Imogene Mullins. Debbie Horton informed the Commissioners that they had gotten a petition up that has nine of the eleven residents of Anderson Fork on it that wanted the water. Ms. Horton stated that the hollow was approximately 1½ miles long. Doug Griffin stated that he would check on the maps and see how close to the pump staion this hollow is and if the residents could be given the required pressure. Chairman Huffman informed the visitors that we would take a look at this area and see if we could help them . Mr. Chaney stated that after all work was done on the Indian Creek project we would take a look at the situation and see if there was enough money left to do a line here if we could give them the required pressure. Chairman Huffman thanked the visitors for attending the meeting and assured them that we would take a look at this area and let them know what could

or could not be done.

Kevin McAnallen of Walter P. Walters Insurance Co. attended the meeting to discuss a new insurance plan with the Commissioners. This insurance plan is called the "cafeteria plan". This plan helps an employee if he has to pay partial fees on the insurance the employment provides. This plan allows the employee to pay their part of the benefits and then to have taxes deducted out of the remaining pay instead of the whole amount. Mr. McAnallen also informed the Commissioners that this plan would give the employees more take home pay than they have at the present time. Mr. McAnallen introduced two new plans that are also carried by the same company that has the cafeteria plan, these new insurance plans include a Cancer/Dread disease plan and also a Voluntary Family Accident plan. Chairman Huffman asked Mr. McAnallen about the Life insurance Mountain Water provides for the employees. This Life insurance is for \$20,000, Chairman Huffman questioned what amount of taxes the employees' family would have to pay on that amount if the employee died. Mr. McAnallen stated that to his knowledge no taxes were to be paid on anything up to \$50,000. Mr. McAnallen asked the Commissioners if they would have any objection to him talking to the employees to see how many would be interested in these plans. Mr. Chaney stated that he thought we should wait until we see what the new laws regarding health insurance would be. Mr. McAnallen stated that regardless of the laws coming out he felt that it would be four or five years before they would be put into action. All Commissioners agreed that they had no problem with Mr. McAnallen talking to the employees to see how many were interested in this plan.

The next item on the agenda was the KIA Assistance Agreement Fund B2 for Indian Creek. Mr. Chaney stated that several months ago we were supposed to approved this Assistance Agreement but for some reason or other it was never done. This Assistance Agreement is for the Indian Creek Project and the work is already being done. The Commissioners reviewed this Assistance Agreement. Commissioner Justice made a motion to approve the KIA Assistance Agreement, Commissioner Akers seconded the motion. Vote was unanimous. (Resolution 93:73)

Mr. Chaney informed the Commissioners that because the KIA Assistance Agreement had not been signed and returned the contractors on the Indian Creek project will not get paid for the work they have already done until this agreement is processed. Mr. Chaney suggested that Mountain Water District borrow \$140,000 from the First National Bank and go ahead and pay the contractor for the work already done. Mr. Chaney stated that we have \$255,000 in what we call the "slush fund" at the First National Bank, therefore the bank would only charge us 2% on this loan. Mr. Chaney suggested getting this loan for 60 days, by that time the money should be in from the KIA. Commissioner Justice made a motion to authorize Mr. Chaney or Chairman Huffman to borrow \$140,000 from the First National Bank for 60 days, Commissioner Pollis seconded the motion. A row call vote was then taken:

Leon Huffman - Yes
Gayle Pinson - Yes
Jim Justice - Yes
Toni Akers - Yes
Rudy Pollis - Yes

Vote was unanimous. (Resolution 93:74)

The extension of the loan at the First National Bank was then discussed. Mountain Water District had previously borrowed \$300,000 from the First National Bank to pay for the old Marrowbone bonds. This loan recently became due. Chairman Huffman had the loan extended for six months more. Commissioner Pinson made a motion to authorize the extension of this loan, Commissioner Pollis seconded the motion. Vote was unanimous. (Resolution 93:75)

Mountain Water District billing for line breaks was then discussed. Commissioner Justice stated that recently the Pike Fiscal Court had received two bills for lines broken by the County workers. Commissioner Justice stated that Judge Rutherford informed him that the County did not pay for these breaks because they had an understanding that if the County workers broke a line they would not be required to reimburse Mountain Water for the labor, etc because the County in turn did not bill Mountain Water for any roads they messed up while laying waterlines or repairing leaks. Commissioner Justice inquired if

this information was correct or not. Mr. Chaney stated that no agreement had ever been made with the County concerning this to his knowledge. Commissioner Justice stated that the County was definitely the loser on a deal such as this because repairing the roads was a larger expense than repairing the water line. All Commissioners agreed that an agreement such as this would be to Mountain Waters' advantage. Commissioner Pollis made a motion to send a letter to the Fiscal Court stating that it is our understanding we will have a reciprocal agreement with the County regarding the repairing of our own lines broken by them on the condition that they repair the roads Mountain Water messes up due to water line construction or repair, Commissioner Justice seconded the motion. Vote was unanimous. (Resolution 93:76) Commissioner Akers stated that whomever did the construction and clean up on Left Fork of Caney had done a bad job of repairing the road and clean up. Doug Woods informed the Commissioners that the Construction crew had been working in this area but was not finished. Mr. Woods stated that after the men were through in this area he would make sure it was cleaned up and repaired.

The next item on the agenda was approval of the bills. The Commissioners reviewed the bills. Chairman Huffman informed the other Commissioners that the bill for Chester Smith would be paid out of the Multi Project account. Commissioner Akers made a motion to pay all bills as the money becomes available, Commissioner Justice seconded the motion. Vote was unanimous. (Resolution 93:77)

The closings of the Multi Area Project contracts #29 and #31 were then presented to the Commissioners for approval. Commissioner Justice made a motion to approve the Closing of the Multi Project Contracts #29 and #31, Commissioner Pollis seconded the motion. Vote was unanimous. (Resolution 93:78)

The Indian Creek CDBG Draw was then put before the Commissioners for approval. All Commissioners reviewed the Draw invoices. Commissioner Akers made a motion to approve this Draw, Commissioner Justice seconded the motion. Vote was unanimous. (Resolution 93:79)

The Public Service Commission is having a training seminar for Commis-

sioners at the Jenny Wiley State Park on October 7, 1993 from 8:30 A.M. till 3:30 P.M. .

Mr. Chaney informed the Commissioners that they need to decide whom they would like to represent them as Local and Bond Counsel for the Ferrells Creek Project and also for the Elkhorn Creek project. Commissioner Justice made a motion to hire Rick Bartley as Local Counsel and Rubin & Hays as Bond Counsel for the Ferrells Creek Project, Commissioner Akers seconded the motion. A row call vote was taken on the motion:

Toni Akers	-	Yes
Jim Justice	-	Yes
Gayle Pinson	-	Yes
Rudy Pollis	-	Yes
Leon Huffman	-	Yes

Vote was unanimous. (Resolution 93:80) Commissioner Akers made a motion to hire Rick Bartley as Local Counsel and Rubin & Hays as Bond Counsel for the Elkhorn Creek Project, Commissioner Pinson seconded the motion. A row call vote was taken on the motion:

Leon Huffman	-	Yes
Toni Akers	-	Yes
Gayle Pinson	-	Yes
Jim Justice	-	Yes
Rudy Pollis	-	Yes

Vote was unanimous. (Resolution 93:81)

Purchasing retirement was then discussed by the Board of Commissioners. Mr. Chaney informed the Commissioners that when Mountain Water was first formed we did not have retirement. Mr. Chaney stated that the retirement system has agreed to let Mountain Water and the employees buy back the years of service prior to purchasing the retirement. Mr. Chaney stated that Mountain Water could pay their share for the employee and give the employee a company loan and pay it back by payroll deductions. The cost of this is approximately \$84,560 not including the loans for the employees. Commissioner Justice stated that he had no problems with purchasing the time previously served but he wondered what action would be taken if the employee quit Mountain Water before his/her loan

was paid back to the company. Chairman Huffman stated that he thought we could have an attachment put against the retirement until this loan was paid off. Mr. Rick Bartley stated that Mountain Water could get a promissary note from each employee. All Commissioners agreed for Deloris to get an update on the figures for purchasing this time for Mountain Water and the employee and find out if the employee is agreeable to borrowing that amount.

The next item on the agenda is promotion to crew chiefs. Mr. Chaney withdrew this item from the agenda because when the Phelps project is completed we will have to regroup the men in order to have the area covered adequately.

Installing a new pump station above the mall was then discussed. Doug Griffin informed the Commissioners that as they are aware we are having problems in the Pond Creek area with pressure . Mr. Griffin stated that we need to realign the pump stations. We need new pumps near Bent Mt., we need to add a pump station between Hardy and the mall . We could take the new pumps out of the new pump station and put them at Sharondale and put the old pumps out of Sharondale into the new station to correct our problems. Commissioner Pollis made a motion to approve of this new pump station, Commissioner Akers seconded the motion. Vote was unanimous. (Resolution 93:82) The approximate cost for doing this pump station is \$28,000 . Construction will begin within a month to six weeks. Commissioner Akers asked why we always use Westfall on our pump stations instead of other people. Mr. Griffin informed the Commissioners that most of the work Westfall has done for us has been in connection to the contractors on projects. Mr. Griffin also stated that Westfall and a company from Indiana was the only ones to bid on our work.

The assumption of the Executive Directors duties was then dicussed. Mr. Chaney informed the Commissioners that in the case of his absence an assumption of his duties needed to be taken over by the Chairman and in the case that the Chairman is also absent the duty needs to fall to the Secretary. Commissioner Akers made a motion to allow the Chairman of the Board to assume the Executive Directors duties in the case of his absence, Commissioner Pollis seconded the motion. Vote was unanimous. (Resolution 93:83)

Mr. Chaney informed the Board of Commissioners that regarding the lawsuit with the City of Pikeville a hold had been put on the case due to our attorney Jack Page passing away. Mr. Chaney stated that he felt we should get Rick Bartley to file a motion asking that no decision be made on this case until the Supreme Court makes a ruling on the case they are currently hearing about a City raising the water rates within PSC approval. Commissioner Akers made a motion to authorize Rick Bartley to file a motion with the court asking them to make no decision until the Supreme Court makes a ruling on the other case, Commissioner Pollis seconded the motion. Vote was unanimous. (Resolution 93: 84)

Commissioner comments was the final item on the agenda. Chairman Huffman stated that we need to check with PSC concerning the collection of sewer bills with water bills .

Commissioner Pollis asked how much business we are giving Wilson Equipment a year. Mr. Chaney stated that he did not know an exact dollar figure but it was quite a bit of money. Commissioner Pollis stated that he would like for us to find someone else to service and repair our backhoes. Commissioner Pollis also commented on the cleanliness of the trucks now. The Commissioners commended Doug Woods on cleaning his car also. - -

Commissioner Pollis informed the Board of Commissioners that a few weeks ago an accident occurred where an employee was passing a truck on the four lane highway and he hit a rock in the road and busted two tires . Commissioner Pollis stated that he would like to know why this happened. Mr. Chaney informed the Commissioners that the State Police said that in their opinion the highway department would have to reimburse us for the tires. The Commissioners instructed Doug Woods and the supervisor to give a written report on this accident at the next monthly meeting.

Chairman Huffman stated that he would like to set up a work session on September 29th at 10:00 A.M. if all other Commissioners were agreeable. All Commissioners agreed to the work session.

There being no further business to come before the Commissioners, the meeting was then adjourned.

6

KENTUCKY INFRASTRUCTURE AUTHORITY
JULY 24, 1991 -- 1:00 PM

A meeting of the Kentucky Infrastructure Authority was called to order by Ms. Sally Hamilton, alternate for Chairman L. Rogers Wells, Jr., at 1:00 p.m., July 24, 1991, in Room 285 of the Capitol Annex, Frankfort, Kentucky.

Other members present were: Mr. John Nichols, Proxy for Secretary Carl Bradley, Natural Resources and Environmental Protection Cabinet; Secretary Gene Royalty, Cabinet for Economic Development; Commissioner Lee Troutwine, Department of Local Government; Mr. John Butts, Franklin, Kentucky; Mr. Wayne Wells, Campbellsville, Kentucky; and Mr. Raymond Bradbury, Inez, Kentucky.

Ms. Hamilton, noting that a quorum was present and the press had been notified, called the meeting to order.

Ms. Hamilton called for a motion to approve the minutes of the Kentucky Infrastructure Authority on June 20, 1991, and the Executive Committee on July 18, 1991. Commissioner Troutwine moved to approve the minutes, Mr. Bradbury seconded and motion Carried.

A RESOLUTION OF THE KENTUCKY INFRASTRUCTURE AUTHORITY
ESTABLISHING THE FUND A AND FUND B "INDEX RATE" FOR THE
PERIOD JULY 1, 1991, THROUGH SEPTEMBER 30, 1991

Dr. James R. Ramsey, Executive Director, KIA, presented a review of the resolution. The Fund A Index Rate will be 2.0 percent for the below median income rate and 4.0 percent for the above median income rate. The Fund B Index Rate will be 3.0 percent for the below median income rate and 5.0 percent for the above median income rate. Mr. Wells moved to approve the resolution, Mr. Butts seconded and motion Carried.

A RESOLUTION OF THE KENTUCKY INFRASTRUCTURE AUTHORITY
ADOPTING AN INTENDED USE PLAN FOR THE WASTEWATER
REVOLVING FUND, AND APPROVING THE FILING OF AN
APPLICATION WITH THE UNITED STATES EPA FOR THE FISCAL
1990-91 CAPITALIZATION GRANT TO THE WASTEWATER
REVOLVING FUND

Dr. Ramsey presented a review of the resolution. The Intended Use Plan (IUP) will identify the goals and activities of the State Revolving Fund. A public hearing for comments on the draft IUP will be held July 29, 1991, and soon afterwards the application will be submitted to the Environmental Protection Agency for funding. Mr. Wells moved to approve the resolution, Mr. Butts seconded and motion Carried.

A RESOLUTION (1991 SERIES C) OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING THE EXECUTION OF A SERIES TRUST INDENTURE, DATED AS OF AUGUST 1, 1991, BY AND BETWEEN THE AUTHORITY AND FIRST KENTUCKY TRUST (TRUSTEE); PROVIDING FOR THE ISSUANCE OF 1991 SERIES C KIA INFRASTRUCTURE REVOLVING FUND PROGRAM REVENUE BONDS UNDER THE TERMS OF THE GENERAL TRUST INDENTURE AND SAID SERIES TRUST INDENTURE; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID 1991 SERIES C REVENUE BONDS; AUTHORIZING THE SALE OF SAID 1991 SERIES C REVENUE BONDS; AND REPEALING ALL RESOLUTIONS OR PARTS THEREOF IN CONFLICT WITH THE PROVISIONS HEREOF

AND

A RESOLUTION (1991 SERIES D) OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING THE EXECUTION OF A SERIES TRUST INDENTURE, DATED AS OF AUGUST 1, 1991, BY AND BETWEEN THE AUTHORITY AND FIRST KENTUCKY TRUST (TRUSTEE); PROVIDING FOR THE ISSUANCE OF 1991 SERIES D KIA INFRASTRUCTURE REVOLVING FUND PROGRAM REVENUE BONDS UNDER THE TERMS OF THE GENERAL TRUST INDENTURE AND SAID SERIES TRUST INDENTURE; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID 1991 SERIES D REVENUE BONDS; AUTHORIZING THE SALE OF SAID 1991 SERIES D REVENUE BONDS; AND REPEALING ALL RESOLUTION OR PARTS THEREOF IN CONFLICT WITH THE PROVISIONS HEREOF

AND

A RESOLUTION (1991 SERIES D) OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING THE EXECUTION OF A SERIES TRUST INDENTURE, DATED AUGUST 1, 1991, BY AND BETWEEN THE AUTHORITY AND FIRST KENTUCKY TRUST (TRUSTEE); AUTHORIZING AND RATIFYING THE EXECUTION OF THE ASSISTANCE AGREEMENTS WITH GOVERNMENTAL AGENCIES PARTICIPATING IN THE AUTHORITY'S GOVERNMENTAL AGENCIES PROGRAM; PROVIDING FOR THE ISSUANCE OF KIA GOVERNMENTAL AGENCIES PROGRAM REVENUE BONDS 1991 SERIES D UNDER THE TERMS OF THE GENERAL TRUST INDENTURE AND SAID SERIES TRUST INDENTURE; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID 1991 SERIES D BONDS; AND REPEALING ALL RESOLUTIONS OR PARTS THEREOF IN CONFLICT WITH THE PROVISIONS HEREOF

Dr. Ramsey presented a review of the three above referenced resolutions. Dr. Ramsey noted that KIA anticipates going to the bond market on August 6, 1991, to raise a total of approximately \$20 million of funding for the Fund B and Fund C programs for projects which have been approved by the KIA. Mr. Butts moved to approve all three resolutions; Commissioner Troutwine seconded and motion Carried.

AN AMENDMENT OF AN INFRASTRUCTURE REVOLVING LOAN
(FUND B) TO JEFFERSON COUNTY/KROGER

Ms. Lynn Travis, KIA, presented the amendment. KIA will fund the sewer portion only of the project. The loan will increase but will not affect the cash flow. KIA recommends the amendment based on the five conditions stated in the previous credit analysis. Mr. Wells moved to approve the amendment; Mr. Butts seconded and motion Carried.

A RESOLUTION OF THE KENTUCKY INFRASTRUCTURE AUTHORITY
AUTHORIZING ISSUANCE OF A WATER RESOURCES LOAN
(FUND B2) OF \$337,760, TO THE MOUNTAIN WATER DISTRICT,
PIKE COUNTY, FOR WATER SYSTEM IMPROVEMENTS

Mr. Glenn Oldham, DLG, presented a review of the resolution. Current water lines do not provide adequate service to the customers. The proposed project will provide new water lines and serve 458 new customers along KY-610, Indian Creek and Long Fork. Ms. Travis gave the credit analysis. The project does cash flow and KIA recommends approval based on the condition of a 20 year repayment. Mr. Bradbury moved to approve the resolution; Mr. Butts seconded and motion Carried.

A RESOLUTION OF THE KENTUCKY INFRASTRUCTURE AUTHORITY
AUTHORIZING ISSUANCE OF A FEDERALLY ASSISTED WASTEWATER
REVOLVING LOAN (FUND A) OF \$2,429,000, TO THE BOYD
COUNTY FISCAL COURT, BOYD COUNTY, FOR NEW WASTEWATER
COLLECTION SYSTEM

Mr. Bill Gatewood, DOW, noted the project has the possibility of eventually eliminating 48 package treatment plants. The first part of the project will eliminate 25 of these plants and serve 291 residential customers. The wastewater will be sent to the City of Ashland for treatment. DOW recommends project for approval. Mr. Chris Bowling, KIA, gave the credit analysis. The annual debt service will be based on 4.0% for 20 years. Mr. Bowling noted that once the project is complete, Boyd County will enter into agreements with several parties for operation, maintenance and treatment of the effluent. KIA recommends approval of the project based on the six conditions listed in the credit analysis. Commissioner Troutwine moved to accept the resolution; Mr. Bradbury seconded and motion Carried.

A RESOLUTION OF THE KENTUCKY INFRASTRUCTURE AUTHORITY
AUTHORIZING ISSUANCE OF A GOVERNMENTAL AGENCIES PROGRAM
LOAN (FUND C) OF \$140,577, TO THE CITY OF WALTON, BOONE
COUNTY, FOR WATER AND SEWER LINES

Mr. Eric Coffman, KIA, presented a review of the resolution. The proposed project will extend water lines and construct a new sewer system to the location of the Sumitomo/Ogiso Corporation Manufacturing Project. The proposed infrastructure will be

capable of serving another 68 acres adjacent to the site which is planned as an industrial park. The annual debt service will be an estimated 8.0% for 20 years. Mr. Wells moved to approve the resolution; Secretary Royalty seconded and motion Carried.

**A RESOLUTION OF THE KENTUCKY INFRASTRUCTURE AUTHORITY
AUTHORIZING ISSUANCE OF A GOVERNMENTAL AGENCIES PROGRAM
LOAN (FUND C) OF \$361,200, TO THE CITY OF
TOMPKINSVILLE, MONROE COUNTY, FOR WASTEWATER SYSTEM
IMPROVEMENTS**

Mr. Coffman presented a review of the resolution. This project will provide service to 81 new sewer customers and provide for improved screening and less maintenance at the existing wastewater treatment plant. KIA recommends approval of this project based on the condition of the implementation of a 10% across the board increase in water and sewer rates, such that revenues are created to sufficiently cover all operation and maintenance and debt service costs. Mr. Bradbury moved to approve the resolution; Mr. Butts seconded and motion Carried.

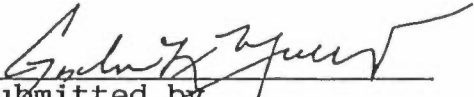
Ms. Marilyn Eaton, KIA, presented an update on the Salt River Water District (SRWD). SRWD is currently making installment payments. The Kentucky Turnpike Authority is interested in merging with SRWD and asking PSC to approve the merger. They are also requesting interest payments be deferred for 1 1/2 years to assist SRWD in repaying its debt. Peck, Shaffer & Williams is looking into the legal aspects of the project. One of three pending lawsuits has been decided against SRWD. Dr. Ramsey noted that KIA staff have met with representatives from SRWD, Kentucky Turnpike Authority and Louisville Water District and feel the merger would be a financial boost to the SRWD.

A status report was included in the KIA board book regarding the status of Funds A, B, B2, C and D. Fund A: Total Funds Committed: \$52,132,023, Balance Available: \$13,883,379. Fund B: Total Funds Committed: \$21,551,787, Balance Available: \$(1,551,787). Fund B2: Total Funds Committed: \$337,760, Balance Available: \$29,662,241. Fund C: Total Funds Committed: \$35,077,736, Total Project Amount: \$60,127,225. Fund D: Total Funds Committed: \$14,074,000, Balance Available: \$7,926,000. Mr. Gatewood handed out a DOW loan project status sheet as of 7/24/91.

A RESOLUTION RECOGNIZING CONTRIBUTIONS BY JOHN CRUSE
MERCHANT TO THE AUTHORITY

Dr. Ramsey presented a resolution in recognition of contributions made to the Authority by Mr. John Merchant, Office of Legal and Legislative Services. Mr. Merchant will be leaving the office to work with Peck, Shaffer & Williams. Mr. Wells moved to accept the resolution; Secretary Royalty seconded and motion Carried.

With no further business, meeting adjourned.


Submitted by
Gordon L. Mullis
Secretary/Treasurer

Rec.
8-26-91
JRM



RECEIVED

AUG 23 8 42 AM '91

WALLACE G. WILKINSON
GOVERNOR

L. ROGERS WELLS, JR.
CHAIRMAN

KENTUCKY INFRASTRUCTURE AUTHORITY

075 CAPITOL ANNEX
FRANKFORT, KENTUCKY 40601
(502) 564-2090
TELECOPIER (502) 564-7416

JAMES R. RAMSEY
EXECUTIVE DIRECTOR
GORDON L. MULLIS
SECRETARY/TREASURER

August 21, 1991

Mr. Leon Huffman
Chairman, Mountain Water District
Post Office Box 1469
Pikeville, Kentucky 41501

KENTUCKY INFRASTRUCTURE AUTHORITY
WATER RESOURCES LOAN
CONDITIONAL LOAN COMMITMENT B291-01
WATER SYSTEM IMPROVEMENTS

Dear Mr. Huffman:

The Kentucky Infrastructure Authority ("KIA") commends your efforts to promote economic development and improved public service facilities in your community. Your loan application to the KIA for construction of new water line extensions, three water storage tanks and two booster pump stations was approved by the Authority July 24, 1991. The total cost of the project shall not exceed \$2,712,760 of which the KIA loan shall provide up to \$337,760. Other anticipated funding for the project is reflected in the Attachment A. The final loan amount will be equal to the KIA portion of estimated project amount applied to the actual project cost. Attachment A incorporated herein by reference fully describes the project.

A loan agreement will be executed between the Authority and the Mountain Water District upon satisfactory performance of the conditions set forth in this letter. A period of eleven (11) months from the date of this letter, July 21, 1992, will be allowed for you to meet the conditions and enter the loan agreement. A one time extension may be granted with acceptable justification. Funds will be available for disbursement only after execution of the loan agreement.

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

1. The KIA project loan shall not exceed \$337,760.
2. The loan shall bear interest at the rate of 3.0% per annum commencing with the first draw of funds.

August 21, 1991

Page Two

3. The loan shall be repaid over a period of 20 years from the date this loan is closed.
4. Interest shall be payable on the amount of actual funds received commencing six months from the initial draw of funds and each six months thereafter until the loan is repaid.
5. Principal shall be payable semi-annually commencing one year from the closing date of the loan or project completion.
6. A loan servicing fee of two-tenths of one percent of the annual outstanding loan balance shall be payable to the Authority as a part of each interest payment.
7. Annual revenues equalling ten percent of the annual debt service on this loan shall be set aside in a repair and maintenance fund until such fund has a balance equal to five percent of the original loan amount.
8. Loan funds will be disbursed after execution of the loan agreement as project cost is incurred.
9. The final loan agreement must be approved by the water district board.
10. Prior to project closeout you shall provide a written description of the economic development benefits derived from the project.

The following is a list of the standard conditions to be satisfied prior to execution of the loan agreement or incorporated in the loan agreement. Items 1 through 7 must be provided to the Department of Local Government and Items 8 and 9 shall be provided directly to the KIA.

1. Upon completion of final design of the facilities in the attached project description, favorable approval shall be obtained of such design by all appropriate parties as required by Kentucky statute or administrative regulation. Proof of approval must be sent to DLG.
2. The Department for Local Government should be consulted prior to preparation of bidding specifications for guidance on federal or state requirements. One important point in this regard, is that projects funded by the Authority may or may not require payment of state prevailing wage rates. Legal counsel should be sought on this issue.

3. Applicant must provide to DLG a bid certification from their legal counsel stating that they have prepared construction specifications in accordance with all applicable state or federal wage rate laws, and that the bidding procedures used are in compliance with applicable federal and state law.
4. Documentation of final funding commitments from all parties other than the Authority as reflected in the Attachment A description shall be provided to DLG prior to pre-closing the Authority loan and disbursement of the loan moneys. Rejections of any anticipated project funding shall be immediately reported to DLG and may cause the loan to be subject to further consideration.
5. Upon receipt of construction bids a tabulation of such bids and engineer's recommendations on compliance with bid specifications and recommendation for award, shall be forwarded to DLG for final approval. DLG shall provide information to the Authority for sizing of the loan:
6. All easements or purchases of land shall be completed prior to commencement of construction and reported to DLG.
7. Based on the final "as bid" project budget the community must provide to the Authority satisfactory proof based on then existing conditions that the revenue projections in the attached descriptions are still obtainable and that projections of operating expenses have not materially changed.
8. Any required adjustment in utility service rates shall be adopted by ordinance by the city council or appropriate governing board and provided to the Authority. A public hearing on the proposed rate adjustment shall be held 30 days prior to the adoption of the service rate ordinance. Any required approvals by the Kentucky Public Service Commission shall be obtained.

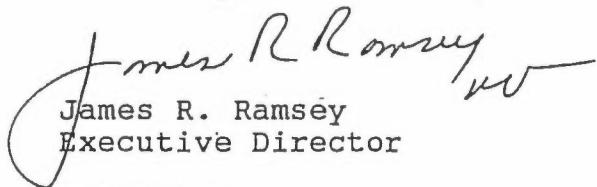
The following is a list of the special conditions to be satisfied prior to execution of the loan agreement or incorporated in the loan agreement. Please provide the item directly to KIA.

1. The Mountain Water District must submit a written letter agreeing to a 20 year payback as opposed to 30 years.

August 21, 1991
Page Four

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

Sincerely,

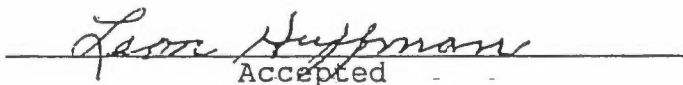

James R. Ramsey
Executive Director

JRR/LT/sj

Attachment

c: Libby McManis, Department of Local Government
Roger Peterman, Peck, Shaffer & Williams
Will Linder, Will Linder & Associates
Doug Griffin, Kenvirons Engineers, Inc.

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms.


Accepted

August 26, 1991
Date

KENTUCKY INFRASTRUCTURE AUTHORITY
 WATER RESOURCES LOAN (FUND B2)
 MOUNTAIN WATER DISTRICT, PIKE COUNTY
 CREDIT ANALYSIS

I. PROJECT DESCRIPTION
 (Indian Creek Water Project)

A. The proposed project will provide new water lines along KY-610, Indian Creek and Long Fork, serving 548 new customers. In addition, the project will provide increased pressure and an ample water supply to 245 existing customers on an undersigned 4" line with supply and pressure problems. A total of 3 water storage tanks as well as 2 booster pump stations will also be constructed as part of the project.

II. PROJECT COST AND FUNDING

A. Acquisition	\$ 12,000
B. Construction (water lines)	2,118,150
C. Engineering Design	149,965
D. Engineering Inspection	75,830
E. Legal Fees	35,000
F. Planning	12,500
G. Administration	47,500
H. Capitalized Interest	50,000*
I. Contingencies	211,815
TOTAL	<u>\$2,712,760</u>

* This amount includes interest on FmHA and KIA monies.

FUNDING

A. FmHA (grant)	\$ 900,000
B. FmHA (loan)	600,000
C. CDBG (grant)	750,000
D. Pike County Cash	100,000
E. Tap-On-Fees (200 @ \$125)	25,000
F. KIA Loan (Fund B2)	337,760
TOTAL	<u>\$2,712,760</u>

III. LOAN SIZE AND DEBT SERVICE ESTIMATE

	<u>20 Years</u>	<u>30 Years</u>
A. Loan Amount	\$ 337,760	\$ 337,760
B. Annual Debt Service (20 yrs. @ 3.0%)	22,703	17,232
C. Administrative Fee (.2% of loan amount)	675	675
D. Coverage for Maintenance (10% of debt service)	<u>2,270</u>	<u>1,723</u>
TOTAL ANNUAL DEBT SERVICE REQUIREMENT	\$ 25,648	\$ 19,630

IV. CASH FLOW ANALYSIS

See Attachment 1

V. FOOTNOTES

Most of the following estimates were provided by the engineer.

1. For conservative purposes, revenues from existing customers are being held constant although an increase is likely.
2. Existing rates are 3.6% over rates during 1990. The increase in revenues is $\$1,496,854 \times 0.036 = \$54,252$.
3. The Dorton project (which is currently under construction) will generate 400 new customers. Revenues from those customers are $400 \times \$23.73/\text{mo.} \times 12 = \$113,904$. Only 8 months of revenue will be realized in FY91.
4. The average number of customers during 1990 was 4943. Presently, the customer count is 5400. Additional customers equal 457. Assuming 300 are current users of the Dorton project and 157 are on existing lines, additional revenues = $157 \times 12 \times \$23.73 = \$44,707$
5. 548 new customers $\times 12 \times \$20.00/\text{mo.} = \$131,520$. 25% of the revenue will be generated in FY92 with 100% in FY93.
6. Expenses are held constant with additional expenditures shown on a separate line.
7. Currently, the only outstanding bond debt is with the Farmers Home Administration. The water district pays FmHA approximately \$20,000/month. Any additional debt is recorded as a separate line item.
8. The interest due in FY92 is \$4,500.
9. The KIA debt service reflects a 20 year payback.
10. $\$1,500,000 \times 0.05929 \times 1.2 = \$106,700$; Interest due for FY91 is \$26,675.
11. $\$133/\text{yr.} \times 548 \text{ new customers} = \$ 72,884$. Only 15% of the additional expense will be incurred FY91.
12. $157 \text{ customers} \times \$133/\text{yr.} = \$20,881$
13. $400 \text{ customers} \times \$133/\text{yr.} = \$53,200$. 30% of this expenditure will be assumed for FY91

VI. GENERAL COMMENTS

- A. The Mountain Water District is a political subdivision of the Pike County Fiscal Court. It was formed from a merger of four existing water districts - Marrowbone Water District, Shelby Valley Water District, Pond Creek Water District, and John's Creek Water District - on June 30, 1986, and, at that time, assumed all assets and liabilities of the existing water districts.
- B. Water to the new customers will be provided from the City of Pikeville Water Treatment Plant with a back-up from the Marrowbone Treatment Plant.

- C. In addition to the 548 new customers who receive water as a direct result of this project and the 245 existing customers who will, for the first time, have adequate water volume and pressure, there will also be 2 public schools (the J.R. Johnson Elementary School and the Robinson Creek Elementary School) which will, for the first time, have adequate water pressure and supply to serve the needs of these public schools.
- D. The proposed project shall enhance the quality of life for those households benefitting from a dependable, potable water supply. Commercial ventures or industries relocating into the target area will have access to adequate water supplies and pressures which will provide fire protection to these ventures.
- E. Rates for new customers will be the same as for all Mountain Water District residential customers, approximately \$24.46 per month for 5,500 gallons of water. These high rates are not uncommon in mountainous areas where the costs of producing water are increased due to the steep terrains and the need for numerous storage tanks and pump stations.
- F. Latest rate increase was December 13, 1990.
- G. The Public Service Commission (P.S.C.) shall review the application for an order approving construction, financing, and Certificate of Public Convenience and Necessity.
- H. Construction is anticipated to start March 1992 with completion 10 months later (December 1992).
- I. Governmental Agency:
Name: Mountain Water District
Address: P.O. Box 1469
Pikeville, Kentucky 41501
Contact: Leon Huffman, Chairman or
Ernie Chaney, Director
Telephone: (606) 631-9162
- J. Engineers:
Name: Kenvirons Engineers, Inc.
Address: P.O. Drawer V
452 Versailles Rd.
Frankfort, Kentucky 40601
Contact: Doug Griffin
Telephone: (502) 695-4357

K. Federal/State funds awarded to the jurisdiction for infrastructure during the last five years:

<u>Project</u>	<u>Source</u>	<u>Amount</u>
Dorton Water Extension	FmHA	\$1,501,265
	CDBG	744,005
Raccoon Creek Water Ext.	FmHA	1,000,000
Poor Bottom Water Ext.	AML	175,000
Chloe Creek Water Ext.	AML	1,200,000
Big Creek Water Ext.	AML	5,200,000
Blackberry Water Ext.	AML	2,000,000
Grapevine Water Ext.	CDBG	750,000
	FmHA	800,000
	ARC	500,000
	KHC	200,000
	AML	1,300,000
	ADD	75,000
Douglas Apt. Phase I	FmHA	945,000
Douglas Apt. Phase II	FmHA	850,000
Pond Creek Water Project	FmHA	713,000
	ARC	500,000
	CDBG	650,000
	ADF	40,000
		<u>\$19,143,270</u>

L. Debtor's Obligations:

<u>Bonds Payable</u>	<u>Outstanding</u>
FmHA Bond Payable (Shelby Valley)	\$ 493,691
FmHA Bond Payable (Pond Creek)	689,135
FmHA Bond Payable (Grapevine)	488,195
FmHA Bond Payable (Raccoon)	1,488,895
FmHA Bond Payable (Dorton; not closed)	1,500,000
EDA Bond Payable (Payments have been halted until completion of current negotiations)	270,000
Notes Payable (3) to J.I. Case Credit	45,348
Note Payable (1) to Ford Motor Credit	54,202

VII. RECOMMENDATION

KIA staff recommends this project for approval based on a 20 year payback. The project cash flows under a 20 year term, as opposed to 30 years, which would add an additional debt service of roughly \$6,000 per year.

MOUNTAIN WATER DISTRICT
CASH FLOW ANALYSIS

FY	PRO-FORMA				
	1989	1990	1991	1992	1993
REVENUE:					
CURRENT					
Unmetered water revenue	\$2	\$1,468	\$1,468	\$1,468	\$1,468
Metered sales - Residential	\$883,608	\$1,119,954	\$1,119,954	\$1,119,954	\$1,119,954
Metered sales - Commercial	\$136,207	\$173,583	\$173,583	\$173,583	\$173,583
Metered sales - Public Authorities	\$60,338	\$84,331	\$84,331	\$84,331	\$84,331
Metered sales - Multi Family	\$94,487	\$115,435	\$115,435	\$115,435	\$115,435
Fire protection fees	\$2,245	\$2,082	\$2,082	\$2,082	\$2,082
Other water revenue	\$127,538	\$92,492	\$92,492	\$92,492	\$92,492
Interest income	\$17,847	\$23,338	\$23,338	\$23,338	\$23,338
Non utility income	\$18,681	\$15,066	\$15,066	\$15,066	\$15,066
Total	\$1,340,953	\$1,627,749	\$1,627,749¹	\$1,627,749	\$1,627,749
PROJECTIONS					
Annualized rate increase	\$0	\$0	\$54,252 ²	\$54,252	\$54,252
Dorton project	\$0	\$0	\$75,936 ³	\$113,904	\$113,904
Additional growth customers	\$0	\$0	\$44,707 ⁴	\$44,707	\$44,707
ed project revenue	\$0	\$0	\$0	\$32,880 ⁵	\$131,520
sales due to additional use by Mountain Top Bakery	\$0	\$0	\$0	\$48,180	\$48,180
Total	\$0	\$0	\$0	\$293,923	\$392,563
TOTAL PROJECTED REVENUES	\$1,340,953	\$1,627,749	\$1,802,644	\$1,921,672	\$2,020,312
EXPENSES					
Current operating expense (net of depreciation)	\$1,130,114	\$1,369,067	\$1,369,067 ⁶	\$1,369,067	\$1,369,067
Current debt service on bonds payable	\$240,000	\$240,000	\$240,000 ⁷	\$240,000	\$240,000
Estimated debt service on KIA loan approved in Nov. 1990-Mt.Top Bakery	\$0	\$0	\$0	\$15,910	\$15,910
Estimated debt service on New KIA loan	\$0	\$0	\$0	\$4,500 ⁸	\$25,648 ⁹
Estimated debt service on FmHA loan	\$0	\$0	\$0	\$0	\$35,074
Estimated debt service on Dorton project	\$0	\$0	\$26,675 ¹⁰	\$106,700	\$106,700
Estimated additional operation and maintenance expense on this project	\$0	\$0	\$10,932 ¹¹	\$72,884	\$72,884
Additional growth customer expense	\$0	\$0	\$20,881 ¹²	\$20,881	\$20,881
Estimated additional O&M on the Dorton project	\$0	\$0	\$15,960 ¹³	\$53,200	\$53,200
L PROJECTED CASH EXPENSE	\$1,370,114	\$1,609,067	\$1,683,515	\$1,883,142	\$1,939,364
TOTAL NET INCOME CASH (before depreciation)	(\$29,161)	\$18,682	\$119,129	\$38,530	\$80,948

Indian

REED D. ANDERSON
ATTORNEY AT LAW
P. O. Box 280
Pikeville, Kentucky 41502

Office Telephone
(606) 432-4101

Fax Number
(606) 432-4101

September 16, 1993

Kentucky Infrastructure Authority
075 Capitol Annex
Frankfort, Kentucky 40602

RE: Assistance Agreement by and between Kentucky
Infrastructure Authority and Mountain Water
District dated as of April 1, 1993

Ladies and Gentlemen:

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

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency, the resolution or ordinance of the governing authority authorizing the execution and delivery of said Assistance Agreement and the plans, designs and specifications prepared by the engineers for the Governmental Agency with respect to the Project.

Based upon my review I am of the opinion that:

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

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

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

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

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

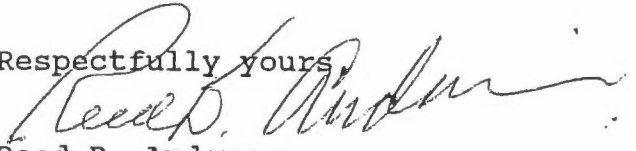
(6) To the best of my knowledge after due inquiry there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the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

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

Kentucky Infrastructure Authority
September 16, 1993
Page Three

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

Respectfully yours,



Reed D. Anderson

RDA/lkm

2

Re: Assistance Agreement between the Kentucky
Infrastructure Authority ("KIA") and Mountain
Water District (the "Governmental Agency")

GENERAL CLOSING CERTIFICATE OF GOVERNMENTAL AGENCY

In connection with the above-captioned Assistance Agreement (the "Assistance Agreement"), the Governmental Agency, through its undersigned duly authorized officer hereby certifies, represents, warrants and covenants as follows:

1. No event of default exists, or with the passage of time will exist, under the Assistance Agreement and the representations and warranties set forth in the Assistance Agreement are true and correct as of the date hereof.

2. The Governmental Agency has examined and is familiar with proceedings of the governing body of the Governmental Agency approving the Assistance Agreement and authorizing its negotiation, execution and delivery and such proceedings were duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such proceedings are in full force and effect and have not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

3. The Governmental Agency is a duly organized and validly existing water district and political subdivision of the Commonwealth of Kentucky with full power to own its properties, conduct its affairs, enter into the Assistance Agreement and consummate the transactions contemplated thereby.

4. The negotiation, execution and delivery of the Assistance Agreement by the Governmental Agency and the consummation of the transactions contemplated thereby by the Governmental Agency have been duly authorized by all requisite action of the governing body of the Governmental Agency.

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

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

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

8. All actions taken by the Governmental Agency in connection with the Assistance Agreement and the loan described therein and the Project, as defined in the Assistance Agreement, have been in full compliance with the provisions of the Kentucky Open Meetings Law, KRS 61.805 to 61.850.

9. The Governmental Agency has all licenses, permits and other governmental approvals required to own, occupy, operate and maintain the Project and to enter into the Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Governmental Agency Project, and has full right, power and authority to perform the acts and things as provided for in the Assistance Agreement.

10. The individuals named below are the duly elected or appointed qualified and acting incumbents in the office of the Governmental Agency indicated after their respective names and the signatures subscribed above their names are their genuine signatures.

WITNESS our signatures, this 16th day of September,
1993.

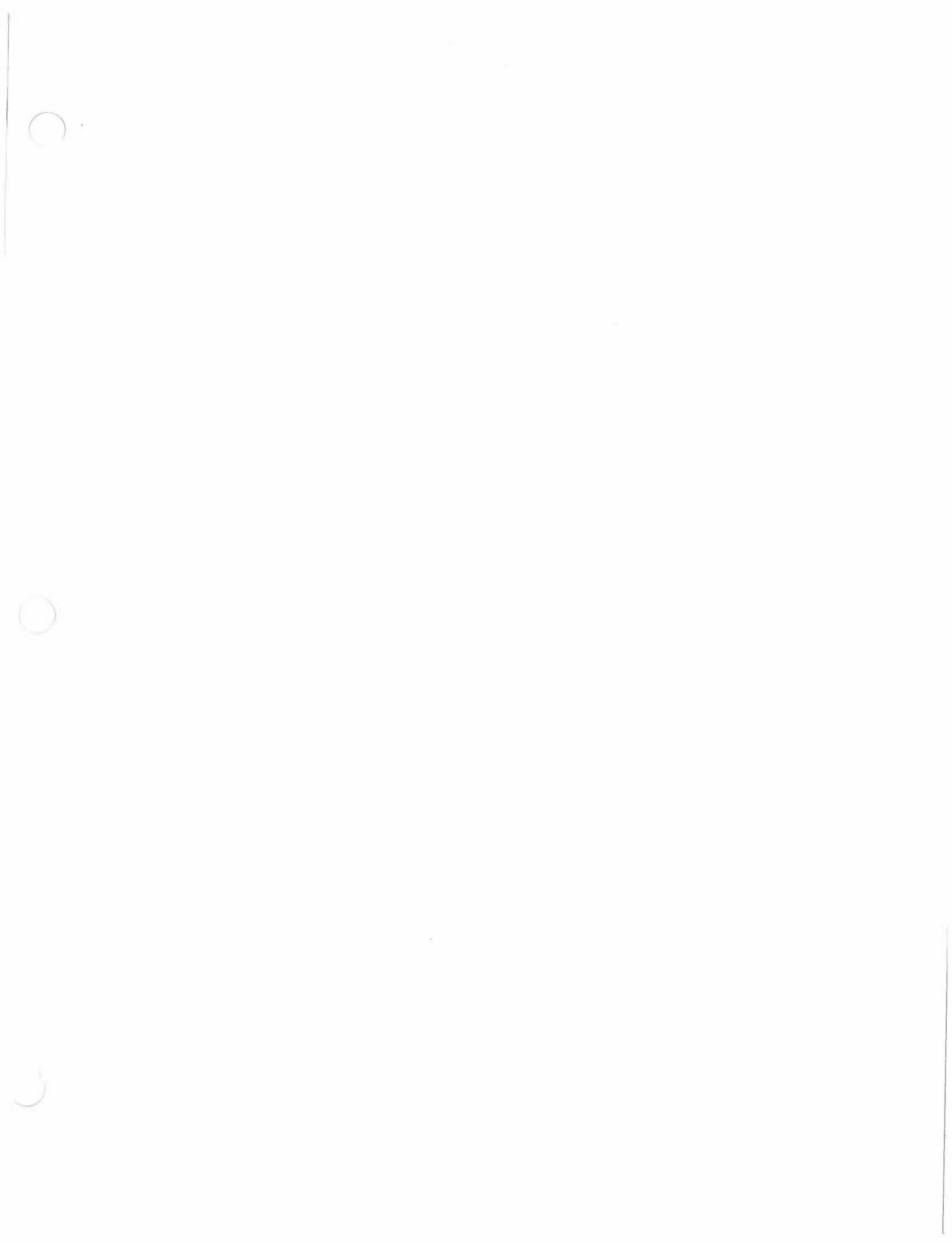
GOVERNMENTAL AGENCY:

Mountain Water District

By: Leon Huffman
Name: _____
Title: Chairman

ATTEST:

By: Rudy Pollis
Name: _____
Title: Secretary



ASSISTANCE AGREEMENT
BETWEEN THE KENTUCKY INFRASTRUCTURE AUTHORITY
AND
MOUNTAIN WATER DISTRICT
Feds Creek Water Plant
F01-07

TRANSCRIPT OF PROCEEDINGS

Peck, Shaffer & Williams LLP
Covington, Kentucky

INDEX TO TRANSCRIPT OF PROCEEDINGS

In re: Assistance Agreement between Kentucky Infrastructure Authority (the "Authority") and Mountain Water District (the "Governmental Agency"), dated as of January 1, 2002

1. Opinion of Counsel to the Governmental Agency.
2. General Closing Certificate of the Governmental Agency.
3. Assistance Agreement.
4. Resolution of the Governmental Agency authorizing the Assistance Agreement.
5. Extract of Minutes of the Authority authorizing the Assistance Agreement.
6. Commitment Letter, including Credit Analysis.

DISTRIBUTION LIST

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Mountain Water District
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P.O. Box 3157
Pikeville, Kentucky 41501

Ms. Sandy Williams
Kentucky Infrastructure Authority
1024 Capital Center Drive
Suite 340
Frankfort, Kentucky 40601

Ms. Donna Marlin
Drinking Water Branch
Division of Water
Natural Resources and Environmental Protection Cabinet
14 Reilly Road
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Corporate Trust Services
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DAVID C. STRATTON
STEPHEN L. HOGG
H. EDWARD MADDOX
DANIEL P. STRATTON

HENRY D. STRATTON (1925-1989)
F. BYRD HOGG (1922-1999)

January 30, 2002

Kentucky Infrastructure Authority
375 Versailles Road
Frankfort, KY 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and
Mountain Water District, dated as of January 1, 2002

Ladies and Gentlemen:

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

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

Based upon my review I am of the opinion that:

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

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

STRATTON, HOGG & MADDOX, P.S.C.

Kentucky Infrastructure Authority
January 30, 2002
Page 2

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

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

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

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

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

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

9) All proceedings and actions of the Governmental Agency with respect to which the Assistance Agreement is to be delivered were had or taken at meetings properly convened

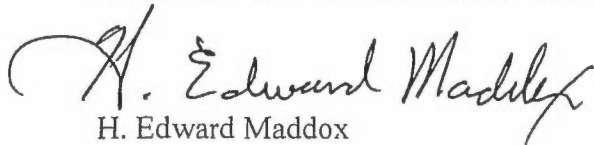
STRATTON, HOGG & MADDOX, P.S.C.

Kentucky Infrastructure Authority
January 30, 2002
Page 3

and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Respectfully,

STRATTON, HOGG & MADDOX, P.S.C.



H. Edward Maddox

HEM/mj

Re: Assistance Agreement between the Kentucky Infrastructure Authority ("KIA") and Mountain Water District (the "Governmental Agency"), dated as of January 1, 2002

GENERAL CLOSING CERTIFICATE OF GOVERNMENTAL AGENCY

In connection with the above-captioned Assistance Agreement (the "Assistance Agreement"), the Governmental Agency, through its undersigned duly authorized officer hereby certifies, represents, warrants and covenants as follows:

1. No event of default exists, or with the passage of time will exist, under the Assistance Agreement and the representations and warranties set forth in the Assistance Agreement are true and correct as of the date hereof.

2. The Governmental Agency has examined and is familiar with proceedings of the governing body of the Governmental Agency approving the Assistance Agreement and authorizing its negotiation, execution and delivery and such proceedings were duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such proceedings are in full force and effect and have not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

3. The Governmental Agency is a duly organized and validly existing political subdivision of the Commonwealth of Kentucky with full power to own its properties, conduct its affairs, enter into the Assistance Agreement and consummate the transactions contemplated thereby.

4. The negotiation, execution and delivery of the Assistance Agreement by the Governmental Agency and the consummation of the transactions contemplated thereby by the Governmental Agency have been duly authorized by all requisite action of the governing body of the Governmental Agency.

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

6. There is no controversy or litigation of any nature pending, or to the knowledge of the Governmental Agency after diligent inquiry, threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under the Assistance Agreement or to construct the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of the Assistance Agreement or the construction of the Project, or in any way contesting or affecting the validity of the Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of the Assistance Agreement, or the application of the proceeds thereof or the pledge or application of

any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with the Assistance Agreement.

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

8. All actions taken by the Governmental Agency in connection with the Assistance Agreement and the loan described therein and the Project, as defined in the Assistance Agreement, have been in full compliance with the provisions of the Kentucky Open Meetings Law, KRS 61.805 to 61.850.

9. The Governmental Agency has all licenses, permits and other governmental approvals required to own, occupy, operate and maintain the Project and to enter into the Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Governmental Agency Project, and has full right, power and authority to perform the acts and things as provided for in the Assistance Agreement.

10. The individuals named below are the duly elected or appointed qualified and acting incumbents in the office of the Governmental Agency indicated after their respective names and the signatures subscribed above their names are their genuine signatures.

WITNESS our signatures, this 30th day of January, 2002.

**GOVERNMENTAL AGENCY:
MOUNTAIN WATER DISTRICT**

By: Toni Akers
Name: Ms. Toni Akers
Title: Chairman

ATTEST:

By: [Signature]
Name: _____
Title: Secretary

3

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

FUND F

PROJECT NUMBER: F01-07
BORROWER: Mountain Water District
BORROWER'S ADDRESS: 6332 Zebulon Highway
P.O. Box 3157
Pikeville, Kentucky 41501
DATE OF ASSISTANCE AGREEMENT: January 1, 2002
CFDA NO.: 66.458

2011 01 10
Division of Infrastructure

ASSISTANCE AGREEMENT

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ASSISTANCE AGREEMENT

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

WITNESSETH

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

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

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

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

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

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

WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained to repay the Loan and the interest thereon from the sources herein provided, all as hereinafter more specifically provided; and

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

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

ARTICLE I

DEFINITIONS

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

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

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

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

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

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

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

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

"*Cabinet*" means the Natural Resources and Environmental Protection Cabinet of the Commonwealth.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"*Program*" shall mean the program authorized by KRS 224A.1115 and the Indenture as the "federally assisted drinking water revolving fund" for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

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

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

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

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

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

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

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

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

ARTICLE II

REPRESENTATIONS AND WARRANTIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE III

AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

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

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

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

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

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

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

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

Section 3.4. Subordination of Loan. The Authority hereby agrees that the security interest and source of payment for the Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable

from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(F) That no more than ninety percent (90%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the draft operations and maintenance manual.

(G) That final disbursement will not be allowed until approval by the Cabinet of a final operations and maintenance manual.

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

(1) The operation of the Project and the revision of the operations and maintenance manual as necessary to accommodate actual operating experience;

(2) The training of operating personnel, including preparation of curricula and training material for operating personnel; and

(3) Advice as to whether the Project is meeting the Project performance standards (including three quarterly reports and one project performance report).

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V

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

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

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

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

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

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment period set forth in the Project Specifics, and shall be remitted to the Authority by the

Governmental Agency with a report showing collections and any delinquencies. A report of all collections and delinquencies shall be made at least semi-annually on or before each Payment Date identified in the Schedule of Payments.

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

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

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

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

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

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

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

ARTICLE VI

OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

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

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

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

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

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

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

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

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

Section 6.8. Financial Statements. Within ninety (90) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principles on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity.

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

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

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

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

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

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

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

(1) Federal Cross-Cutters

Environmental Authorities

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

Economic and Miscellaneous Authorities

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

Social Policy Authorities

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

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

(2) State:

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

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

ARTICLE VII

MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IX

MISCELLANEOUS PROVISIONS

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

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

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

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

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

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

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

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

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

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

ATTEST:

KENTUCKY INFRASTRUCTURE
AUTHORITY

Debby Milton
Title: Secretary

By: [Signature]
Title: Executive Director

ATTEST:

GOVERNMENTAL AGENCY:
MOUNTAIN
WATER DISTRICT

[Signature]
Title: SECRETARY

By: [Signature]
Title: CHAIRMAN

APPROVED:

EXAMINED:

[Signature]
SECRETARY/FINANCE AND
ADMINISTRATION CABINET OF THE
COMMONWEALTH OF KENTUCKY

[Signature]
LEGAL COUNSEL TO THE
KENTUCKY INFRASTRUCTURE
AUTHORITY

CABINET FOR NATURAL RESOURCES
AND ENVIRONMENTAL PROTECTION OF
THE COMMONWEALTH OF KENTUCKY

By: [Signature]
Director
Division of Water

EXHIBIT A
MOUNTAIN WATER DISTRICT
PROJECT SPECIFICS
F01-07

GOVERNMENTAL AGENCY:

Name: Mountain Water District
Address: 6332 Zebulon Hwy
P.O. Box 3157
Pikeville, KY 41501

Contact

Person: Will Brown, Superintendent
(606) 631-9162
Big Sandy ADD
(606) 886-2374

ENGINEERS:

Summit Engineering
101 Prosperous Place
Lexington, KY 41502

Kevin Howard
(859) 264-9860

SYSTEM: Water

PROJECT: New water treatment plant and intake

PROJECT COST BREAKDOWN:

Administrative & Legal (KIA)	\$ 15,000
Land Acquisition (LGEDF)	207,506
Engineering (Local, LGEDF, AML)	449,042
Construction (Local, LGEDG, AML, RD, ARC, KIA)	4,588,052
Interim Financing (KIA)	10,000
Contingencies (Local, LGEDF, KIA)	<u>229,403 *</u>
TOTAL	\$5,499,003

*Note: KIA portion of contingency funding of \$129,414 is to be used only if necessary to complete the project as planned. Any unused portion will return to the Drinking Water Revolving Fund.

FUNDING SOURCES:

Local Funds (Pike Co Fiscal Court-Coal Severance)	\$ 583,085
LGEDF (State Surplus Grant)	1,376,683
AML Grant	642,163
RD Grant	400,000
RD Loan	800,000
ARC Grant	500,000
KIA Fund A Loan	<u>1,197,072</u>
TOTAL	\$5,499,003

KIA FUND A LOAN AMOUNT: \$1,197,072
LOAN RATE: 1.8%
REPAYMENT TERM: 20 years
ESTIMATED ANNUAL DEBT SERVICE PAYMENT: \$74,530

AMORTIZATION COMMENCEMENT DATE: June 1 and December 1

Interest payments will commence within six months from first draw of funds. (estimated 12/01/02)

Full principal and interest payments will commence within one year of initiation of operation. (estimated 12/01/03).

REPLACEMENT RESERVE ACCOUNT: \$51,294 to be deposited into borrower held account on or before December 1 of each year commencing with first full principal and interest payment. The annual deposits are to be made until balance reaches \$512,940 and maintained for the life of the loan.

ADMINISTRATIVE FEE: .25%

DEFAULT RATE: 8.0%

LIABILITY INSURANCE COVERAGE:

Death or Personal Injury (per person)	<u>\$3,000,000.</u>
Death or Personal Injury (per occurrence)	<u>\$3,000,000.</u>
Property Damage on System	<u>ACV</u>

EXHIBIT B

**REQUEST FOR PAYMENT WITH RESPECT TO
ASSISTANCE AGREEMENT DATED JANUARY 1, 2002**

Request No. _____

Dated: _____

Original sent to: Kentucky Infrastructure Authority
375 Versailles Road
Frankfort, Kentucky 40601

Copy sent to: Ms. Donna Marlin
Drinking Water Branch
Division of Water
Natural Resources and
Environmental Protection Cabinet
14 Reilly Road
Frankfort, Kentucky 40601

FROM: MOUNTAIN WATER DISTRICT (the "Governmental Agency")

Gentlemen:

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

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

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

ELIGIBLE PROJECT EXPENSES INCURRED

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

Total

ALLOCATION OF FUNDING FOR EXPENSES

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

Totals

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

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

Respectfully submitted,

Governmental Agency

By: _____

Title _____

CERTIFICATE OF CONSULTING ENGINEERS AS TO
PAYMENT REQUEST

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

Engineer/Architect

Firm Name

EXHIBIT C

SCHEDULE OF SERVICE CHARGES

Form for filing Rate Schedules

For: Entire Service Area
Community, Town or City
P.S.C. KY NO. 1
Seventh Revised Sheet No. 2
Cancelling P.S.C. KY No. 1

Mountain Water District
Name of Issuing Corporation

Sixth Revised Sheet No. 2

CLASSIFICATION OF SERVICE

Monthly Rates

5/8 x 3/4-Inch

First 2,000 Gallons \$17.90 Minimum Bill
Next 8,000 Gallons 5.95 Per 1,000 Gallons
All over 10,000 Gallons 5.16 Per 1,000 Gallons

1 Inch

First 5,000 Gallons \$35.75 Minimum Bill
Next 5,000 Gallons 5.95 Per 1,000 Gallons
All Over 10000 Gallons 5.16 Per 1,000 Gallons

2 Inch

First 20,000 Gallons \$117.10 Minimum Bill
Over 20,000 Gallons 5.16 Per 1,000 Gallons

3 Inch

First 30,000 Gallons \$168.70 Minimum Bill
Over 30,000 Gallons 5.16 Per 1,000 Gallons

4 Inch

First 50,000 Gallons \$271.90 Minimum Bill
Over 50,000 Gallons 5.16 Per 1,000 Gallons

6 Inch

First 100,000 Gallons \$529.90 Minimum Bill
Over 100,000 Gallons 5.16 Per 1,000 Gallons

Wholesale rate for Martin County Water District \$1.80 per 1000 Gallons

Line Leak Adjustment Rate \$3.29 per 1,000 Gallons

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

AUG 11 1997

PURSUANT TO 807 KAR 5.011,
SECTION 9(1)

BY: Jordan C. Neel
FOR THE PUBLIC SERVICE COMMISSION

DATE OF ISSUE: August 18, 1997

DATE EFFECTIVE: August 11, 1997

ISSUED BY: Will Brown
Name of Officer

TITLE: Manager

Issued by authority of an Order of the Public Service Commission of Kentucky in Case No. 96-126 dated August 11, 1997.

Form for filing Rate Schedules

For: Entire Service Area
Community, Town or City
P.S.C. KY NO. 1
Original Sheet No. 2.1

Mountain Water District
Name of Issuing Corporation

CLASSIFICATION OF SERVICE

Surcharge

\$0.45 per 1,000 Gallons Limited to
three years or \$831,675 collected.
To become effective August 11, 1998.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

AUG 11 1998

PURSUANT TO 807 KAR 5:011,
SECTION 9(1)

BY: Stephen O. Bell
SECRETARY OF THE COMMISSION

DATE OF ISSUE: August 18, 1997

DATE EFFECTIVE: August 11, 1998

ISSUED BY: Will Brown
Name of Officer

TITLE: Manager

Issued by authority of an Order of the Public Service Commission of Kentucky in Case No. 96-126 dated August 11, 1997.

Form for filing Rate Schedules

For: Entire Service Area
Community, Town or City

P.S.C. KY NO. 1

Sixth Revised Sheet No. 2

Cancelling P.S.C. KY No. 1

First Revised Sheet No. 2

Mountain Water District
Name of Issuing Corporation

CLASSIFICATION OF SERVICE

Sewer Rates

Monthly Rates

First 2,000 Gallons
Over 2,000 Gallons

\$12.00 Minimum Bill
6.00 Per 1,000 Gallons

Connection Fee

5/8, x 3/4 Inch

\$700.00

All additional size connections - Actual Cost

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

MAR 11 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: Jordan C. Neal
FOR THE PUBLIC SERVICE COMMISSION

DATE OF ISSUE: March 11, 1997

DATE EFFECTIVE: March 11, 1997

ISSUED BY: Will Brown
Name of Officer

TITLE: Manager

Issued by authority of an Order of the Public Service Commission of Kentucky in Case No. 97-112 dated March 11, 1997.

EXHIBIT D

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT DATED AS OF JANUARY 1, 2002 BETWEEN THE MOUNTAIN WATER DISTRICT AND THE KENTUCKY INFRASTRUCTURE AUTHORITY.

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

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

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an assistance agreement dated as of January 1, 2002 (the "Assistance Agreement") with the Authority.

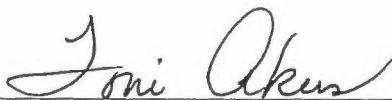
NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Mountain Water District, as follows:

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

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

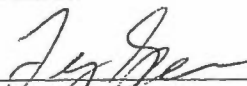
SECTION 3. That this resolution shall take effect at the earliest time provided by law.

ADOPTED on 1-30, 2002.



Chairman

Attest:

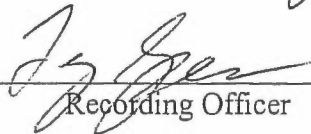


Title Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Mountain Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said Commission at a meeting duly held on _____, 2002; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 30th day of January 2002.



Recording Officer

EXHIBIT E

OPINION OF COUNSEL

[Letterhead of Counsel to Governmental Agency]

[Date]

Kentucky Infrastructure Authority
375 Versailles Road
Frankfort, Kentucky 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and Mountain Water District, dated as of January 1, 2002

Ladies and Gentlemen:

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

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

Based upon my review I am of the opinion that:

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

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

3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to

execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

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

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

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

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

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

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

Very truly yours,

EXHIBIT F

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

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

Principal and Interest Payable
on Each June 1 and December 1

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

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

**KENTUCKY INFRASTRUCTURE
AUTHORITY**

By: _____

Title: _____

**MOUNTAIN WATER DISTRICT
Governmental Agency**

By: _____

Title: _____

ATTEST:

Title: _____

EXHIBIT G

ADDITIONAL COVENANTS AND AGREEMENTS

1. The Governmental Agency covenants and agrees to regularly monitor revenues and expenses to insure adequate debt service coverage.

2. The Governmental Agency covenants and agrees to submit annual audits to the Authority during the term of this Agreement.

3. Of the amount set forth in Exhibit A under the heading "Project Cost Breakdown – Contingencies", the amount of \$129,414, representing proceeds of the Loan to be utilized solely for contingencies, shall be used only to the extent required to complete the Project in accordance with plans and specifications heretofore approved by the Authority. Any balance of such contingency amount remaining following completion of the Project shall be released to the Authority and credited against the principal amount of the Loan effected under this Agreement.

21031\1

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT DATED AS OF JANUARY 1, 2002 BETWEEN THE MOUNTAIN WATER DISTRICT AND THE KENTUCKY INFRASTRUCTURE AUTHORITY.

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

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

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an assistance agreement dated as of January 1, 2002 (the "Assistance Agreement") with the Authority.

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Mountain Water District, as follows:

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

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

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

ADOPTED on 1-30, 2002.

Joni Akers
Chairman


Attest:

Jez Jones
Title: Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Mountain Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said Commission at a meeting duly held on JANUARY 30, 2002; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 30th day of JANUARY, 2002.



Recording Officer

21034\1

5

KENTUCKY INFRASTRUCTURE AUTHORITY
Minutes of Full Board Meeting
October 4, 2001

A meeting of the Kentucky Infrastructure Authority (the Authority) was called to order by Chair T. Kevin Flanery at 1:30 p.m. on October 4, 2001, at the Kentucky Infrastructure Authority, 375 Versailles Road, Frankfort, Kentucky.

Members present: Secretary T. Kevin Flanery, Finance and Administration Cabinet; Mr. Gregory Heitzman, representing the American Water Works Association; Mr. Roy Mundy, representing private, investor owned water systems; Mr. Damon Talley, representing the Kentucky Rural Water Association; Mr. Smith Mitchell, proxy for Secretary Gene Strong, Economic Development Cabinet; Ms. Myralee Smith-Cowley, proxy for Commissioner Jody Lassiter, Department for Local Government; Mr. Hank List, proxy for Secretary James Bickford, Natural Resources and Environmental Protection Cabinet; and Mr. Jerry Wuetcher, proxy for Mr. Tom Dorman, Executive Director, Public Service Commission.

Guests present: Representing Bullock Pen Water District: Mr. Bobby Burgess, Chairman and Mr. Quinten Smith, CMW Engineers; representing Mountain Water District: Mr. Kevin Howard, Summit Engineers; Mr. Gary Larimore, Kentucky Rural Water Association; Ms. Lori Davis, Kentucky Housing Corporation; Mr. Chris Stewart, HMB Engineers; Mr. Bob Chandler, Department for Local Government; Ms. Vicki Ray and Ms. Kelli Rice, Natural Resources and Environmental Protection Cabinet; Ms. Karen Crabtree and Ms. Nancy Osborne, Legislative Research Commission; Mr. Tony Harover, PEH Engineers; Ms. Sandy Williams, Office of Financial Management.

Chair Flanery noted a quorum was present and that the press had been notified regarding the meeting.

NEW BUSINESS

**APPROVAL OF MINUTES OF THE KENTUCKY INFRASTRUCTURE AUTHORITY
FULL BOARD MEETING OF SEPTEMBER 6, 2001**

Chair Flanery called for a motion to approve the minutes. Mr. Talley moved to approve the minutes; Mr. Heitzman seconded and motion **carried**.

PROGRAM REPORT

- **Information Update**
- **Uniform System of Accounts/Reporting**

Mr. Roger Recktenwald, Executive Director, Kentucky Infrastructure Authority (KIA) reported that the committee is in the process of finalizing the uniform accounting and reporting format for all grantee/borrowers of KIA. Generally the uniform system of accounts will have greatest impact on municipal systems.

A final draft of the budget format, chart of accounts and monthly operating report format will be presented to the full Work Group on October 30, 2001, to become effective January 1, 2002.

- **Consolidation: Mergers and Acquisitions**

Mr. Recktenwald, noted that a summary listing system acquisitions and mergers recently consummated, regionalization projects, and systems involved in service-cooperation interlocal agreements was included in the addendum packet which was distributed to board members.

BUSINESS

- **New Projects**

- **RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING APPROVAL OF A FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN (FUND F) OF \$1,067,658 TO THE MOUNTAIN WATER DISTRICT, PIKE COUNTY, FOR A NEW WATER TREATMENT PLANT AND INTAKE**

Ms. Kim Anness, KIA, illustrated the location of the proposed project via the WRIS. Ms. Vicki Ray, Division of Water, NREPC, and Ms. Debby Milton, KIA, presented the resolution.

The Mountain Water District seeks to fund a new water plant and raw water intake. The project involves construction of a 2.0 million gallon per day plant and the raw water intake. It will replace the current Marrowbone Water Treatment Plant. This plant is fast approaching the end of their useful life.

The Marrowbone Water Treatment Plant is not expandable due to its proximity to a railroad, the Russell Fork, existing homes and the topography of the area. The source of water will still be the Russell Fork of the Big Sandy.

Currently there are approximately 2,600 customers served by the Marrowbone plant with the potential of serving 5,260 additional customers with the additional plant capacity.

The Mountain Water District has had violations of chemical contaminate standards in the past and this project would correct that problem.

Plans and specifications were approved by the Division of Water in April of 2001 and are consistent with the Pike County Water Supply Plan. The project is cleared to proceed.

Ms. Milton noted that the project has multiple funding sources that are in place. When the bids came in on the project they were over and the Mountain Water District cut contingencies to less than two percent.

Rural Development has grant and loan funding in the project and insisted that contingency be at five percent. The Mountain Water District is asking to increase its loan amount to cover up to the five percent of the construction amount for the contingencies.

Division of Water and Authority staff recommends this project for approval based on the following conditions: 1) Mountain Water District will need to closely monitor revenues and expenses for adequate debt coverage; and 2) Annual audits must be submitted to KIA for the life of the loan.

Discussion was held regarding the need for increased capacity level of the new plant. Mr. Kevin Howard, Summit Engineers, noted that the Mountain Water District is currently under contract with the City of Pikeville for 1.5 million gallons per day. The new facility will relieve some of the water need but supply from the City will also be needed for a portion of Pike County.

Concern was voiced regarding the rate increase proposed by the City of Pikeville and its impact on the Mountain Water District. Mountain Water District will not have a rate increase at this time.

Due to the large volume demand and the limitations on available supply to the Mountain Water District, the new plant will be an important regionalization project, permitting service extensions to Elkhorn City and communities in Letcher County.

Mr. McCormick moved to approve the resolution; Chair Flanery noted the motion and called for a second; Mr. Talley seconded and motion **carried**.

**RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE
KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING APPROVAL OF
A FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN (FUND F)
OF \$355,660 TO THE BULLOCK PEN WATER DISTRICT, GRANT COUNTY,
FOR WATER LINE REPLACEMENT**

Ms. Kim Anness, KIA, illustrated the location of the proposed project via the WRIS. Ms. Ray, Division of Water, NREPC, and Ms. Milton, KIA, presented the resolution.

Bullock Pen Water District (the District) requests funding to replace smaller asbestos cement lines with PVC and PE water lines and make other distribution system improvements. This line will eliminate an existing bottleneck.

Plans and specifications were approved for this project in July 2001 and the project is consistent with the Grant County Water Supply Plan. The Division of Water has also approved the environmental review.

Replacement of these lines will better allow for compliance with the Safe Drinking Water Act and the asbestos standards.

The District does not anticipate any additional rate increase at this time. The District does anticipate adding between 200-300 customers in the near future due to anticipated growth. This project will require Public Service Commission review.

DOW and KIA staff recommends the project for approval with the following condition: 1) Before any KIA funds can be disbursed, the District must submit documentation of Public Service Commission review and approval of the project.

Mr. Bobby Burgess, Chairman, Bullock Pen Water District, noted that the existing water lines have been in place for many years and are in need of being replaced with larger water lines.

The Bullock Pen Water District qualifies for the hardship rate.

Mr. Talley moved to make a motion to approve the resolution; noting the motion Chair Flanery called for a second; Mr. Heitzman seconded and motion **carried**.

- **Establishing Funding Cycles for the Kentucky Certified Clean Counties Program**

Mr. Recktenwald noted that with regard to the Clean Counties Program the Authority is cooperating with the Department of Transportation and in partnership with the Division of Waste Management in funding projects through the Kentucky Certified Clean Counties Program.

In the context in funding all eligible projects a problem has arisen regarding the statutory ceiling of the Authority's funding availability of \$75,000 per project funding cycle. The Department of Transportation does not have a similar ceiling. With this ceiling, the Department of Transportation will expend all funds before KIA funds are expended and consequently will leave several eligible projects unfunded.

In order to fund projects, the Authority staff recommends that the Board establish a monthly funding cycle for solid waste projects. Any application received during a funding cycle may be considered for funding at the \$75,000 maximum amount in one or more subsequent funding cycles.

If this recommendation is accepted, the Authority would amend funding arrangements already approved by the Board for two (2) approved programs: the Magoffin County and Knott County programs.

Chair Flanery called for a motion regarding the recommended funding cycle; Mr. Heitzman moved to approve the recommendation; Mr. Mundy seconded and motion **carried**.

- **RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING AMENDMENT OF SOLID WASTE GRANTS (FUND E) (KENTUCKY CERTIFIED CLEAN COUNTIES PROGRAM) TO MAGOFFIN COUNTY AND KNOTT COUNTY AND APPROVAL TO PIKE COUNTY FOR CLEANUP OF OPEN DUMPS**

Ms. Cathy Guess, Division of Waste Management, NREPC, and Mr. John Covington, KIA, presented the resolution.

The Magoffin County and Knott County projects that were approved at a previous board meeting were offered for amendment to reflect three (3) funding cycles of up to \$75,000 each with the balance of funding to come from the Department for Transportation and local funds.

The Pike County project was presented for consideration; staff noting that by allowing the additional funding cycles, Authority funds may be available in five (5) funding cycles for Pike County, each of which will be presented at future Board meetings.

Two conditions are placed on the grants: 1) the County will remove and properly dispose of all solid waste in accordance with all applicable Kentucky laws and regulations; 2) the County will maintain compliance with the County solid waste management plan.

Chair Flanery called for a motion to approve the recommended amended Magoffin and Knott Counties projects and the Pike County project; Mr. Heitzman moved to approve the resolution; Mr. Mundy seconded and motion **carried**.

- **ADMINISTRATIVE ACTION**

- **RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING AND APPROVING THE ISSUANCE OF OBLIGATIONS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY TO REIMBURSE CAPITAL EXPENDITURES MADE BY GOVERNMENTAL AGENCIES PURSUANT TO LOANS MADE BY THE KENTUCKY INFRASTRUCTURE AUTHORITY TO SUCH GOVERNMENT AGENCIES**

Mr. Covington, noted that this routine resolution allows the Authority to reimburse expenses that are paid out of the Authority's funds with bond proceeds. The projects covered under this resolution are listed in the October 4, 2001 Board book. Chair Flanery called for a motion to approve the resolution. Mr. McCormick moved to approve the resolution; Mr. Talley seconded and motion **carried**.

- **POLICY MATTERS**

- **2020 Program – Project Selection Process Committee Report and Recommendation**

Mr. Greg Heitzman gave a brief overview of the Project Selection Recommendation.

Projects will be considered which comply with the Board's April guidelines, which established Service and Regional Project categories. Points will be awarded based on the following prioritization criteria as recommended by the Board's Project Selection Committee: Number of Households Served, Regional Projects (projects involving more than one system); Median Household Income (MHI); and Cost Per Household.

The Committee recommended establishing fund set asides as follows: Regional Projects - \$15 million, with no more than one (1) per Area Development District (ADD); and, Service Projects - \$30 million, for "unserved" and "underserved" projects; and, Small Projects for Unserved Households - \$5 million, for those projects which affect fifty (50) households or less, the total cost of which is not greater than \$500,000 and the KIA participation is not more than \$250,000.

The Committee indicated that it was assuring that the issues of geographic distribution; ADD prioritization, and the impact on tobacco counties was considered in project selection.

Mr. Heitzman asked for a vote of confidence regarding the Committee's work. Chair Flanery called for a vote to ratify the Project Selection Committee's work, and members voted in the affirmative by **acclamation**.

- **2020 Emergency Regulations**

Mr. Recktenwald noted that the 2020 Project Selection Committee will meet again to establish a threshold of projects that would receive funding within each of the above categories. Meetings will be held with funding agencies involved in the funding process to make sure that funding efforts are not duplicated. A list of projects for funding will be presented to the Board for approval in late November or December 2001.

He noted as required procedure, that once the Board accepts the recommendations and make an "allocation of funding" there will be a transmittal letter informing the respective communities. The community will be tasked to illustrate that it can secure the balance of funding associated with their proposal, proceed in the timeframe given, and achieve the other commitments made in the Project Profile.

Within a given period of time, if the community cannot and does not move forward in the established timeframe that project allocation will be set aside and the Authority would go to the next project on the funding list.

The Authority's legal counsel, Mr. Dirk Bedarff, Peck, Shaffer & Williams LLP, is in the process of drafting emergency regulations for the 2020 Program.

BOND ISSUES

- **The Preliminary Bond and General Trust Indenture Resolution**

Mr. Covington presented the draft resolution for the 2020 fund in the amount of \$50 million authorizing the preliminary bond issuance and a general trust indenture. Since this is the first issuance for these bonds for this program the Authority has to authorize the execution of a General Trust Indenture.

Chair Flanery called for a motion to approve the resolution. Mr. Talley moved to approve the resolution; Mr. McCormick seconded and motion **carried**.

- **The Preliminary Bond Resolution**

This resolution is for Fund A and Fund F new money and potential refunding for Funds A, B, and E. State appropriation supported debt is the only refinancing being considered at this time.

Chair Flanery called for a motion to approve the resolution; Mr. McCormick moved to approve the resolution; Mr. Mundy seconded and motion **carried**.

A State Property and Buildings Commission Resolution was included in the Board book for information purposes.

FINANCIAL STATUS REPORTS ON FUNDS A, A1, B, B1, B2, C, E, F, AND F1

Mr. Recktenwald, noted that a copy of the financial status report for all funds was included in the board book for information purposes. The Authority is in the process of closing out both the Fund B1 and HB502 projects.

SPECIAL ANNOUNCEMENTS / NOTIFICATONS

- **The Council of Infrastructure Financing Authorities (CIFA) Conference**

Ms. Milton noted that the conference is being sponsored by CIFA in cooperation with the Kentucky Infrastructure Authority. CIFA is a national organization which provides assistance and support to the Authority as regards the two (2) federal programs (Funds A and F). Kentucky is one of the three states that helped to originally form the CIFA organization.

The conference is to be held November 11-13, 2001 at The Seelbach Hilton, Louisville, Kentucky.

- **FY01 Wastewater Capitalization Grant and Submittal of Drinking Water Capitalization Grants**

The Authority has received notice of approval for the FY2001 Wastewater Capitalization Grant.

Submittal of the two (2) Drinking Water Capitalization Grants for 2001 and 2002 will be made within the next month.

- **Next Scheduled KIA Board Meeting**

The next KIA board meeting is scheduled for Thursday, November 1, 2001, 1:30 p.m. at the Kentucky Infrastructure Authority office, 375 Versailles Road, Frankfort.

- **Stakeholders/Agencies Roundtable**

The Public Service Commission, Natural Resources and Environmental Protection Cabinet and the Kentucky Infrastructure Authority has scheduled stakeholders/agencies meetings for the following dates/times:

Tuesday, October 16, 2001
1:30 p.m. – 4:00 p.m. (local time)
Lexington Public Library, Conference Room A


Wednesday, October 17, 2001
1:30 p.m. – 4:00 p.m. (local time)
Madisonville Tech Center

These sessions will solicit input regarding the definitions for development in Kentucky as called for in the Safe Drinking Water Act and input regarding streamlining of processes and procedures relating to project planning, development, approval, and funding.

KIA MINUTES---OCTOBER 4, 2001
PAGE EIGHT OF EIGHT

There being no further business the meeting was adjourned.

Submitted by:



Debby L. Milton, Secretary
Kentucky Infrastructure Authority

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Kentucky Infrastructure Authority

375 Versailles Road
Frankfort, Kentucky 40601-3646
502-573-0260 • 502-573-0157 fax
<http://wris.state.ky.us/kia/>

RECEIVED
OCT 11 10 05

October 5, 2001

Ms. Toni Akers, Chairman
Mountain Water District
P.O. Box 3157
Pikeville, Kentucky 41502

**KENTUCKY INFRASTRUCTURE AUTHORITY
FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND
CONDITIONAL COMMITMENT LETTER (F01-07)**

Dear Ms. Akers:

The Kentucky Infrastructure Authority (KIA) commends your efforts to improve public service facilities in your community. Your loan application to the KIA for construction of a new water treatment plant and intake was approved by KIA on October 4, 2001. The total cost of the project shall not exceed \$5,499,003 of which the KIA loan shall provide up to \$1,197,072. Other anticipated funding for the project is reflected in the attached credit analysis. The credit analysis and the Application for Loan Assistance incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between KIA and the Mountain Water District upon satisfactory performance of the conditions set forth in this letter. A period of six months from the date of this letter (April 5, 2002) will be allowed for you to meet the conditions set forth in this letter. Funds will be available for disbursement only after execution of the loan agreement.

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

1. The KIA project loan shall not exceed \$1,197,072.
2. The loan shall bear interest at the rate of 1.8% per annum commencing with the first draw of funds.
3. The loan shall be repaid over a period not to exceed 20 years from the date the loan is closed.



An Equal Opportunity Employer M/F/D

4. Interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1 or December 1 immediately succeeding the date of the initial draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1 or December 1 which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid.
5. Full principal payments will commence on the appropriate June 1 or December 1 within twelve months from initiation of operation. Full payments will be due each six months thereafter until the loan is repaid.
6. A loan servicing fee of 0.025% of the annual outstanding loan balance shall be payable to KIA as a part of each interest payment.
7. Loan funds will be disbursed after execution of the loan agreement as project costs are incurred.
8. KIA loan funds must be expended within six months of official date of initiation of operation.
9. KIA Fund "F" loan funds are considered to be federal funds. OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations, requires that all recipients and subrecipients **expending \$300,000 or more in a year in federal awards must have a single or program-specific audit conducted for that year** in accordance with the Circular. If the federal amount expended plus all other federal funds expended exceeds the threshold, you are required to arrange for an A-133 audit to be performed by an independent, licensed CPA, or in special cases, the Auditor of Public Accounts of the Commonwealth of Kentucky. KIA requires an annual audit to be preformed for the life of the loan.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the agreement. Any required documentation must be submitted to the Division of Water (DOW).

1. The Authority to Award (bid) package must be submitted to the Division of Water for approval within 21 days of bid opening.
2. The Assistance Agreement must be executed within six (6) months from bid opening.

3. The final plan of operation must be approved prior to 50 percent payment.
4. The draft operation and maintenance manual must be approved prior to 90 percent payment. The final operation and maintenance manual must be approved prior to final payment and loan closing.
5. The city must agree to expend all KIA loan funds within six months of the date of initiation of operation.
6. Documentation of final funding commitments from all parties other than KIA as reflected in the credit analysis shall be provided prior to preparation of the loan agreement and disbursement of the loan monies. Rejections of any anticipated project funding shall be immediately reported and may cause this loan to be subject to further consideration. (KIA)
7. The consulting engineer shall certify the expected life of the project. (KIA)
8. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the state's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. At this time we know of no further submission required for their review; however, they may request information as needed.
9. The city must complete and return to KIA the attached "Authorization For Electronic-Deposit of Vendor Payment" Form.


Any special conditions listed below and/or stated in the credit analysis must be resolved.
(KIA and DOW)

1. MWD will need to closely monitor revenues and expenses for adequate debt coverage.
2. Annual audits must be submitted to KIA for the life of the loan.
3. The KIA portion of contingency funding of \$129,414 is to be used only if necessary to complete the project as planned. Any unused portion will return to the Drinking Water Revolving Fund.

Ms. Akers
October 5, 2001
Page Four

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

Sincerely,



Debby L. Milton, Secretary
Kentucky Infrastructure Authority

Attachments

cc: Bill Gatewood, Division of Water
Dirk Bedarff, Peck, Shaffer & Williams LLP
Kevin Howard, Summitt Engineering

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



Accepted

12-20-01

Date

EXECUTIVE SUMMARY
KENTUCKY INFRASTRUCTURE AUTHORITY
FUND F, FEDERALLY ASSISTED DRINKING WATER
REVOLVING LOAN FUND

Reviewer: Debby Milton
 Date: October 4, 2001

BORROWER	Mountain Water District, Pike County			
BRIEF DESCRIPTION	Mountain Water District is seeking funding for construction of a new water treatment plant and intake. The proposed project (Feds Creek Mouthcard Water Supply Project) also includes a connection between the old plant and new plant.			
PROJECT FINANCING		PROJECT BUDGET		
Local (Pike Co & MWD)	583,085	Administrative	15,000	
LGEDF	1,376,683	Land Acquisition	207,506	
AML	642,163	Engineering	449,042	
RD Grant	400,000	Construction	4,588,052	
RD Loan	800,000	Interim Financing	10,000	
ARC Grant	500,000	Contingencies	229,403	
KIA Fund F Loan	1,197,072			
Total	\$5,499,003	Total	\$5,499,003	
REPAYMENT	Rate:	1.8 %	Est. Annual Payment:	\$74,530
	Term:	20 yrs	1st Payment:	Six months after 1 st draw
PROFESSIONAL SERVICES	Engineer:	Summitt		
	Bond Counsel:	Peck, Shaffer & Williams		
PROJECT SCHEDULE	Construction Award:	10/01		
	Construction Start:	10/01		
	Construction Stop:	02/03		
OTHER DEBT	See Attached			
DEBT PER CUSTOMER	Existing:	\$96.74 (water cust)		
	Proposed:	\$90.56 (water cust)		
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES	Water			
	Current:	\$29.80/4,000		
	Proposed:	Same		
REGIONAL COORDINATION	None			
CASHFLOW (\$000)	Operating Income	Debt Service	Income after Debt Service	Coverage Ratio
Audited 1996	350	681	(331)	0.51
Audited 1997	742	1,056	(313)	0.70
Audited 1998	1,210	1,337	(126)	0.91
Audited 1999	1,559	1,130	429	1.38
Unaudited 2000	1,124	1,056	67	1.06
Projected 2001	1,348	1,097	250	1.23
Projected 2002	1,448	1,166	281	1.24
Projected 2003	1,448	1,200	247	1.21

**KENTUCKY INFRASTRUCTURE AUTHORITY
WASTEWATER REVOLVING LOAN FUND (FUND "F")
MOUNTAIN WATER DISTRICT, PIKE COUNTY
PROJECT REVIEW**

I. PROJECT DESCRIPTION

Mountain Water District (MWD) proposes to construct a new water treatment plant and intake. The new plant will be located along US 460/80 at Harless Creek. The new location will replace the existing raw water source resulting in improved source water quantity and quality.

The proposed project (Feds Creek Mouthcard Water Supply Project) also includes a connection between the old plant and new plant.

The existing treatment plant is over 20 years old and rapidly deteriorating. The current intake structure is an old concrete tower with two suction pumps that are inundated during high flow. During low flow, water in the Russell Fork must be diverted toward the intake structure to maintain suction. These are hardly the best conditions for raw water intake thus the need for improved source water quality and availability.

The reinforced concrete plant basins, clear well, and flocculator are in poor condition with constant need of repair, and are becoming a drain on operations and maintenance. Flocculation and sedimentation basins have no convenient means of sludge removal. The existing plant periodically exceeds current finished water turbidity levels and can not meet SFDWA requirements during storm events.

A new treatment plant will provide the best available technologies to allow compliance with chemical contamination standards which have previously been in violation. Replacement of the existing system will result in reduced VOC's, IOC's, and SOC's. Disinfection by products, i.e., trihalomethanes and secondary contaminants, i.e., nitrates, will be addressed with the new facility.

Mountain Water District has limited treatment capabilities as 80% of their treated water is purchased wholesale from other systems. These purchase contracts are reaching their limits. The City of Pikeville supplies treated water to MWD at a rate of \$1.31/1,000 gallons; City of Williamson at a rate of \$1.31/1,000 gallons; and Sandy Valley Water District at \$2.01/1,000 gallons. The existing Marrowbone Treatment Plant supplies the remaining 20% of the District's supply. With expected growth in the area, (including the new Cumberland Valley High School), expansion of the water system is required, or the growth cannot occur.

II. **PROJECT BUDGET**

Administrative & Legal (KIA)	\$	15,000
Land Acquisition (LGEDF)		207,506
Engineering (Local, LGEDF, AML)		449,042
Construction (Local, LGEDG, AML, RD, ARC, KIA)		4,588,052
Interim Financing (KIA)		10,000
Contingencies (Local, LGEDF & KIA)		229,403
Total	\$	5,499,003

III. **PROJECT FUNDING**

A. **Funding Sources**

Local Funds (Pike Co Fiscal Court – Coal Severance)		583,085
LGEDF (State Surplus Grant) appv'd		1,376,683
AML Grant appv'd		642,163
RD Grant appv'd		400,000
RD Loan appv'd		800,000
ARC Grant appv'd		500,000
KIA Fund F Loan	\$	1,197,072
Total		5,499,003

B. **KIA Debt Service**

Construction Loan	\$	1,197,072
P&I (1.8% of loan amount)		71,538
Administrative Fee (.25% of loan amount)		2,992
Estimated Annual Debt Service Payment	\$	1,271,602

IV. **PROJECT SCHEDULE**

Construction Award Date: 10/01
Construction Start Date: 10/01
Construction Stop Date: 02/03

V. **KEY CONTACTS**

Toni Akers, Chairman
Mountain Water District
P.O. Box 3157
Pikeville, KY 41502
606/631-9162

Summitt Engineering
101 Prosperous Place
Lexington, KY 41502
Kevin Howard
859/264-9860

VI. OUTSTANDING DEBT

<u>Water</u>	<u>Amt Outstanding</u>
1988 RD Loan	\$ 443,000
1990 RD Loan	\$ 432,000
1992 RD Loan	\$1,488,000
1992 KIA Loan	\$ 186,711
1994 RD Loan	\$ 662,000
1994 KIA Loan	\$5,165,093
1994 KIA Loan	\$ 337,760
1995 RD Loan	\$1,344,000
1999 RD Loan	\$1,693,000
<u>Sewer</u>	
1998 RD Loan	\$ 176,000
1998 KIA Loan	\$ 444,586
2000 KIA Loan	\$1,116,576

VII. OTHER STATE/FEDERAL FUNDING IN PAST FIVE YEARS:

<u>Issue</u>	<u>Amount</u>	
1995 RD Grant	\$ 217,100	(Indian Creek)
1995 CDBG	\$1,334,000	(Elkhorn Creek)
1995 AML Grant	\$ 657,467	(Hurricane Creek)
1995 AML Grant	\$ 510,658	(Smith Fork)
1995 AML Grant	\$ 32,285	(Freeburn/Magestic)
1995 COE Grant	\$ 52,990	(Freeburn/Magestic)
1996 RD Grant	\$ 372,100	(Elkhorn Creek)
1996 CDBG	\$ 856,598	(Elkhorn Creek)
1996 AML Grant	\$ 249,373	(Hurricane Creek)
1996 AML Grant	\$ 41,315	(Freeburn/Magestic)
1996 AML Grant	\$ 52,990	(Freeburn/Magestic)
1997 RD Grant	\$ 412,300	(Elkhorn Creek)
1997 CDBG	\$ 7,073	(Elkhorn Creek)
1997 ARC Grant	\$ 405,682	(Elkhorn Creek)
1997 EDA Grant	\$ 613,713	(Mossy Bottom)
1997 AML Grant	\$ 55,469	(Hurricane Creek)
1997 AML Grant	\$ 34,685	(Freeburn/Magestic)
1997 AML Grant	\$ 4,625	(Brushy)
1997 AML Grant	\$ 61,500	(Feds Creek/Mouthcard)
1998 EDA Grant	\$ 192,516	(Mossy Bottom)
1998 ARC Grant	\$ 112,515	(Mossy Bottom)
1998 AML Grant	\$2,702,947	(Freeburn/Magestic)
1998 AML Grant	\$ 11,500	(Feds Creek/Mouthcard)
1998 DOT Reimb	\$ 349,014	(Utility Relocation)
1998 COE Grant	\$ 97,170	(McCarr Sewer)

1999 AML Grant	\$ 156,489 (Freeburn/Majestic Water)
1999 AML Grant	\$ 59,326 (Feds Creek/Mouthcard)
1999 DOT Reimb	\$ 83,179 (Special Projects)

VIII. DEMOGRAPHICS/CUSTOMER MIX/RATE STRUCTURE

MWD, formed in 1986, is located in Pike County, the eastern most point of the state. The territorial limits of MWD, set by the Pike County Judge/Executive, are all of Pike County except: (1) the territory of that portion of the Sandy Valley Water District located in Pike County, (2) the water service area of the City of Pikeville, (3) the water service area of the City of Elkhorn City, and (4) the water service area of the Mayo Village Water Company. The current population of the service is estimated at 73,593. Median Household Income for the jurisdiction is \$17,468.

A. WATER CUSTOMER MIX

	Current	Proposed Under Separate Project
Residential	9,454	1,355
Commercial	438	59
Industrial	<u>0</u>	<u>0</u>
Total	9,892	1,414

Under a separate water line extension project, MWD will add approximately 1,355 new residential water customers currently utilizing wells. The 59 commercial customers include two (2) medical clinics and a new Cumberland Valley High School.

B. RATE STRUCTURE

Current Water Rates (Effective 1997)

5/8 X 3/4 Inch

First 2,000 gallons	\$17.90 Minimum Bill
Next 8,000 gallons	\$ 5.95/1,000 gallons
Over 10,000 gallons	\$ 5.16/1,000 gallons

Billing for 4,000 gallons: \$29.80

1 Inch

First 5,000 gallons	\$35.75 Minimum Bill
Next 5,000 gallons	\$ 5.95/1,000 gallons
All over 10,000 gallons	\$ 5.16/1,000 gallons

2 Inch

First 20,000 gallons	\$117.10 Minimum Bill
All over 20,000 gallons	\$ 5.16/1,000 gallons

3 Inch

First 30,000 gallons	\$168.90 Minimum Bill
All over 30,000 gallons	\$ 5.16/1,000 gallons

4 Inch

First 50,000 gallons	\$271.90 Minimum Bill
All over 50,000 gallons	\$ 5.16/1,000 gallons

6 Inch

First 100,000 gallons	\$529.90 Minimum Bill
All over 100,000 gallons	\$ 5.16/1,000 gallons

The city currently has a 99% collection rate.

MWD currently has approximately 468 sewer customers and charges an average of \$24.00/4,000 gallons.

IX. **FINANCIAL ANALYSIS** (See Exhibit 1)

FY00 audit has not been finalized. Unaudited financial statement totals and proforma projections were provided by MWD.

Cashflow

Historical: MWD continues to make great strides in providing water and sewer service to unserved customers in the area. From FY96 to present, MWD has increased the water customer base from 9,971 to 11,500, a 15% increase. For the same period, sewer customers have increased from 144 to 468 or a 225% increase.

From FY96 to FY00, overall revenues have increased by 50% while overall expenses increased by 32%. In 1995, MWD started construction of a new 200,000 GPD (Mossy Bottom) wastewater treatment plant (WWTP), interceptor and collection lines and appurtenances on U.S. 23. In 1997, MWD took over the operation of the County's WWTP and in 1998 the Mossy Bottom WWTP came on line.

Water sales increased due to recently completed projects adding customers and rate increases in 1997.

Sewer revenue increased due to assumption of operation of additional county owned package plants, addition of Mossy Bottom plant and customers and the resolution of meter reading problems with the Sandy Valley WD.

Water expenses in 1996 are due to major expenditures to correct water loss (40%). By 1997 the water loss had been reduced to the 15% range which resulted in savings to MWD.

MWD did have financial difficulties in the mid-1990's and fell behind on P&I payments to KIA and RD. The increases in debt service each year is due to the District paying current and back due amounts. No payments were missed, only made in installments. MWD did bounce back and have made timely payments to KIA and RD for the past two (2) years.

Proforma

Proforma calculations were prepared by MWD. The 8% increase in FY02 revenues over FY00 figures is due mainly to new water customers. Expenses have been estimated to increase by 3% for the same period. MWD has several leases to mature in the next two years although outstanding debt still remains high. Full principal and interest debt service on the new KIA Fund A loan should commence December 1, 2001.

Replacement Reserve Account

MWD will be required to make annual deposits of \$51,294 into a borrower held account until the balance reaches \$512,940 and maintained for the life of the system.

X. RECOMMENDATIONS

KIA staff recommends this project for approval based on the following conditions:

1. MWD will need to closely monitor revenues and expenses for adequate debt coverage.
2. Annual audits must be submitted to KIA for the life of the loan.
3. The KIA portion of contingency funding of \$129,414 is to be used only if necessary to complete the project as planned. Any unused portion will return to the Drinking Water Revolving Fund.

**EXHIBIT 1
MOUNTAIN WATER DISTRICT
CASHFLOW ANALYSIS - WATER & WASTEWATER**

	Audited 1996	Audited 1997	Audited 1998	Audited 1999	Unaudited 2000	Projected 2001	Projected 2002	Projected 2003
Operations								
Operating Revenues	3,715,770	4,521,423	4,986,383	5,558,939	5,565,881	5,800,000	6,000,000	6,000,000
Operating Expenses (less depreciation)	3,392,896	3,777,085	3,824,393	4,047,272	4,489,331	4,500,000	4,600,000	4,600,000
Net Operating Income	322,874	744,338	1,161,990	1,511,667	1,076,550	1,300,000	1,400,000	1,400,000
Other Revenues								
Gain (Loss) Sale of Assets	13,359	(14,900)	0	0	0	0	0	0
Forgiveness of Debt	0	0	30,000	0	0	0	0	0
Interest Income	9,941	9,653	14,844	44,001	47,738	47,738	47,738	47,738
Discount Amortization Judgement	3,828	3,828	3,828	3,828	0	0	0	0
Total Other Revenues	27,128	(1,419)	48,672	47,829	47,738	47,738	47,738	47,738
Net Income Cash	350,002	742,919	1,210,662	1,559,496	1,124,288	1,347,738	1,447,738	1,447,738
Debt Service								
Existing Debt	657,666	1,031,937	1,337,032	1,082,492	1,044,972	1,044,972	1,044,972	1,044,972
Annuity Payable	24,000	24,000	0	48,000	12,000	12,000	12,000	12,000
New KIA Loan (Fund A)	0	0	0	0	0	40,000	68,961	68,961
New KIA Loan (Fund F)							40,000	74,530
Total Debt Service	681,666	1,055,937	1,337,032	1,130,492	1,056,972	1,096,972	1,165,933	1,200,463
Income After Debt Service	(331,664)	(313,018)	(126,370)	429,004	67,316	250,766	281,805	247,275
Debt Coverage Ratio	0.51	0.70	0.91	1.38	1.06	1.23	1.24	1.21

multi.

ASSISTANCE AGREEMENT
BETWEEN
KENTUCKY INFRASTRUCTURE AUTHORITY
AND
MOUNTAIN WATER DISTRICT
Multi-Area Water Projects
B291-07

TRANSCRIPT OF PROCEEDINGS

Peck, Shaffer & Williams
Covington, Kentucky

INDEX TO TRANSCRIPT OF PROCEEDINGS

In re: Assistance Agreement between Kentucky Infrastructure Authority (the "Authority") and Mountain Water District (the "Governmental Agency"), dated as of June 1, 1992

1. Opinion of Counsel to the Governmental Agency.
2. General Closing Certificate of the Governmental Agency.
3. Assistance Agreement.
4. Resolution authorizing the Assistance Agreement.
5. Extract of Minutes of the Meeting of the Board of Commissioners adopting the Resolution authorizing Assistance Agreement.
6. Extract of Minutes of the Authority authorizing the Assistance Agreement.
7. Commitment Letter, including Credit Analysis

DISTRIBUTION LIST

Mr. Leon Huffman, Chairman
Mountain Water District
Post Office Box 3157
Pikeville, Kentucky 41501

Mr. Charles Frye
First Kentucky Trust Company
101 S. Fifth Street
Louisville, Kentucky 40233

Ms. Marcie Close
Kentucky Infrastructure Authority
075, Capitol Annex Building
Frankfort, Kentucky 40601

Ms. Nancy Sanders
Director, Community Programs
Department for Local Government
1024 Capitol Center Drive
U.S. 60 East
Frankfort, Kentucky 40601

Dirk M. Bedarff, Esq.
Peck, Shaffer & Williams
118 W. Fifth Street
Covington, Kentucky 41011

JACK T. PAGE LAW FIRM

First National Bank Building
P.O. Box 1078
Pikeville, Kentucky 41502
Telephone: (606) 432-0005
Fax: (606) 432-0007

JACK T. PAGE

June 30, 1992

Kentucky Infrastructure Authority
075 Capitol Annex
Frankfort, Kentucky

Re: Assistance Agreement By and Between
Kentucky Infrastructure Authority and
Mountain Water District Dated As Of
June 1, 1992

Ladies & Gentlemen:

The undersigned is an Attorney at Law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal Counsel to the Mountain Water District, hereinafter referred to as the "Governmental Agency". I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally, I am familiar with the infrastructure project (the "Project") with respect to which the Assistance Agreement by and between the Kentucky Infrastructure Authority ("Authority") and the Governmental Agency is being authorized, executed and delivered.

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency, the resolution or ordinance of the governing authority authorizing the execution and delivery of said Assistance Agreement and the plans, designs and specifications prepared by the Engineers for the Governmental Agency with respect to the Project.

Based upon my review, I am of the opinion that:

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

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

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

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

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

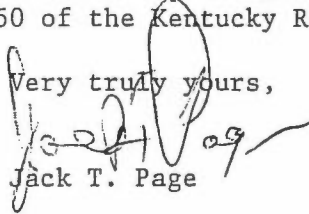
6. To the best of my knowledge after due inquiry there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the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

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

Kentucky Infrastructure Authority
Page 3
June 30, 1992

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

Very truly yours,



Jack T. Page

JTP/mcm

Re: Assistance Agreement between the Kentucky Infrastructure Authority ("KIA") and Mountain Water District (the "Governmental Agency")

GENERAL CLOSING CERTIFICATE OF GOVERNMENTAL AGENCY

In connection with the above-captioned Assistance Agreement (the "Assistance Agreement"), the Governmental Agency, through its undersigned duly authorized officer hereby certifies, represents, warrants and covenants as follows:

1. No event of default exists, or with the passage of time will exist, under the Assistance Agreement and the representations and warranties set forth in the Assistance Agreement are true and correct as of the date hereof.

2. The Governmental Agency has examined and is familiar with proceedings of the governing body of the Governmental Agency approving the Assistance Agreement and authorizing its negotiation, execution and delivery and such proceedings were duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such proceedings are in full force and effect and have not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

3. The Governmental Agency is a duly organized and validly existing water district and political subdivision of the Commonwealth of Kentucky with full power to own its properties, conduct its affairs, enter into the Assistance Agreement and consummate the transactions contemplated thereby.

4. The negotiation, execution and delivery of the Assistance Agreement by the Governmental Agency and the consummation of the transactions contemplated thereby by the Governmental Agency have been duly authorized by all requisite action of the governing body of the Governmental Agency.

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

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

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

8. All actions taken by the Governmental Agency in connection with the Assistance Agreement and the loan described therein and the Project, as defined in the Assistance Agreement, have been in full compliance with the provisions of the Kentucky Open Meetings Law, KRS 61.805 to 61.850.

9. The Governmental Agency has all licenses, permits and other governmental approvals required to own, occupy, operate and maintain the Project and to enter into the Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Governmental Agency Project, and has full right, power and authority to perform the acts and things as provided for in the Assistance Agreement.

10. The individuals named below are the duly elected or appointed qualified and acting incumbents in the office of the Governmental Agency indicated after their respective names and the signatures subscribed above their names are their genuine signatures.

1992. WITNESS our signatures, this 30th day of June, 1992.

GOVERNMENTAL AGENCY:

Mountain Water District

By: Leon Huffman
Name: Leon Huffman
Title: Chairman

ATTEST:

By: Rudy Bellis
Name: Rudy Bellis
Title: Secretary

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

FUND B2

PROJECT NUMBER B291-07

BORROWER: Mountain Water District

BORROWER'S ADDRESS Post Office Box 1469
Pikeville, Kentucky 41501

DATE OF ASSISTANCE AGREEMENT: June 1, 1992

ASSISTANCE AGREEMENT

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ASSISTANCE AGREEMENT

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

W I T N E S S E T H

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

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

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of September 1, 1989 (the "Indenture") between the Authority and First Kentucky Trust Company (the "Trustee") in order to provide funding for its Program; and

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

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

WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained to levy, collect, and enforce and remit adequate Service Charges, as hereinafter defined, for the services provided by the Governmental Agency's System, as hereinafter defined, and to apply the necessary portion of said Service Charges to the repayment of the Loan and the interest thereon, as hereinafter specifically provided; and

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

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

ARTICLE I

DEFINITIONS

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

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

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

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

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

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

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

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

"Commonwealth" shall mean the Commonwealth of Kentucky.

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

"Debt Obligations" shall mean those outstanding obligations of the Governmental Agency identified in the Project Specifics outstanding as of the date of this Assistance Agreement or issued in the future in accordance with the terms hereof, payable from the income and revenues of the System.

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

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

"Indenture" shall mean the General Trust Indenture dated as of September 1, 1989 between the Authority and the Trustee.

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

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

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

"Program" shall mean the program authorized by KRS 224A.112 and the Indenture as the "infrastructure revolving fund" for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

"Project" shall mean, when used generally, an infrastructure project as defined in the Act, and when used in specific reference to the Governmental Agency, the Project described in the Project Specifics.

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

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

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

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

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

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

ARTICLE II

REPRESENTATIONS AND WARRANTIES

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

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

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

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

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

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

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

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

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

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

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

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Assistance Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout;

such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

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

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

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

ARTICLE III

AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

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

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

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

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

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

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

Notwithstanding the foregoing, upon the determination by the Authority that it intends to issue revenue bonds secured by a pledge of the payments on the Loan, the Authority shall

advise the Governmental Agency (i) of its intention to proceed with the authorization of such bonds (ii) of the limitation on prepayments after such bonds are issued and (iii) that the Governmental Agency has thirty (30) days from its receipt of said notice to exercise its option to prepay the Loan. Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Loan shall be limited to the terms described in such notice.

Section 3.4. Subordination of Loan. The Authority hereby agrees that the security interest and source of payment for the Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT;
REQUISITION FOR FUNDS

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

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

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

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

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

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

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

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

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

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

(J) Prior to the award of the construction contract and prior to the commencement of construction, the Governmental Agency will arrange and conduct a conference as to the Project said conference to include representatives of the Authority, the Governmental Agency, and any other participating federal or state agency, the Engineers, and all construction contractors. A written brief of said conference summarizing the construction schedule, fund requirements schedule, payment authorizations, responsible parties for approval of all facets of the construction work and payment therefor, and other pertinent matters shall be prepared and distributed to each agency involved, and all construction contractors and Engineers.

Provided, however, that in the event construction shall have been initiated as of the date of this Assistance Agreement, this provision may be waived.

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

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

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

(N) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers to the Governmental Agency and approved by state and federal agencies, but only to the extent such approvals may be required.

(O) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Authority noting the participation of the Authority in the financing of the Project.

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

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

(R) The Governmental Agency shall require that any bid for any portion of the Construction of the Project be accompanied by a bid bond, certified check or other negotiable

instrument payable to the Governmental Agency, as assurance that the bidder will, upon acceptance of such bid, execute the necessary contractual documents within the required time.

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

(T) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Authority. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor, shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Authority, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

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

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

Section 4.2. Disbursements of Loan; Requisition for Funds. The Governmental Agency may submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) a Requisition for Funds during the first ten days of each month (or such other designated period as is acceptable

to the Authority), in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

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

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

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

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

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

ARTICLE V

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

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

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

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

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

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment period set forth in the Project Specifics, and shall be remitted to the Authority by the Governmental Agency with a report showing collections and any delinquencies. A report of all collections and delinquencies shall be made at least semi-annually on or before each Payment Date identified in the Schedule of Payments.

Section 5.5. Covenant to Establish Maintenance and Replacement Reserve. The Governmental Agency shall establish a special account identified as a "Maintenance and Replacement Reserve". On or before each payment date identified in the Schedule of Payments, the Governmental Agency shall deposit into the Maintenance and Replacement Reserve an amount equal to ten percent (10%) of the amount of such Loan payment until the amount on deposit in such fund is equal to five percent (5%) of the original principal amount of the Loan (the "Required Balance"). Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the costs of replacing worn or obsolete portions of the Project. If amounts are withdrawn from such fund, the Governmental Agency shall again make the periodic deposits hereinabove required until the Required Balance is reinstated.

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

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

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

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

(D) That it will notify the Authority in writing of its intention to issue bonds or notes payable from the revenues of the System not less than thirty (30) days prior to the sale of said obligations.

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

Section 5.8. Mandatory Sewer Connection. In the event that the Project consists of sanitary sewer facilities, the Governmental Agency hereby irrevocably covenants and agrees with the Authority that it will, to the maximum extent permitted by Kentucky law, and by means of ordinance, or other appropriate legislative order or action, mandatorily require the connection to and use of, the sanitary sewers constituting the Project by all persons owning, renting or occupying premises generating pollutants where such sanitary sewers are reasonably available to such premises, and to exhaust, at the expense of the Governmental Agency, all remedies for the collection of Service Charges, including, either directly or indirectly, pursuant to authority granted by Sections 96.930 to 96.943, inclusive, of the Kentucky Revised Statutes, and the Act, causing termination of water services to any premises where the bill for sewer services is delinquent and foreclosure and decretal sale in respect of improvement benefit assessments which are delinquent.

Section 5.9. Termination of Water Services to Delinquent Users. In the event the Project consists of water facilities the Governmental Agency covenants and agrees that it shall, pursuant to applicable provisions of law, to the maximum extent authorized by law, enforce and collect the Service Charges imposed upon users of the Project and facilities constituting the System, and will promptly cause water service to be discontinued to any premises where any billing for such facilities and services shall not be paid in a timely manner.

ARTICLE VI

OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

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

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

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

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

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

Section 6.6. Tax Covenant. In the event the Authority issues Bonds which are intended to be excludable from gross income for federal income tax purposes to provide the

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

Section 6.7. Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the System, which shall at all reasonable times be subject to the inspection of the Authority.

Section 6.8. Financial Statements. Within ninety (90) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principals on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity.

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

Section 6.10. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not sell, mortgage, or in any manner dispose of, or surrender

control or otherwise dispose of any of the facilities of the System or any part thereof (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 6.11. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act and this Assistance Agreement in accordance with the terms of such provisions including the Additional Covenants and Agreements, if any, set forth in Exhibit G hereto.

ARTICLE VII

MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

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

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

Section 7.3. Compliance with State and Federal Standards. The Governmental Agency agrees that it will at all times provide operation and maintenance of the Project to comply with the water quality standards, if any, established by any state or federal agency. The Governmental Agency agrees that qualified operating personnel properly certified by the Commonwealth will be retained to operate the Project during the entire term of this Assistance Agreement.

Section 7.4. Access to Records. The Governmental Agency agrees that it will permit the Authority and any state or federal agency and their respective agents to have access to the records of the Governmental Agency pertaining to the operation and maintenance of the Project at any reasonable time following completion of construction of the Project, and commencement of operations thereof.

Section 7.5. Covenant to Insure - Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political

subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.

Section 7.6. Authority as Named Insured. Any insurance policy issued pursuant to Section 7.5 hereof, shall be so written or endorsed as to make losses, if any, payable to the Governmental Agency, and to the Authority, as their interests may appear.

Section 7.7. Covenant to Insure - Liability. The Governmental Agency agrees that it will carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in the Commonwealth, insuring against such risks (including but not limited to personal injury, death and property damage) and in such amounts as are set forth in the Project Specifics, and naming the Authority as an additional insured.

Section 7.8. Covenant Regarding Worker's Compensation. Throughout the entire term of this Assistance Agreement, the Governmental Agency shall maintain worker's compensation coverage, or cause the same to be maintained.

Section 7.9. Application of Casualty Insurance Proceeds. If, prior to the completion of the term of this Assistance Agreement, the Project shall be damaged or partially or totally destroyed by fire, windstorm or other casualty, there shall be no abatement or reduction in the amount payable by the Governmental Agency pursuant to the terms of this Assistance Agreement, and the Governmental Agency will (1) promptly repair, rebuild or restore the Project damaged or destroyed; and (2) apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for such losses, as well as any additional moneys of the Governmental Agency necessary therefor. All net proceeds of insurance resulting from claims for such losses shall be paid to the Governmental Agency, and shall be promptly applied as herein provided.

Section 7.10. Eminent Domain. In the event that title to, or the temporary use of, the Project, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the minimum amounts payable by the Governmental Agency to the Authority pursuant to the terms of this Assistance Agreement, and any and all net proceeds received from any award made in such eminent domain proceedings shall be paid to and held by the Governmental Agency in a separate condemnation award account and shall be applied by the Governmental Agency in either or both of the following ways, as shall be determined by the Governmental Agency in its sole discretion:

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

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

Any balance of the net proceeds of the award in such eminent domain proceedings after the carrying out of the mandatory proceedings stipulated in (A) and (B) of this Section 7.10, shall be paid to the Governmental Agency upon delivery to the Authority of a certificate signed by an authorized officer of the Governmental Agency to the effect that the Governmental Agency has complied with either subparagraph (A) or (B), or both, of this Section, and written approval of such certificate by an authorized officer of the Authority. In no event will the Governmental Agency voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Project or any part thereof without the written consent of the Authority.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

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

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

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

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

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

Section 8.2. Remedies on Default. Whenever any Event of Default referred to in Section 8.1 has occurred and is continuing, the Authority may, without any further demand or notice, take one or any combination of the following remedial steps:

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

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

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

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

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

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

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

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

ARTICLE IX

MISCELLANEOUS PROVISIONS

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

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

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

Section 9.4. Binding Effect. This Assistance Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Assistance Agreement shall not be revocable by either of the parties, nor assignable by either parties without the written consent of the other party.

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

Section 9.6. Execution in Counterparts. This Assistance Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 9.7. Applicable Law. This Assistance Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 9.8. Venue. The parties hereto agree that in the event of a default by the Governmental Agency pursuant to the provisions of Article 8 of this Agreement, the Authority shall, to the extent permitted under the laws of the Commonwealth, have the right to file any necessary actions with respect thereto in Franklin Circuit Court.

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

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

ATTEST:

KENTUCKY INFRASTRUCTURE
AUTHORITY

Marilyn Eaton-Thomas
Title Secretary/Treas

By Lyle Eberhart
Title Exec Dir

ATTEST:

GOVERNMENTAL AGENCY:
MOUNTAIN WATER DISTRICT

By: Rudy Pollis
Title: Secretary

By: Zeon Huffman
Title: Chairman

APPROVED:

Joseph H. Prather
SECRETARY/FINANCE AND
ADMINISTRATION CABINET OF THE
COMMONWEALTH OF KENTUCKY

EXAMINED:

Peck, Shaffer + Williams
LEGAL COUNSEL TO THE KENTUCKY
INFRASTRUCTURE AUTHORITY

EXHIBIT A
PROJECT SPECIFICS
B291-07

NAME: Mountain Water District
 CONTACT PERSON: Leon Huffman, Chairman
 Ernie Chaney, Manager
 Will Linder, Consultant
 ADDRESS: P.O. Box 3157
 Pikeville, Kentucky 41501
 TELEPHONE: 606-631-9162 or 606-986-8406
 ENGINEER: NAME: Kenvirons
 ADDRESS: P.O. Drawer V
 452 Versailles Road
 Frankfort, Kentucky 40601
 CONTACT: Doug Griffin
 TELEPHONE: 502-695-4357

LIABILITY INSURANCE

COVERAGE:	Death or Personal Injury (per person)	<u>3,000,000</u>
	Death or Personal Injury (per occurrence)	<u>1,000,000</u>
	Property Damage on System	<u>5,000,000</u>

ADMINISTRATIVE FEE: .20%

DEFAULT RATE: 10%

PROJECT COST

BREAKDOWN:

Construction		
contract 27	\$ 992,958	
contract 28	1,473,890	
contract 29	1,018,061	
contract 30	448,000	
contract 31	127,200	
contract 32	108,411	
contract 33	125,041	
force account	<u>309,035</u>	\$4,602,596
Engineering Design		295,026
Engineering Inspection		118,747
Change for Elevated Tank		15,000
Geotechnical Investigation		5,000
Legal Fees		20,000
Planning & Administration		50,000
Capitalized Interest		80,000
Contingencies		<u>230,130</u>
TOTAL		<u>\$5,416,499</u>

SERVICE CHARGE

PAYMENT PERIOD: Monthly
 PAYMENT DATES: The December 1 or June 1 succeeding the project completion date which is at least three months, but no more than nine months, after the project completion date.

LOAN RATE: 2.9%
 LOAN AMOUNT: \$5,165,093

FINAL LOAN TERM

(APPROXIMATELY): 30 Years

ESTIMATED ANNUAL

DEBT SERVICE: \$ 260,124 annual debt service
 10,330 administrative fee
 26,012 coverage for maintenance
 \$ 296,466 Total

OTHER FINANCING SOURCES:

Farmers Home Administration \$ 10,000
Mountain Water District Reserve Funds \$ 241,406

DEBT OBLIGATIONS

CURRENTLY OUTSTANDING:

As of June 30, 1990

<u>Bonds Payable</u>	<u>Outstanding</u>
EDA Bond Payable at 4.75% interest	\$ 270,000
FmHA Bond Payable (Grapevine) 5%	488,195
FmHA Bond Payable (Raccoon) 5%	1,488,895
FmHA Bond Payable (Shelby Valley) 5%	493,691
FmHA Bond Payable (Pond Creek) 5%	689,135
FmHA Bond Payable (Dorton; not closed)	1,500,000
FmHA Bond Payable (Indian Creek; not closed)	600,000
Note Payable (3) to J.I. Case Credit 7.0%-8.0% interest	45,348
Note Payable (1) Ford Motor Credit 8.1% interest	54,202
Note Payable (1) Pike County Fiscal Court non-interest bearing, no maturity date	30,000
Note Payable-Demand (1) Pikeville National Bank at 11.75% interest	10,000
Note Payable (1) Xerox Corporation, payments are \$88.21 for 36 months	175

PROJECT DESCRIPTION

The Multi-Area Project consists of twenty-one subprojects well distributed over Pike County. While the project anticipates 1,287 new customers, there is a potential to serve 1,838 customers, an average of 27.6 customers per mile. The project will consist of 66.6 miles of water lines with 12 booster pump stations and 11 water storage tanks.

EXHIBIT B

REQUEST FOR PAYMENT WITH RESPECT TO
ASSISTANCE AGREEMENT DATED _____

Request No. _____

Dated _____

ORIGINAL SENT TO: Kentucky Infrastructure Authority
Room 075, Capitol Annex
Frankfort, Kentucky 40601

COPY SENT TO: Ms. Libby McManis
Director, Community Programs
Department for Local Government
1024 Capitol Center Drive
Frankfort, Kentucky 40601

FROM: _____ ("Govenmental Agency")

Gentlemen:

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

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

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

ELIGIBLE PROJECT EXPENSES INCURRED

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

██████████ Total

ALLOCATION OF FUNDING FOR EXPENSES

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

Totals

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

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

Respectfully submitted,

Governmental Agency

By _____

Title _____

Certificate of Consulting Engineers as to
Payment Request

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

Engineer/Consultant

Firm Name

EXHIBIT C

SCHEDULE OF SERVICE CHARGES

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Third Revised Sheet No. 2

Cancelling P.S.C. Ky No. 1

Second Revised Sheet No. 2

CLASSIFICATION OF SERVICE

Meter Rates for Monthly Usage in accordance with an order of the Public Service Commission of Kentucky in Case No. 90-354 dated December 13, 1990.

General Customers*

Monthly Rates

5/8 x 3/4-Inch

First 2,000 gallons \$13.50 Minimum Bill
Over 2,000 gallons 3.10 per 1,000 gallons

1-Inch

First 15,000 gallons \$53.80 Minimum Bill
Over 15,000 gallons 3.10 per 1,000 gallons

2-Inch

First 50,000 gallons \$162.30 Minimum Bill
Over 50,000 gallons 3.10 per 1,000 gallons

3-Inch

First 75,000 gallons \$239.80 Minimum Bill
Over 75,000 gallons 3.10 per 1,000 gallons

Date Issued: December 13, 1990 Date Effective: ~~January 2, 1991~~ PUBLIC SERVICE COMMISSION
OF KENTUCKY
ISSUED BY: Mountain Water District, P.O. Box 3157, Pikeville, Kentucky 41501 EFFECTIVE

Leon Huffman
Leon Huffman, Chairman

JAN 2 1991

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: Glenn Miller
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Second Revised Sheet No. 3

Cancelling P.S.C. Ky. No. 1

First Revised Sheet No. 3

CLASSIFICATION OF SERVICE

4-Inch

First 100,000 gallons \$317.30 Minimum Bill
Over 100,000 gallons 3.10 per 1,000 gallons

6-Inch

First 150,000 gallons \$472.30 Minimum Bill
Over 150,000 gallons 3.10 per 1,000 gallons

Wholesale Rate for Nolin Public Service District
All Usage is \$1.87 per 1,000 gallons

Wholesale Rate for City of Pikeville
All Usage is \$1.31 per 1,000 gallons

As per contract with the South Williamson Development Company, the following charges will be billed to users within the Southside Mall. These charges are not a part of the DISTRICT'S rate structure but are based on Mall charges relative to meter size.

5/8-Inch	\$11.30
3/4-Inch	\$15.05
1-Inch	\$33.88
1 1/2-Inch	\$60.27
2-Inch	\$80.30
3-Inch	\$125.47

Date Issued: December 13, 1990 Effective Date: ~~January 2, 1991~~ **JAN 2 1991**
ISSUED BY: Mountain Water District, P.O. Box 3157, Pikeville, Kentucky 41501
PUBLIC SERVICE COMMISSION OF KENTUCKY EFFECTIVE

Leon Huffman
Leon Huffman, Chairman

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: Glenn Miller
PUBLIC SERVICE COMMISSION MANAGER



COMMONWEALTH OF KENTUCKY
DEPARTMENT OF HOUSING, BUILDINGS AND CONSTRUCTION

DIVISION OF PLUMBING
1047 U. S. 127 SOUTH
FRANKFORT, KENTUCKY 40601
(502) 584-3580
(FAX) (502) 584-6799

ALLACE G. WILKINSON
GOVERNOR

LEWIS J. MASTIN
DIRECTOR

M E M O R A N D U M

TO: Customers of the Mountain Water Company

FROM: Lewis J. Mastin, Director
Division of Plumbing

SUBJECT: Plumbing Construction Permits and Water Service Installations

DATE: October 28, 1991

In the very near future the Mountain Water Company will have completed their water mains in your area and will be in a position to furnish you safe and domestic water.

The water service, the piping system from your property line to your home or building, must be contracted or installed by you. Under the provisions of the State Plumbing Code, this installation must be made by a master plumber licensed by this Department or by you personally if you own the property and reside there. An inspection is necessary to assure you that there are no cross-connections between the water and any existing water supplies.

Before water service connections are made it is necessary that a plumbing construction permit be obtained by the master plumber of your choice or yourself, from the plumbing inspector in your area, Clyde Porter. The fee for such a permit is \$15.00. This water service must be inspected after it has been installed, and before it is covered.

The materials that may be used in the construction of water services are galvanized steel pipe, types K, L, or M copper pipe, types R-K, R-L, R-M brass tubing, or approved plastic pipe. Plastic pipe must bear the NSF INSIGNIA (National Sanitation Foundation) and must also include the pressure rating of the pipe as well as the notation, "For Drinking Water". All plastic pipe used for water services must have a minimum pressure rating of 100# per square inch.

All water services must have a minimum inside diameter of 3/4", must be at least 18" under the ground to prevent freezing, and a control valve must be installed immediately in the wall of the building.

A farmstead is exempt from these requirements, provided this property consists of ten (10) acres or more, is outside the corporate limits of a municipality, and is listed as agricultural land with the Property Valuation Administrator.

Clyde Porter has his office in the Pike Co. Health Department and may be reached there from 8:00 A.M. to 9:30 A.M. on Monday and Thursday of each week. Phone 437-5548.

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 7

Cancelling P.S.C. Ky. No.

Sheet No.

CLASSIFICATION OF SERVICE

Connection and Installation Charge for a Special Service
An Individual Fire Hydrant

For each fire hydrant contracted for order by a City, County, State or Federal governmental agency or institution, private customer, private industry, or private institution, the connection and installation charge shall be \$1,380.00.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

Date of Issued: May 7, 1987

Date Effective: May 7, 1987

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501

MAY 07 1987

Leon Huffman
Leon Huffman, Chairman

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1),
BY: George Stiller
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 9

Cancelling P.S.C. Ky. No.

Sheet No.

CLASSIFICATION OF SERVICE

Monthly Usage Charge for Special Service
Through a Multi-Unit Master Meter

The monthly charge for customers who have requested water service through a master meter for multi-unit service shall be the larger of:

- A. The number of housing units times the minimum water charge per unit, based on the DISTRICT'S standard service meter minimum charge, or;
- B. The amount based on the average gallons used per housing unit at the current rate schedule times the number of housing units, in the multiple-unit facility.

Date Issued: August 20, 1987

Date Effective: May 7, 1987
PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501

MAY 07 1987

Leon Huffman
Leon Huffman, Chairman

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: George A. Bell
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 15

Cancelling P.S.C. Ky. No.

Sheet No.

RULES AND REGULATIONS

In addition, the prospective customer shall pay the cost of any special installation necessary to meet his particular requirements, as a contribution in aid of construction.

6. Point of Delivery

The point of delivery is the point where the meter or vault is located on the customer's premises. All water lines, plumbing, and equipment beyond the meter shall be installed and maintained by the customer. The DISTRICT reserves the right to determine the location of point of delivery with full regard to those wishes of the prospective customer, however the DISTRICT will in no event set a meter at a point that does not deliver 30 psig at the meter.

7. Customer's Service Line

All service lines beyond the metering point should be installed of material consisting of copper, galvanized, PVC pipe, or PE pipe with rating of not less than 200 psi. The size of service line beyond the point of delivery should not be less than 3/4".

Should a prospective customer desire a higher pressure due to his location or need, he may make provision, at his expense, for an individual pressure booster system. The manner of connection, location cross-connection protection and type is subject to approval by DISTRICT. The DISTRICT reserves the right to require discontinuance and disconnection should the private booster system have a detrimental effect on DISTRICT'S system.

PUBLIC SERVICE COMMISSION

Date Issued: August 20, 1987

Date Effective: May 07 1987
OF KENTUCKY
EFFECTIVE

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501

MAY 07 1987

Leon Huffman
Leon Huffman, Chairman

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: Sharon L. Lee
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 16

Cancelling P.S.C. Ky. No.

Sheet No.

RULES AND REGULATIONS

8. Ownership of Mains, Services & Appurtenances

All mains, fire hydrants, valves, crossings and other appurtenances are and shall remain the property of the DISTRICT, whether installed directly by them or received through actions of a customer or extendor.

All service lines from main to meter with appurtenances shall be and remain the property of DISTRICT, whether installed directly by them or received through actions of a customer or extendor.

The customer shall install, own and maintain his service line from meter and/or point of delivery as defined here before.

9. Discontinuance of Service by DISTRICT

Water service may be discontinued by the DISTRICT for any violation of any rule, regulation, or condition, and especially for any of the following reasons.

- A. Misrepresentation in the application or contract as to the property or fixtures to be supplied or additional use to be made of water.
- B. Failure to report to the DISTRICT additions to the property or fixtures to be supplied or additional use to be made of water.
- C. Resale of water.

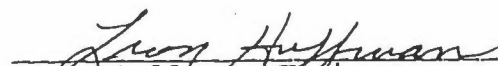
PUBLIC SERVICE COMMISSION
OF KENTUCKY

Date Issued: August 20, 1987

Date Effective: May ~~EFFECTIVE~~ 7

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501

MAY 07 1987


Leon Huffman, Chairman

PURSUANT TO 207 KAR 5:011,
SECTION 9(1)

BY: 
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 17

Cancelling P.S.C. Ky. No.

Sheet No.

RULES AND REGULATIONS

- D. Waste or misuse of water due to improper or imperfect service pipes and/or failure to keep such pipes in a suitable state of repair.
- E. Tampering with meter, meter seal, service, or valves, or permitting such tampering by others.
- F. Connection, cross-connection, or permitting the same, of any separate water supply to premises which receive water from the DISTRICT.
- G. Non-payment of bills.
- H. When a dangerous condition is found to exist on the customer's or applicant's premises, with reference to the continuation of water service, water service shall be cut off without notice or shall be refused, provided the DISTRICT shall notify the customer or applicant immediately of the reasons for the discontinuance or refusal and the corrective action to be taken by the applicant or customer before service can be restored.

10. Billing

Bills and notices relating to the conduct of the business of the DISTRICT will be mailed to the customer at the address listed on the user's agreement unless a change of address has been filed in writing with the DISTRICT; and the DISTRICT shall not otherwise be responsible for delivery of any bill or notice nor will the customer be

Date Issued: August 20, 1987

Date Effective: **PUBLIC SERVICE COMMISSION**
MAY 07 1987
EFFECTIVE

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501

Leon Huffman
Leon Huffman, Chairman

MAY 07 1987
PURSUANT TO 807 KAR 5:011,
SECTION 9(1),
BY: Sharon A. Miller
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 18

Cancelling P.S.C. Ky. No.

Sheet No.

RULES AND REGULATIONS

excused from the payment of any bill or any performance required in said notice.

Bills for water service are due and payable at the office of the DISTRICT, or to any designated agent, on the date of issue. The past due date shall be the 20th day after the date of issue. On all accounts not paid in full by the next billing date, an additional charge of 5 percent of the unpaid portion will be made.

All bills not paid on or before the past due date shall be deemed delinquent. Any said delinquent bill will appear as added to next month's balance. Included on the bill will be a statement indicating that if the previous balance is not paid in full on or before the next past due date, it is the intent of the DISTRICT to discontinue service as of that date provided. However, if, prior to discontinuance of service, there is delivered to the DISTRICT or its employee empowered to discontinue service, a written certificate signed by a physician, a registered nurse, or a public health officer that, in the opinion of the certifier, discontinuance of service will aggravate an existing illness or infirmity at the affected premises, service shall not be discontinued until the affected resident can make other living arrangements or until ten (10) days elapse from the time of the DISTRICT'S receipt of said certification, whichever occurs first.

Date Issued: August 20, 1987

Date Effective: ~~May 7, 1987~~ PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501

MAY 07 1987

Leon Huffman
Leon Huffman, Chairman

PURSUANT TO KRS 5:011,
SECTION 9(1),
BY: George L. Lyle
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District For: Entire Service Area
P.S.C. Ky. No. 1
First Revised Sheet No. 19
Cancelling P.S.C. Ky. No. 1
Original Sheet No. 19

RULES AND REGULATIONS

11. Discontinuance of Service by Customer

Any customer having fulfilled their contract terms and desiring to discontinue the water service to his premises for any reason must give notice of discontinuance in writing at the business office of the DISTRICT at least three (3) days prior to the date on which the customer desires to discontinue service. If such notice in writing is not given, a customer shall remain liable for all water used and service rendered to such premises by the DISTRICT until such notice is received by the DISTRICT.

12. Reconnection Fees

Where the water supply to the customer has been discontinued for non-payment of delinquent bills, or where a meter is to be reinstalled for a new customer at the location where one existed previously, a charge of \$25.00 will be made for reconnection of water service, but the reconnection fee will not be made until all delinquent bills and other charges, if any, owed by the customer to the DISTRICT have been paid. In instances where the customer pays all delinquent bills to an employee of the District at the time of the disconnection, a charge of \$12.50 shall be made to cover the District's costs.

13. Deposit

The DISTRICT reserves the right to require that a nominal amount be placed on deposit with the DISTRICT for the purpose of establishing or maintaining any customer's credit, such amount not to exceed two/twelfths (2/12) of the estimated annual bill of such customer. Upon the payment of such deposit, the DISTRICT shall issue to such customer a certificate of deposit, showing the name of

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

Date Issued: September 7, 1989 Date Effective: October 1, 1989
OCT 01 1989

ISSUED BY: Mountain Water District, P.O. Box 3157,
Pikeville, Kentucky 41501

PURSUANT TO 307 KAR 5:011,
SECTION 9(1)
BY: *[Signature]*
PUBLIC SERVICE COMMISSION MANAGER

[Signature]
Leon Huffman, Chairman

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 20

Cancelling P.S.C. Ky. No.

Sheet No.

RULES AND REGULATIONS

the customer, the location of the initial premises occupied by the customer, and the date and amount of the deposit. The DISTRICT will pay to such customer interest on such deposit at the rate of six percent (6%) per annum, until such deposit is reimbursed to the customer.

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 25

Cancelling P.S.C. Ky. No.

Sheet No.

RULES AND REGULATIONS

otherwise unsatisfactory service, whether or not caused by negligence. The DISTRICT does hereby explicitly state that its system is one for rural domestic consumption and that its allowance of connections to its system for fire protection whether by design or implication is only for such benefit as said customer may be able to derive from such connection.

The DISTRICT'S system is not designed nor intended for use for fire protection in any manner whatsoever. Any customer using same for fire protection does so at their own full and sole responsibility.

The DISTRICT shall in no event be held responsible for any claim made against it by reason of the breaking of any mains or service pipes or by reason of any other interruption of the supply of water caused by the failure of machinery or stoppage for necessary repairs. No person shall be entitled to damages nor for any portion of a payment refunded for any interruption of service which in the opinion of the DISTRICT may be deemed necessary.

The DISTRICT shall made all reasonable efforts to eliminate interruption of service and when such interruption occur will endeavor to reestablish service with the shortest possible delay. When the service is interrupted all consumers affected by such interruption will be notified in advance whenever it is possible to do so.

Date Issued: August 20, 1987

Date Effective PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501

MAY 07 1987

Leon Huffman
Leon Huffman, Chairman

PURSUANT TO 1987 KAR 5:011,
SECTION 9(1),
BY: George A. Hill
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 26

Cancelling P.S.C. Ky. No.

Sheet No.

RULES AND REGULATIONS

21. Boilers and/or Pressure Vessels

Customers having boilers and/or pressure vessels receiving a supply of water from the DISTRICT must have a check valve on the water supply line and a vacuum valve on the stream line to prevent collapse in case the water supply from the DISTRICT is discontinued or interrupted for any reason, with or without notice. It is the responsibility of the customer to make provisions for protection of his equipment in case of interrupted or intermittent service.

22. Backflow Preventors

Special services and fire connections shall have backflow preventors of a type approved by the DISTRICT, installed at the cost of prospective customer.

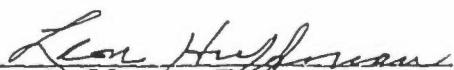
23. Cross-Connection

Kentucky Department of Health, Kentucky Public Service Commission and these rules and regulations do hereby explicitly state that cross-connection of the DISTRICT'S system with any other source is hereby prohibited.

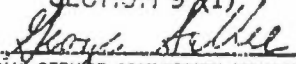
Date Issued: August 20, 1987

Date Effective: May 7, 1987
PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501


Leon Huffman, Chairman

MAY 07 1987

PURSUANT TO 307 KAR 5:011,
SECTION 9 (1)
BY: 
PUBLIC SERVICE COMMISSION MANAGER

Mountain Water District

For: Entire Service Area

P.S.C. Ky. No. 1

Original Sheet No. 30

Cancelling P.S.C. Ky. No.

Sheet No.

RULES AND REGULATIONS

subject to special service agreements. The customer shall not sell, donate, give or allow use of such water to any authorized or unauthorized party.

31. Special Charges

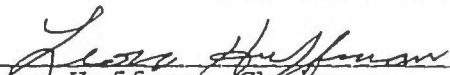
Special charges may be assessed to the customer for returned checks, meter rereads, and meter retests at the specified charges shown below:

- A. A charge of \$10.00 will be made for each check returned to the District by the bank.
- B. A charge of \$20.00 will be made to reread a meter at the customers request unless such reread reveals that the initial reading was erroneous. No charge shall be made if the initial reading was erroneous.
- C. A charge of \$30.00 will be made for a meter retest when such test is made at the customers written request unless the meter is found to be faulty. No charge shall be made for a faulty meter, but appropriate adjustments shall be made in accordance with Section 14 of these rules and regulations.

Date Issued: August 20, 1987

Date Effective: May 7, 1987

ISSUED BY: Mountain Water District, P.O. Box 1469,
Pikeville, Kentucky 41501


Leon Huffman, Chairman

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

MAY 07 1987

PURSUANT TO 1987 KAR 5:011,
SECTION 9 (1)

BY: 
PUBLIC SERVICE COMMISSION MANAGER

EXHIBIT D

RESOLUTION _____

RESOLUTION OF THE _____, KENTUCKY
APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT
BETWEEN THE _____, KENTUCKY AND THE
KENTUCKY INFRASTRUCTURE AUTHORITY.

WHEREAS, the Board of Commissioners, ("governing authority") of the _____, Kentucky, ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain _____ improvements to the Governmental Agency's _____ System (the "Project") and

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

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an Assistance Agreement with the Authority;

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

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

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

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

ADOPTED on _____, 1992.

Presiding Officer

Attest:

Title: _____

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Recording Officer of the City of _____, Kentucky; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said City at a meeting duly held on _____, 1992; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this _____ day of _____, 1992.

Recording Officer

EXHIBIT E

OPINION OF COUNSEL

[Letterhead of Counsel to Governmental Agency]

[Date]

Kentucky Infrastructure Authority
Room 075 Capitol Annex
Frankfort, Kentucky

RE: Assistance Agreement by and between Kentucky
Infrastructure Authority and _____
_____ dated as of _____

Ladies and Gentlemen:

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

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency, the resolution or ordinance of the governing authority authorizing the execution and delivery of said Assistance Agreement and the plans, designs and specifications prepared by the Engineers for the Governmental Agency with respect to the Project.

Based upon my review I am of the opinion that:

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

2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in

accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

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

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

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

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

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

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

Very truly yours,

EXHIBIT F

TO ASSISTANCE AGREEMENT BETWEEN

("GOVERNMENTAL AGENCY") AND
THE KENTUCKY INFRASTRUCTURE AUTHORITY

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

Principal and Interest Payable
on Each _____ and _____

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

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

KENTUCKY INFRASTRUCTURE AUTHORITY

By _____

Title _____

MOUNTAIN WATER DISTRICT
Governmental Agency

By _____

Title _____

ATTEST:

Title _____

EXHIBIT G

ADDITIONAL COVENANTS AND AGREEMENTS

NONE

4/

RESOLUTION 92:25

RESOLUTION OF THE MOUNTAIN WATER DISTRICT, KENTUCKY
APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT
BETWEEN THE MOUNTAIN WATER DISTRICT, KENTUCKY AND THE
KENTUCKY INFRASTRUCTURE AUTHORITY.

WHEREAS, the Board of Commissioners, ("governing authority") of the Mountain Water District, ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain water facilities and improvements to the Governmental Agency's Water System (the "Project") and

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

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an Assistance Agreement with the Authority;

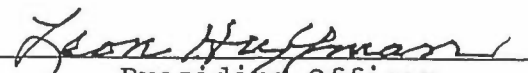
NOW, THEREFORE, BE IT RESOLVED by the Mountain Water District, as follows:

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

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

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

ADOPTED on June 30, 1992.


Presiding Officer

Attest:




Title: Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Recording Officer of the Mountain Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said City at a meeting duly held on June 30, 1992; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 30th
day of June, 1992.



Recording Officer

MOUNTAIN WATER DISTRICT
SPECIAL CALLED MEETING
JUNE 30, 1992

A Special Called Meeting of the Board of Commissioners of the Mountain Water District convened at 10:00 A.M., Tuesday June 30, 1992 at the Winn's Branch office located in Pike County.

In attendance was Leon Huffman - Chairman, Rudy Pollis - Secretary, Toni Akers - Treasurer was absent. Also attending the meeting was Ernest R. Chaney- Executive Director, Douglas C. Griffin - Engineer, Jim Music - Music & Under-wood Co. , and Rhonda Johnson.

Mr. Chaney presented the following items for approval:

1. Resolution approving the Assistance Agreement between KIA & Mountain Water District.
2. General Closing Certificate
3. Acceptance of Opinion of Counsel
4. Signature pages to Assistance Agreement

Secretary Pollis moved approval or adoption as appropriate of all items presented, Chairman Huffman seconded the motion. Vote was unanimous.

There followed a general discussion of the Multi - Area Project with Mr. Chaney and Mr. Griffin outlining the tentative schedule of events for the Commissioners.

There being no further business to come before the Commissioners, Commissioner Pollis made a motion to adjourn the meeting, Commissioner Huffman seconded the motion. Vote was unanimous.

CERTIFICATE OF SECRETARY

I, Rudy Pollis hereby certify that I am the qualified and acting Secretary of the Mountain Water District , that the foregoing is a true and correct copy of said Commission duly held on the date set out below, that the agreements referred to therein have been duly recorded in the proceedings of said Corporation.

MOUNTAIN WATER DISTRICT

Dated this the 30th day of June , 1992.

Rudy Pollis

RUDY POLLIS
SECRETARY

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KENTUCKY INFRASTRUCTURE AUTHORITY
NOVEMBER 1, 1991

A meeting of the Kentucky Infrastructure Authority was called to order by Ms. Sally Hamilton, alternate for Chairman L. Rogers Wells, Jr., at 11:00 a.m., November 1, 1991, in Room 285 of the Capitol Annex, Frankfort, Kentucky.

Other members present were: Secretary John F. Nichols, Natural Resources and Environmental Protection Cabinet; Commissioner Lee Troutwine, Department of Local Government, Mr. Denis Fleming, Proxy for Secretary Gene Royalty, Cabinet for Economic Development; Mr. Raymond Bradbury, Prestonsburg, Kentucky; Mr. John Butts, Franklin, Kentucky; and Mr. Wayne Wells, Campbellsville.

Guests present were: Mr. Mark Wesley, Economic Development Cabinet and Mr. Bill Hintz, GOPM.

Ms. Hamilton, noting that a quorum was present and the press had been notified, called the meeting to order.

Dr. James R. Ramsey, Executive Director, KIA, introduced Marcie Close, a new KIA staff person joining the Authority 11/1/91.

Ms. Hamilton called for a motion to approve the minutes of the Kentucky Infrastructure Authority meeting on September 16, 1991. Mr. Wells moved to approve the minutes; Mr. Bradbury seconded and motion Carried.

Dr. Ramsey introduced a resolution of the Board of Directors to appoint Ms. Marilyn Eaton, Manager, KIA, as Secretary/Treasurer of the Authority. Ms. Eaton would be filling the vacancy left by Mr. Don Mullis. Commissioner Troutwine moved to approve the resolution; Secretary Nichols seconded and motion Carried.

RESOLUTION OF THE KENTUCKY INFRASTRUCTURE
AUTHORITY REGARDING THE FORGIVENESS OF CERTAIN
PAYMENTS OF PRINCIPAL OF AND INTEREST ON CERTAIN
LOANS UNDER ITS GOVERNMENTAL AGENCIES PROGRAM

Under the Kentucky Pollution Abatement and Water Resources Authority (now the Kentucky Infrastructure Authority (KIA)) the Debt Service Reserve was established. When the Kentucky Pollution Abatement Authority would borrow money on behalf of the local governments the local governments would borrow an amount equal to one year's principal and interest on the loan which would be put into the Debt Service Reserve. It is the intent of this resolution to clarify that the Debt Service Reserve will be used to pay the last year's payment on loans and any interest accrued will be paid to the communities.

Secretary Nicholas moved to approve the resolution; Mr. Wells seconded and motion Carried.

The following two resolutions were presented to the Board for approval:

A RESOLUTION (THE 1991 SERIES E RESOLUTION) OF THE BOARD OF THE KENTUCKY INFRASTRUCTURE AUTHORITY (AUTHORITY) AUTHORIZING THE EXECUTION OF A SERIES TRUST INDENTURE, DATED AS OF NOVEMBER 1, 1991, BY AND BETWEEN THE AUTHORITY AND FIRST KENTUCKY TRUST COMPANY, LOUISVILLE, KENTUCKY (TRUSTEE); PROVIDING FOR THE ISSUANCE OF 1991 SERIES E KENTUCKY INFRASTRUCTURE AUTHORITY INFRASTRUCTURE REVOLVING FUND PROGRAM REVENUE BONDS UNDER THE TERMS OF THE GENERAL TRUST INDENTURE AND SAID SERIES TRUST INDENTURE; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID 1991 SERIES E REVENUE BONDS; AUTHORIZING THE SALE OF SAID 1991 SERIES E REVENUE BONDS; AND REPEALING ALL RESOLUTIONS OR PARTS THEREOF IN CONFLICT WITH THE PROVISIONS HEREOF

AND

A RESOLUTION (THE 1991 SERIES F RESOLUTION) OF THE BOARD OF THE KENTUCKY INFRASTRUCTURE AUTHORITY (AUTHORITY) AUTHORIZING THE EXECUTION OF A SERIES TRUST INDENTURE, DATED AS OF NOVEMBER 1, 1991, BY AND BETWEEN THE AUTHORITY AND FIRST KENTUCKY TRUST COMPANY, LOUISVILLE, KENTUCKY (TRUSTEE); PROVIDING FOR THE ISSUANCE OF 1991 SERIES F KENTUCKY INFRASTRUCTURE AUTHORITY INFRASTRUCTURE REVOLVING FUND PROGRAM REVENUE BONDS UNDER THE TERMS OF THE GENERAL TRUST INDENTURE AND SAID SERIES TRUST INDENTURE; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID 1991 SERIES F REVENUE BONDS; AUTHORIZING THE SALE OF SAID 1991 SERIES F REVENUE BONDS; AND REPEALING ALL RESOLUTIONS OR PARTS THEREOF IN CONFLICT WITH THE PROVISIONS HEREOF

Dr. Ramsey presented the above resolutions for approval by the Board. The 1991 Series E Bonds (Fund B) will be in the amount of approximately \$25,000,000 and will be sold on a tax exempt basis. The 1991 Series F Bonds (Fund B) will be in the amount of approximately \$600,000 and are subject to an alternative minimum tax. The Authority will be seeking approval from the Board to go to the bond market and borrow the funds and will seek approval from the Executive Committee to approve the bond purchase agreement and final sale of the bonds.

Mr. Butts moved to approve the above resolutions; Secretary Nichols seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
FEDERALLY ASSISTED WASTEWATER REVOLVING LOAN
(FUND A) OF \$1,615,449, TO THE CITY OF
BRANDENBURG, MEADE COUNTY, FOR A NEW WASTEWATER
TREATMENT PLANT

Mr. Bill Gatewood, Division of Water, presented a review of the project and Mr. Chris Bowling, KIA, gave the credit analysis. The project consists of the construction of a new wastewater treatment plant. The annual debt service will be 1.9% for 20 years. KIA staff recommended the project for approval. Mr. Bradbury moved to approve the resolution; Commissioner Troutwine seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
FEDERALLY ASSISTED WASTEWATER REVOLVING LOAN
(FUND A) OF \$178,085, TO THE CITY OF MIDDLESBORO,
FOR A NEW SEWER LINE

Mr. Gatewood presented a review of the project and Ms. Debby Milton, KIA, gave the credit analysis. Construction of new sewer lines will alleviate current backup and overflow problems of wastewater. Seventy new residential customers will be served. The annual debt service will be 1.9% for 20 years. Mr. Wells moved to approve the resolution; Secretary Nichols seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
FEDERALLY ASSISTED WASTEWATER REVOLVING LOAN
(FUND A) OF \$535,590, TO THE CITY OF MELBOURNE,
FOR A NEW WASTEWATER SYSTEM AND EXPANSION OF LINES

Mr. Gatewood presented a review of the project and Ms. Milton gave the credit analysis. The city proposes to provide a new wastewater collection system which would serve 168 residential and 6 commercial customers currently without wastewater services. The annual debt service will be 3.9% for 20 years. Conditions for this loan are listed in the 11/1/91 Board book. Commissioner Troutwine moved to approve this resolution; Mr. Bradbury seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
FEDERALLY ASSISTED WASTEWATER REVOLVING LOAN
(FUND A) OF \$5,121,690, TO THE CITY OF MURRAY, FOR
EXPANSION AND REHABILITATION OF THE PRESENT
WASTEWATER TREATMENT SYSTEM

Mr. Gatewood presented a review of the project and Ms. Milton gave the credit analysis. The City of Murray proposes to expand its present wastewater treatment plant. The annual debt service will be 1.9% for 20 years. Mr. Bradbury moved to approve the resolution; Secretary Nichols seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF AN
INFRASTRUCTURE REVOLVING LOAN (FUND B) OF
\$125,900, TO THE CITY OF HODGENVILLE, FOR SEWER
LINES AND PUMP STATION TO ASSIST CRUCIBLE
MAGNETICS

Ms. Terri Wellman, Department of Local Government (DLG), presented a review of the project and Ms. Lynn Travis, KIA, gave the credit analysis. The city is proposing a wastewater system expansion by extending a collection line to accommodate additional industry. The annual debt service will be 2.9% for 20 years. Conditions on the loan are listed in the 11/1/91 Board book. Secretary Nichols moved to approve the resolution; Mr. Wells seconded and motion Carried.

THE RESOLUTION FOR ISSUANCE OF AN INFRASTRUCTURE
REVOLVING LOAN (FUND B) TO DAVIESS COUNTY (SCOTT
PAPER) WAS DELETED FROM THE AGENDA

REAPPROVAL OF AN INFRASTRUCTURE REVOLVING LOAN
(FUND B) TO CAMPBELL COUNTY TO ASSIST KAHN'S FOODS

Ms. Wellman presented a review of the project and Ms. Travis gave the credit analysis. The project consists of construction of a transmission line to transport treated effluent to a discharge point at the Licking River. This project was originally approved a year and a half ago. The County is now seeking an increased fund amount and reapproval. The project was put on hold due to research and investigation of a mussel bed located at the proposed point of discharge in the Licking River. The County now proposes to locate the line at another point on the river. KIA conditions are listed in the 11/1/91 Board book. Mr. Butts moved to reapprove the project; Mr. Bradbury seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
WATER RESOURCES LOAN (FUND B2) OF \$970,505, TO THE
CITY OF MANCHESTER, FOR WATER DISTRIBUTION LINES
AND WATER STORAGE TANK

Mr. Glenn Oldham, DLG, presented a review of the project and Ms. Travis gave the credit analysis. This project proposes the installation of water main and construction of a water storage facility. The annual debt service will be 2.9% for 20 years. Conditions on this loan are listed in the 11/1/91 Board book. Sectary Nichols moved to approve the resolution; Mr. Bradbury seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
WATER RESOURCES LOAN (FUND B2) OF \$392,932, TO THE
CITY OF MOREHEAD, FOR A FILTER BELT PRESS FACILITY

Mr. Oldham presented a review of the project and Ms. Travis gave the credit analysis. This project proposes adding a sludge facility to the water treatment plant. The plant serves a five county area. The annual debt service will be 2.9% for 15 years. Mr. Wells moved to approve the resolution; Mr. Butts seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
WATER RESOURCES LOAN (FUND B2) OF \$5,165,093, TO
THE MOUNTAIN WATER DISTRICT (MULTI-PROJECT), FOR
21 SUBPROJECTS CONSISTING OF NEW WATER LINES

Mr. Oldham presented a review of the project and Ms. Travis gave the credit analysis. Proposed activities include installation of water line, construction of booster pump stations and water storage facilities to serve 1,287 potential customers. KIA recommends approved of this project based on a 30 year repayment. Mr. Bradbury moved to approve the resolution; Secretary Nichols seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
WATER RESOURCES LOAN (FUND B2) OF \$897,868, TO THE
CITY OF PIKEVILLE, FOR WATER SYSTEM IMPROVEMENTS

Mr. Oldham presented a review of the project and Mr. Bowling gave the credit analysis. This project is organized in three contracts (Yorktown Extension, Island Creek Tie, Cedar Gap Tank) which are part of a general system improvement project. KIA staff recommends that the Authority enter into an assistance agreement with the City for a Water Resources Loan in an amount not to exceed \$897,868. Mr. Butts moved to approve the resolution; Mr. Bradbury seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
WATER RESOURCES LOAN (FUND B2) OF \$841,260, TO THE
CITY OF PINEVILLE, FOR REPAIR OF WATER LINES

Mr. Oldham presented a review of the project and Mr. Bowling gave the credit analysis. The project proposes to construct water distribution line from the water treatment plant to the Log Mountain water storage tank. The project will be 100% funded by the KIA Water Resources Loan. The annual debt service will be 2.9% for 20 years. Mr. Wells moved to approve the resolution; Secretary Nichols seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
WATER RESOURCES LOAN (FUND B2) OF \$2,250,000, TO
THE CITY OF BARBOURVILLE, FOR REPLACEMENT OF A
WATER TREATMENT PLANT

Mr. Oldham presented a review of the project and Mr. Bob Pennington, KIA, gave the credit analysis. The City proposes to construct a new water treatment plant. Construction of this facility will allow the City to meet both current and future needs of both existing and potential customers. Conditions for the issuance of this loan are noted in the 11/1/91 Board book. Mr. Butts moved to approve the resolution; Mr. Bradbury seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
GOVERNMENTAL AGENCIES PROGRAM LOAN (FUND C) OF
\$626,000, TO THE HENDRON WATER DISTRICT, FOR WATER
LINES AND STORAGE TANK

Mr. Pennington gave a review of the project. The proposed project includes a new elevated water storage tank and new water line. This project will allow adequate water storage, expansion to 75 new customers and upgrade the pressure to 30 additional customers. The annual debt service will be 8% for 20 years. Loan conditions are listed in the 11/1/91 Board book. Commissioner Troutwine moved to approve the resolution; Mr. Bradbury seconded and motion Carried.

RESOLUTION OF THE KIA AUTHORIZING ISSUANCE OF A
GOVERNMENTAL AGENCIES PROGRAM LOAN (FUND C) OF
\$471,063, TO THE BULLOCK PEN WATER DISTRICT, FOR
WATER IMPROVEMENTS

Mr. Pennington presented a review of the project. The proposed project will supply treated water to areas that currently rely on private water supplies; extend new water lines and add approximately 260 new customers. The annual debt service will be 8% for 20 years. Loan conditions are listed in the 11/1/91 Board book. Mr. Wells moved to approve the resolution; Secretary Nichols seconded and motion Carried.

A status report was included in the KIA Board book regarding KIA Funds A, B, B1, B2, C and D. Fund A: Total Funds Committed: \$69,042,419, Balance Available: \$33,232,590. Fund B: Total Funds Committed: \$27,410,831, Balance Available: \$6,589,169. Fund B1: Total Funds Committed: \$5,622,000, Balance Available: \$378,000. Fund B2: Total Funds Committed: 18,639,047, Balance Available: \$11,360,953. Fund C: Total Funds Committed: \$35,466,966, Total Project Amount: \$60,799,479. Fund D: Total Funds Committed: \$14,074,000, Balance Available: \$7,926,000.

RESOLUTION OF THE KIA ESTABLISHING THE FUND A,
FUND B AND FUND E "INDEX RATE" FOR THE PERIOD
OCTOBER 1, 1991, THROUGH DECEMBER 31, 1991

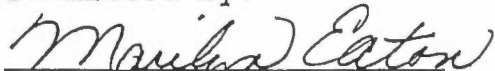
Dr. Ramsey presented a review of the resolution. The Fund A Index Rate will be 1.9 percent for the below median income rate and 3.9 percent for the above median income rate. The Fund B Index Rate will be 2.9 percent for the below median income rate and 4.9 percent for the above median income rate. The single rate offered for Fund E is 4.9 percent. Mr. Bradbury moved to approve the resolution; Mr. Wells seconded and motion Carried.

Under new business Ms. Eaton presented an update on the Salt River Water District (SRWD). Negotiations for resolutions are continuing. On November 26, 1991, a meeting will be held in Frankfort with all concerned parties. SRWD is at this time paying on an installment plan. Law suits are still pending.

A KIA Board meeting will be held the first week of December. Sixty-three Fund E solid waste applications will be presented to the Board at that time.

With no further business, meeting adjourned.

Submitted by:


Marilyn Eaton
Secretary/Treasurer



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WALLACE G. WILKINSON
GOVERNOR

L. ROGERS WELLS, JR.
CHAIRMAN

KENTUCKY INFRASTRUCTURE AUTHORITY

075 CAPITOL ANNEX
FRANKFORT, KENTUCKY 40601
(502) 564-2090
TELECOPIER (502) 564-7416

JAMES R. RAMSEY
EXECUTIVE DIRECTOR

GORDON L. MULLIS
SECRETARY/TREASURER

December 6, 1991

Mr. Leon Huffman
Chairman, Mountain Water District
Post Office Box 3157
Pikeville, Kentucky 41501

KENTUCKY INFRASTRUCTURE AUTHORITY
WATER RESOURCES LOAN
CONDITIONAL LOAN COMMITMENT B291-07
MULTI-AREA WATER PROJECTS

Dear Mr. Huffman:

The Kentucky Infrastructure Authority ("KIA") commends your efforts to promote economic development and improved public service facilities in your community. Your loan application to the KIA for the development of twenty-one subprojects which consist of the construction of 66.6 miles of water lines with 12 pump stations and 11 water storage tanks well distributed over Pike County was approved by the Authority November 1, 1991. The total cost of the project shall not exceed \$5,165,093 of which the KIA loan shall provide up to \$5,165,093. Attachment A incorporated herein by reference fully describes the project.

A loan agreement will be executed between the Authority and the Mountain Water District upon satisfactory performance of the conditions set forth in this letter. A period of eleven (11) months from the date of this letter, November 6, 1992, will be allowed for you to meet the conditions and enter the loan agreement. A one time extension may be granted with acceptable justification. Funds will be available for disbursement only after execution of the loan agreement.

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

1. The KIA project loan shall not exceed \$5,165,093.
2. The loan shall bear interest at the rate of 2.9% per annum commencing with the first draw of funds.
3. The loan shall be repaid over a period of 30 years from the date this loan is closed.

4. Interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1 or December 1 immediately succeeding the date of the initial draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1 or December 1 which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid.
5. Full principal payments will commence on June 1 or December 1 immediately succeeding the date of the last draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the initial draw of funds, then the first principal payment date shall be the June 1 or December 1 which is at least six months from the date of the last draw of funds. Full payments will be due each six months thereafter until the loan is repaid.
6. A loan servicing fee of two-tenths of one percent of the annual outstanding loan balance shall be payable to the Authority as a part of each interest payment.
7. Annual revenues equalling ten percent of the annual debt service on this loan shall be set aside in a repair and maintenance fund until such fund has a balance equal to five percent of the original loan amount.
8. Loan funds will be disbursed after execution of the loan agreement as project cost is incurred.
9. The final loan agreement must be approved by ordinance or resolution, as applicable, of the city council or appropriate governing board.
10. Prior to project closeout you shall provide a written description of the economic development benefits derived from the project.

The following is a list of the standard conditions to be satisfied prior to execution of the loan agreement or incorporated in the loan agreement. Items 1 through 5 must be provided to the Department of Local Government and Item 6 shall be provided directly to the KIA.

Mr. Leon Huffman
December 6, 1991
Page Three

1. Upon completion of final design of the facilities in the attached project description, favorable approval shall be obtained of such design by all appropriate parties as required by Kentucky statute or administrative regulation. Proof of approval must be sent to DLG.
2. The Department for Local Government should be consulted prior to preparation of bidding specifications for guidance on federal or state requirements. One important point in this regard, is that projects funded by the Authority may or may not require payment of state prevailing wage rates. Legal counsel should be sought on this issue.
3. Applicant must provide to DLG a bid certification from their legal counsel stating that they have prepared construction specifications in accordance with all applicable state or federal wage rate laws, and that the bidding procedures used are in compliance with applicable federal and state law.
4. Upon receipt of construction bids a tabulation of such bids and engineer's recommendations on compliance with bid specifications and recommendation for award, shall be forwarded to DLG for final approval. DLG shall provide information to the Authority for sizing of the loan.
5. All easements or purchases of land shall be completed prior to commencement of construction and reported to DLG.
6. Based on the final "as bid" project budget the community must provide to the Authority satisfactory proof based on then existing conditions that the revenue projections in the attached descriptions are still obtainable and that projections of operating expenses have not materially changed.

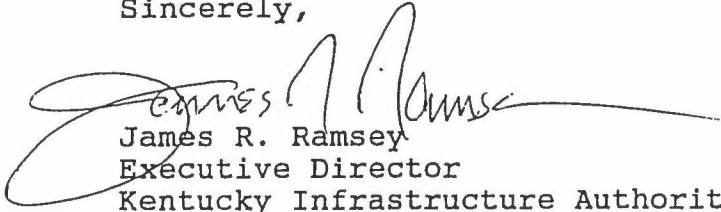
The following is a list of the special conditions to be satisfied prior to execution of the loan agreement or incorporated in the loan agreement. Please provide the items to KIA for review and approval and copy DLG.

1. The project will be based on a 30 year repayment stream.

Mr. Leon Huffman
December 6, 1991
Page Four

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

Sincerely,



James R. Ramsey
Executive Director
Kentucky Infrastructure Authority

Attachment

JRR/LT/sj

c: Libby McManis, Department of Local Government
Roger Peterman, Peck, Shaffer & Williams
Ernie Chaney, Mountain Water District
Will Linder, Will Linder & Associates
Doug Griffin, Kenvirons

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms.

Accepted

Date

INFRASTRUCTURE REVOLVING LOAN FUND

B _____
 B-1 _____
 B-2 X

Review Sheet

Project: Multi-Area Water Project Date: 10-13-91
 Applicant: Mountain Water District Reviewer: Glenn D. Oldham
 Contact: Will Linder & Associates Phone: 606/986-8406

Funding:

<u>Source</u>	<u>Type</u>	<u>Amount</u>
KIA Water Resources Loan Fund	Loan	<u>\$5,165,093.00</u>
Total Project Cost		\$5,165,093.00

County: Pike

Median Family Income Level: Above _____ Below X
 Kentucky: \$23,412 Pike Co.: \$20,003

Project Description:

Proposed activities include the installation of approximately 66 miles of water line, construction of twelve booster pump stations and eleven water storage facilities to serve 1,287 potential customers. These customers are spread over twenty-one (21) areas of the county. This project addresses concerns from citizens in the target areas who have petitioned Pike Fiscal Court and the Mountain Water District for the provision of a safe drinking water supply. These extensions are to be served by the Mountain Water District which purchases a large percentage of its water from the City of Pikeville and also operates the Marrowbone Creek treatment facility. The combined capacity of their water supply(ies) is sufficient to serve the proposed extensions.

These activities will also allow for service to a proposed State Park at Fishtrap Dam and will provide adequate service to existing industry in the area as well as possible expansion at the Pike County Airport.

Infrastructure Revolving Loan Fund
Review Sheet
(continued)

Unemployment Data:

Preliminary Labor Force estimates for August, 1991 reveal an unemployment rate of 12.3% for Pike County. This compares with a statewide rate of 7.7% and a national rate of 6.5% for the same period.

Relationship to Capital Investment Plan:

A major goal identified in Pike County's Capital Investment Plan is to expand and/or create the infrastructure necessary to enhance the quality of life for area residents and to provide the basic framework to attract job oriented commercial and industrial businesses. One significant step towards achieving this goal is to continue with the orderly expansion of the county water system. As the county has already taken measures to achieve this objective, the proposed line extensions have become the top priority in the expenditure of capital funds. Project accomplishments will include the provisions of a safe and adequate supply of potable water for a larger number of residents, and allow for access by potential industrial and commercial users.

Project Need:

The ground water sources typically used by project area residents are being contaminated by various sources. Because of the areas' soil types, adequate filtering and percolation does not occur in many cases. Consequently, The use of inoperative septic tanks and drain fields allows for contamination of the ground water. This situation is compounded by the extensive use of outhouses in many of the areas.

Local Health officials have indicated that there have been numerous detrimental health effects realized as a result of the use of contaminated water. These results have been recorded in Health Department records and indicate an inordinate number of water borne diseases. Of tests performed by the Pike County Health Department, approximately 60% revealed excessive levels of contamination.

Reasonable Costs:

Project costs are supported by engineering estimates provided by Kenvirons, Inc. Project engineering is reasonable at approximately 9%. A contingency of 8% is budgeted. For the activities proposed, costs are considered reasonable.

Infrastructure Revolving Loan Fund
Review Sheet
(continued)

Overall Project Effectiveness:

Project accomplishments will alleviate the health hazards associated with the use of contaminated sources for 1,287 potential customers. In addition, the provision of service in these areas will allow potential commercial and industrial users to be served with an adequate water supply.

Priority Ranking: I

Reasons:

The project proposal meets criteria for funding per established regulations and guidelines, and will significantly enhance the quality of life for residents in the areas to be served.

Reviewer: Lynn Travis
Date: October 18, 1991

KENTUCKY INFRASTRUCTURE AUTHORITY
WATER RESOURCES LOAN (FUND B2)
MOUNTAIN WATER DISTRICT, PIKE COUNTY
CREDIT ANALYSIS

I. PROJECT DESCRIPTION

A. This Multi-Area Project consists of twenty-one subprojects well distributed over Pike County. While the project anticipates 1,287 new customers, there is a potential to serve 1,838 customers, an average of 27.6 customers per mile. The project will consist of 66.6 miles of water lines with 12 booster pump stations and 11 water storage tanks.

II. PROJECT COST AND FUNDING

A. Acquisition	\$ 40,000
B. Construction	4,154,630
C. Engineering Design	285,000
D. Engineering Inspection	120,000
E. Legal Fees	20,000
F. Planning	5,000
G. Administration	45,000
H. Capitalized Interest	80,000
I. Contingencies	41,152
TOTAL	<u>\$5,115,782</u>

FUNDING

This project will be 100% funded with KIA loan mon

III. LOAN SIZE AND DEBT SERVICE ESTIMATE

	<u>20 Years</u>	<u>30</u>
A. Loan Amount	\$5,165,093	\$5,165,093
B. Annual Debt Service (20 yrs/30 yrs @ 2.9%)	343,974	260,124
C. Administrative Fee (.2% of loan amount)	10,330	10,330
D. Coverage for Maintenance (10% of debt service)	34,397	26,012
TOTAL ANNUAL DEBT SERVICE REQUIREMENT	<u>\$ 388,701</u>	<u>\$ 296,466</u>

IV. CASH FLOW ANALYSIS AND NOTES

See Attachment 1
(Analysis is based on a KIA loan with a 30 year repayment)

V. GENERAL COMMENTS

- A. The proposed project not only provides water to the Pike County Regional Airport and a proposed "package distribution center" serving the Big Sandy Region, but also provides water lines with sufficient size to allow for construction of a Kentucky State Park at Fishtrap Dam Reservoir.
- B. A Rate Study Feasibility Analysis has been prepared which shows that the proposed project is financially feasible within the existing water user rates for the Mountain Water District.
- C. Water for this project will be purchased from the City of Pikeville which has a 6 MGD water treatment plant. The Mountain Water District (MWD) has a Water Purchase Agreement ending the year 2026 with the City of Pikeville of up to 1.5 MGD. Currently the MWD is purchasing .478 MGD. Additional lines to be constructed in Dorton and Indian Creek will add .19 MGD while the Multi-Area Project under consideration will add .115 MGD for a total projected usage of water from the City of Pikeville of .783 MGD, if all of the water needs listed are actually acquired from the City. Therefore, there is sufficient water capacity to serve this new Multi-Area Water Project.
- D. Twenty-three parcels will be acquired; 11 water tank sites and 12 pump station sites. Acquisition shall commence upon funding approval.
- E. The Public Service Commission shall review the application for an order approving construction, financing, and Certificate of Public Convenience and Necessity.
- F. The average monthly residential water bill, based on 5,300 gallons, is currently \$23.73 and is not expected to increase due to this project.
- G. Date of last rate increase: December 13, 1990.
- H. Tap-on-fees will be reduced to \$125 as opposed to \$425 for households signing a user agreement prior to construction. This will act as an inducement to encourage quick sign-up.
- I. Water line construction will be done through the award of five contracts. Water tanks and pump stations shall be bid as one contract.

J. Estimated number of existing residential/commercial customers is 5,115. The Water District is expecting an additional 548 new customers as a result of a project in the Indian Creek area. This project will allow the City to service an added 1,287 customers with the potential to serve 1,838, for a total expected customer base of 6,950.

K. Construction is anticipated to begin June 1992 with construction lasting one year, June 1993.

L. Governmental Agency:

Name: Mountain Water District
Address: P.O. Box 3157
Pikeville, Kentucky 41501
Contact: Leon Huffman, Chairman
Ernie Chaney, Manager
Will Linder, Consultant
Telephone: (606) 631-9162 or (606) 986-8406

M. Engineers:

Name: Kenvirons
Address: P.O. Drawer V.
452 Versailles Rd.
Frankfort, Kentucky 40601
Contact: Doug Griffin
Telephone: (502) 695-4357

N. Federal/State funds awarded to the jurisdiction for infrastructure during the last five years:

See Attachment 2

O. Debtor's Obligations:

	As of June 30, 1990
<u>Bonds Payable</u>	<u>Outstanding</u>
EDA Bond Payable at 4.75% interest	\$ 270,000
FmHA Bond Payable (Grapevine) 5%	488,195
FmHA Bond Payable (Raccoon) 5%	1,488,895
FmHA Bond Payable (Shelby Valley) 5%	493,691
FmHA Bond Payable (Pond Creek) 5%	689,135
FmHA Bond Payable (Dorton; not closed)	1,500,000
FmHA Bond Payable (Indian Creek; not closed)	600,000
Note Payable (3) to J.I. Case Credit 7.0%-8.0% interest	45,348
Note Payable (1) Ford Motor Credit 8.1% interest	54,202
Note Payable (1) Pike County Fiscal Court non-interest bearing, no maturity date	30,000
Note Payable-Demand (1) Pikeville National Bank at 11.75% interest	10,000
Note Payable (1) Xerox Corporation, payments are \$88.21 for 36 months	175

Attachment 1
MOUNTAIN WATER DISTRICT
CASH FLOW ANALYSIS

FY	PRO-FORMA				
	1989	1990	1991	1992	1993
REVENUE:					
CURRENT					
Unmetered water revenue	\$2	\$1,468	\$1,468	\$1,468	\$1,468
Metered sales - Residential	\$883,608	\$1,119,954	\$1,119,954	\$1,119,954	\$1,119,954
Metered sales - Commercial	\$136,207	\$173,583	\$173,583	\$173,583	\$173,583
Metered sales - Public Authorities	\$60,338	\$84,331	\$84,331	\$84,331	\$84,331
Metered sales - Multi Family	\$94,487	\$115,435	\$115,435	\$115,435	\$115,435
Fire protection fees	\$2,245	\$2,082	\$2,082	\$2,082	\$2,082
Other water revenue	\$127,538	\$92,492	\$92,492	\$92,492	\$92,492
Interest income	\$17,847	\$23,338	\$23,338	\$23,338	\$23,338
Non utility income	\$18,681	\$15,066	\$15,066	\$15,066	\$15,066
Total	\$1,340,953	\$1,627,749	\$1,627,749¹	\$1,627,749	\$1,627,749
PROJECTIONS					
Annualized rate increase	\$0	\$0	\$54,252 ²	\$54,252	\$54,252
Dorton project	\$0	\$0	\$75,936 ³	\$113,904	\$113,904
Additional growth customers	\$0	\$0	\$44,707 ⁴	\$44,707	\$44,707
Proposed project revenue due to the Indian Creek Water Project	\$0	\$0	\$0	\$39,012 ⁵	\$156,048
Water sales due to additional use by Mountain Top Baking	\$0	\$0	\$0	\$48,180	\$48,180
Proposed Multi Project revenue	\$0	\$0	\$0	\$0	\$183,243 ⁶
Total	\$0	\$0	\$174,895	\$300,055	\$600,334
TOTAL PROJECTED REVENUES	\$1,340,953	\$1,627,749	\$1,802,644	\$1,927,804	\$2,228,083
EXPENSES					
Current operating expense (excludes depreciation)	\$1,130,114	\$1,369,067	\$1,369,067 ⁷	\$1,369,067	\$1,369,067
Current debt service on bonds payable	\$240,000	\$240,000	\$240,000 ⁸	\$240,000	\$240,000
Current debt service on notes payable	\$35,533	\$35,533	\$42,486	\$43,013	\$9,157
Estimated debt service on KIA loan approved in Nov. 1990-Mt. Top Bakery	\$0	\$0	\$0	\$15,910	\$15,910
Estimated debt service on KIA loan approved in July 1991-Indian Creek	\$0	\$0	\$0	\$4,500 ⁹	\$25,648
Estimated debt service on FmHA loan - Indian Creek	\$0	\$0	\$0	\$0	\$35,704
Estimated additional operation and maintenance expense - Indian Creek	\$0	\$0	\$10,932 ¹⁰	\$72,884	\$72,884
Estimated debt service on FmHA loan - Dorton project	\$0	\$0	\$26,675 ¹¹	\$106,700	\$106,700
Estimated additional O&M on the Dorton project	\$0	\$0	\$15,960 ¹²	\$53,200	\$53,200

Estimated debt service on proposed project - Multi project	\$0	\$0	\$0	\$0	\$148,233 ¹³
Estimated additional O&M on the proposed project - Multi project	\$0	\$0	\$0	\$0	\$85,585
Additional growth customer expense	\$0	\$0	\$20,881 ¹⁴	\$20,881	\$20,881
<hr/>					
TOTAL PROJECTED CASH EXPENSE	\$1,405,647	\$1,644,600	\$1,726,001	\$1,926,155	\$2,182,969

TOTAL NET INCOME CASH	(\$64,694)	(\$16,851)	\$76,643	\$1,649	\$45,114
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NOTES:

Most of the following estimates were provided by the engineer.

1. For conservative purposes, revenues from existing customers are being held constant although an increase is likely.
2. Existing rates are 3.6% over rates during 1990. The increase in revenues is $\$1,496,854 \times 0.036 = \$54,252$.
3. The Dorton project (which is currently under construction) will generate 400 new customers. Revenues from those customers are $400 \times \$23.73/\text{mo.} \times 12 = \$113,904$. Only 8 months of revenue will be realized in FY91.
4. The average number of customers during 1990 was 4,943. As of FY91 the customer count was 5400. Additional customers equal 457. Assuming 300 are current users of the Dorton project and 157 are on existing lines, additional revenues = $157 \times \$23.73 \times 12 = \$44,707$.
5. 548 new customers $\times 12 \times \$23.73/\text{mo.} = \$156,048$. 25% of the revenues will be generated in FY92 with 100% in FY93.
6. 1287 customers $\times \$23.73/\text{mo.} \times 12 = \$388,486$. Only 50% of this revenue will be realized in FY93 with 100% in FY94.
7. Expenses are held constant with additional expenditures shown on a separate line.
8. Outstanding bond debt is with the Farmers Home Administration. The water district pays the FmHA approximately \$20,000/mo. Any additional debt with the FmHA is recorded on a separate line.
The interest due in FY92 is \$4,500 with a full debt service payment due in FY93.
10. $\$133/\text{yr.} \times 548$ new customers = \$72,884. Only 15% of this additional expense will be incurred FY91.
11. $\$1,500,000 \times 0.05929 \times 1.2 = \$106,700$; Interest due for FY91 is \$26,675.
12. 400 customers $\times \$133/\text{yr.} = \$53,200$; We are assuming 30% of this expenditure will be realized in FY91.
13. Only 50% of the debt service and O&M expense will be accounted for in FY93. KIA loan is based on a 30-year repayment.
14. 157 customers $\times \$133/\text{yr.} = \$20,881$.

Attachment 2
DRINKING WATER LOAN FUND

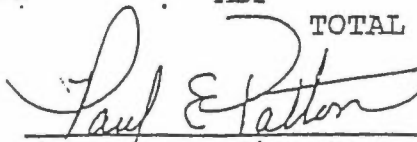
Capital Investment Plan

(continued)

VII. Federal/State Funding History

List all federal and state funds (grant and loan) awarded to the jurisdiction during the last five (5) years, for infrastructure or economic development projects.

<u>Year</u>	<u>Project</u>	<u>Source</u>	<u>Amount</u>
	Mountain Top Baking		\$ 120,000
	Dorton Water Extension	FmHA CDBG	1,501,265 744,005
	Raccoon Creek Water Ext.	FmHA	1,000,000
	Poor Bottom Water Ext.	AML	175,000
	Chloe Creek Water Ext.	AML	1,200,000
	Big Creek Water Ext.	AML	5,200,000
	Blackberry Water Ext.	AML	2,000,000
	Grapevine Water Ext.	CDBG FmHA ARC KHC AML ADD	750,000 800,000 500,000 200,000 1,300,000 75,000
	Douglas Apt. Phase I	FmHA	945,000
	Douglas Apt. Phase II	FmHA	850,000
	Pond Creek Water Project	FmHA ARC CDBG ADF	713,000 500,000 650,000 40,000
		TOTAL	\$ 19,263,000



Signature
Chief Executive Officer

Paul Patton, County Judge Executive
Name (typed)

August 2, 1991

Date

WTP upgrades

TRANSCRIPT OF PROCEEDINGS

MOUNTAIN WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2008

DATED APRIL 30, 2009

IN THE PRINCIPAL AMOUNT OF \$650,000

TRANSCRIPT OF PROCEEDINGS INDEX

MOUNTAIN WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2008,

**DATED APRIL 30, 2009,
IN THE PRINCIPAL AMOUNT OF \$650,000**

PRE-FINANCING PROCEEDINGS

A. Creation of Mountain Water District

1. Opinion on Due Incorporation and Continued Existence of District.

B. Employment Agreements

2. Attorneys' employment requirements:
 - (a) Legal Services Agreement of Bond Counsel.

C. Rural Development Conditions and Interim Financing

3. RD Letter of Conditions.
4. Letter of Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky, as to Commitment for Interim Financing.

D. Construction Documentation

5. Final Engineering Report.
6. Construction Bids and Awards:
 - (a) Affidavit of Publication of Advertisement.
 - (b) Opinion of Counsel Relative to Advertising for Construction Bids, Award of Contracts and Execution Thereof.

E. Public Service Commission Documentation

7. Public Service Commission:
 - (a) Application for Approval.
 - (b) Order granting Certificate of Public Convenience and Necessity.

PROCEEDINGS AUTHORIZING BONDS

8. Minutes of Meetings of the Board of Commissioners of the Mountain Water District, held on February 27, 2008 and March 26, 2008 authorizing the Bonds.
9. Bond Resolution.
10. PSC Approved Rules and Regulations.
11. Amended Water Rate Resolution.
12. Notice of Bond Sale.
13. Official Notice of Sale of Bonds.
14. Bid Form.
15. Affidavits of Publication of Notice of Bond Sale and Notice of Proposed Rate Change.
16. Bid of RD.
17. Resolution accepting successful bid of the RD for the purchase of the Bonds.
18. Letter of State Local Debt Officer of Kentucky as to compliance with KRS 66.045.
19. Operation and Maintenance Plan.

PRE-CLOSING PROCEEDINGS

A. District Certifications

20. Certificate as to Official Seal, Incumbency and Signature Identification.
21. Certificate of No Litigation and of Outstanding Bond Issues.

B. Engineer Certifications

22. Certificate of Engineers (For Purpose of Pre-Closing).

C. Rural Development Certifications and Forms

23. Certificate of Bondowner as to Issuance of the Mountain Water District Waterworks Revenue Bonds, Series 2008 Ranking on a Parity with Other Bonds of the District.
24. Certificate of RD as to Insurance and Bonding.
25. RD Forms as follows:
 - (a) 400-1, Equal Opportunity Agreement.
 - (b) 400-3, Notice to Contractors and Applicant.
 - (c) 400-4, Assurance Agreement.
 - (d) 400-8, Compliance Review.
 - (e) 1927-9, Preliminary Title Opinion.
 - (f) 442-7, Operating Budget.
 - (g) 442-21, Right of Way Certificate.
 - (h) 442-22, Opinion of Counsel Relative to Rights of Way.
 - (i) 1910-11, Applicant Certification Federal Collection Policies for Consumer or Commercial Debts.
 - (j) 1940-1, Request for Obligation of Funds.
 - (k) 1780-27, Loan Resolution.
 - (l) AD-1047, Certification Regarding Debarment, Suspension and other Responsibility Matters - Primary Covered Transaction.
 - (m) AD-1049, Certification Regarding Drug-Free Workplace Requirements.

C. Interim Financing

26. Loan Agreement by and between the Kentucky Rural Water Finance Corporation and District.
27. Resolution of District Approving Loan Agreement.
28. Bond Anticipation Note Specimen.
29. Opinion of Local Counsel.
30. Opinion of Bond Counsel.
31. Letter of RD as to Commitment to Purchase Bonds.

D. Pre-Closing Documentation

32. Title Opinion (For Purposes of Pre-Closing).
33. Memo as to Pre-Closing.
34. List of Signatures of Persons Attending Pre-Closing.

CLOSING

A. District Certifications

35. Certificate as to Official Seal, Incumbency and Signature Identification.
36. Certificate of Execution, No Litigation and Outstanding Bond Issues.
37. Arbitrage Certificate.
38. Certificate of Receipt of Bond Proceeds and Bond Delivery.

B. Engineer Certifications

39. Certificate of Engineers.

C. Miscellaneous Documentation

40. Letters of Attorneys, Engineers and Contractors as to payments being made to date according to contracts and amounts stipulated.
41. Floodplain Resolution.
42. Letter of Morgan Keegan, Louisville, Kentucky as to amount owed at time of closing.

D. Opinions

43. Final Title Opinion.
44. Legal Opinion of Bond Counsel.

E. Closing Documentation and Bond Specimen

45. Bond Specimen and Certificate as to printing of Bond in accordance with RD requirements.
46. Rural Development Maturity Schedule.
47. Compliance with and Signing of RD closing instructions.
48. Memo as to Closing.
49. Internal Revenue Service Form 8038-G.
50. List of Signatures of Persons Attending Closing.

CLOSING - APRIL 30, 2009

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).

SIGNATURE

FIRM/COMPANY

RUBIN & HAYS
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

Brandy Jones

Joni Akers

Mountain Water District

John Collins

MWD

Mike White

MWD

Alice Bates

UMG/MWD

FONNIE BROOKS

USDA / R1

Dan Stettin

Stettin Hays & Malloy

Information Return for Tax-Exempt Governmental Obligations

► Under Internal Revenue Code section 149(e)
 ► See separate instructions.

OMB No. 1545-0720

Caution: If the issue price is under \$100,000, use Form 8038-GC.

Part I Reporting Authority If Amended Return, check here

1 Issuer's name Mountain Water District	2 Issuer's employer identification number 61 1098805
3 Number and street (or P.O. box if mail is not delivered to street address) P.O. Box 3157	Room/suite
5 City, town, or post office, state, and ZIP code Pikeville, Kentucky 41502	4 Report number 3 09-01
7 Name of issue Mountain Water District Waterworks Revenue Bonds, Series 2009	6 Date of issue April 30, 2009
9 Name and title of officer or legal representative whom the IRS may call for more information W. Randall Jones, Bond Counsel	8 CUSIP number None
	10 Telephone number of officer or legal representative (502) 569-7534

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11 <input type="checkbox"/> Education	11	
12 <input type="checkbox"/> Health and hospital	12	
13 <input type="checkbox"/> Transportation	13	
14 <input type="checkbox"/> Public safety	14	
15 <input type="checkbox"/> Environment (including sewage bonds)	15	
16 <input type="checkbox"/> Housing	16	
17 <input checked="" type="checkbox"/> Utilities	17	\$650,000
18 <input type="checkbox"/> Other. Describe ►	18	
19 If obligations are TANs or RANs, check box <input type="checkbox"/> If obligations are BANs, check box <input type="checkbox"/>		
20 If obligations are in the form of a lease or installment sale, check box <input type="checkbox"/>		

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	January 1, 2047	\$ 650,000	\$ 650,000	24.85 years	4.50 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22	
23 Issue price of entire issue (enter amount from line 21, column (b))	23	650,000
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	12,000
25 Proceeds used for credit enhancement	25	
26 Proceeds allocated to reasonably required reserve or replacement fund	26	
27 Proceeds used to currently refund prior issues	27	
28 Proceeds used to advance refund prior issues	28	
29 Total (add lines 24 through 28)	29	12,000
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	638,000

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

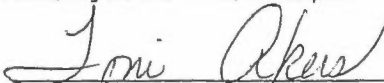
31 Enter the remaining weighted average maturity of the bonds to be currently refunded	►	_____ years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded	►	_____ years
33 Enter the last date on which the refunded bonds will be called	►	_____
34 Enter the date(s) the refunded bonds were issued	►	_____

Part VI Miscellaneous

35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35	_____
36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions)	36a	_____
b Enter the final maturity date of the guaranteed investment contract	►	_____
37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units	37a	_____
b If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input type="checkbox"/> and enter the name of the issuer	►	_____ and the date of the issue ► _____
38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box	►	<input checked="" type="checkbox"/>
39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box	►	<input type="checkbox"/>
40 If the issuer has identified a hedge, check box	►	<input type="checkbox"/>

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Sign Here


April 30, 2009
Toni Akers, Chairperson
 Signature of issuer's authorized representative Date Type or print name and title



MEMO AS TO CLOSING

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the amount of \$650,000.

1. The closing took place on April 29, 2009, at 12:00 Noon E.D.T., at the District's office in Pikeville, Kentucky, and each person present signed the List of Signatures.

2. Bond Counsel and the Rural Development (the "RD") District Director satisfied themselves that all of the requirements of the RD Letter of Conditions had previously been met or were being met at the time of the closing.

3. The letter of closing instructions of the Regional Attorney was checked, signed on page 3 by Local Counsel, Bond Counsel and the RD representative, and placed in the Transcript.

4. All matters relating to the necessary easements and Deeds had been resolved, and all such easements and Deeds had been obtained.

5. All necessary approvals of State agencies had been obtained and had been placed in the Transcript.

6. A letter had been obtained from the Engineers to the effect that no railroad easements or stream crossings were necessary in the construction of the project and such letter had been placed in the Transcript.

7. County road easements and all other necessary Highway Easements and Permits had been obtained, and evidence thereof was placed in the Transcript.

8. An Operating and Management Plan had been approved by the RD and executed by the District officials, and a copy had been obtained and placed in the Transcript.

9. The RD District Director executed a Certificate, verifying the number of existing waterworks users, the number of new users, and the deposit of connection fees paid by such new users, into certain funds of the District, and the Certificate had been placed in the Transcript.

10. Signed copies of certain RD Forms, as follows, were obtained and placed in the Transcript:

- (a) 400-1, Equal Opportunity Agreement.
- (b) 400-3, Notice to Contractors and Applicants.
- (c) 400-4, Assurance Agreement.
- (d) 400-8, Compliance Review.
- (e) 1927-9, Preliminary Title Opinion as to each site.
- (f) 442-3, Balance Sheet
- (g) 442-7, Operating Budget.
- (h) 442-21, Right-of-Way Certificate.
- (i) 442-22, Opinion of Counsel Relative to Rights-of-Way.
- (j) 1940-1, Request for Obligation of Funds.
- (k) 1780-27, Loan Resolution.

To the extent that any of such RD Forms had been brought up to date, copies were obtained and placed in the Transcript.

11. The color-coded map had been signed by the Chairman, the Engineer and Local Counsel, and a copy of the relevant portion had been obtained and placed in the Transcript.

12. The fidelity bond of the Treasurer had been obtained as required by the RD Letter of Conditions and by the Bond Resolution, a copy had been examined, and evidence thereof was placed in the Transcript.

13. All necessary renewal insurance on the Project, including real property insurance on above-ground structures, liability and Worker's Compensation had been obtained, and such policies were examined, and evidence thereof was placed in the Transcript.

14. Bond Counsel's list of closing requirements, the Transcript Index, was checked, and it was found that all such requirements had been or were being complied with.

15. The Bond had been dated April 30, 2009, on the front, in the panel and opposite the registration form, and was signed by the Chairman of the District and by the Secretary, who affixed the District Seal to the Bond and also signed the registration form, after which the Legal Opinion on the Bond was signed by Bond Counsel.

16. The Bond was delivered to the RD in exchange for payment.

17. A statement was obtained from the Engineers showing the final total cost of the project, the funds available from the proceeds of the Bonds, the amount expended to date, the amounts due and owing to the Engineers, Attorneys, Contractors and others, as of the closing date, and other information necessary to show the adequacy of the available funds to pay all of the necessary costs of the Project, and said statement was placed in the Transcript.

19. The following closing papers, prepared by Bond Counsel and dated April 30, 2009, were properly executed and placed in the Transcript:

- (a) Certificate as to Official Seal, Incumbency and Signature Identification.
- (b) Certificate of Execution, No Litigation and Outstanding Bond Issues.
- (c) Arbitrage Certificate.
- (d) Certificate of Receipt of Bond Proceeds and Bond Delivery.
- (e) Certificate of Engineers.
- (f) Certificate of RD as to Insurance and Bonding.
- (g) Letters of Contractors, Engineers, Local Counsel and Bond Counsel as to payments being made to date according to Contracts and amounts stipulated.
- (h) Final Title Opinion.
- (i) Legal Opinion of Bond Counsel.
- (j) Letter of RD Regional Attorney, signed by all parties.
- (k) Signature Sheet.

20. The closing was considered completed.



1718 Peachtree Road, Suite 576
Atlanta, Georgia 30309
Telephone: 404 347-1060
Facsimile: 404 347-1065

47
✓03

United States
Department of
Agriculture

March 11, 2008

Office of the
General
Counsel

Kenneth Slone
State Director
Rural Development
Lexington, Kentucky

SUBJECT: Mountain Water District
RUS Loan - \$650,000.00

These closing instructions are issued in response to your transmittal memorandum of February 14, 2008.

The purpose of this project is to increase the capacity of the existing Russell Fork Water Treatment Plant from 2 MGD to 3 MGD by adding a third Actiflo treatment unit, an additional high service pump, and a grit removal system to the existing facility. All construction will be on the existing site as owned by the District. No easements are involved.

The submitted docket contains a certification from the Mountain Water District's (hereinafter District) attorney stating that the District was created pursuant to Kentucky statutory law. The District has been properly formed and maintained continued existence. As reflected in the proposed Bond Transcript of Proceedings Index, a copy of the order creating the District will be included in the Bond Transcript.

The loan indebtedness is to be evidenced by "Mountain Water District Waterworks Revenue Bonds, Series 2007, in the amount of \$650,000 (2007 Water Improvements Project)" which are secured by and payable from a third pledge of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Prior Third Lien Bonds and Current Bonds as the same become due.

The District has retained local counsel Daniel Stratton of Pikeville, Kentucky, and bond counsel W, Randall Jones of Rubin and Hays in Louisville, Kentucky, to provide all legal assistance in the issuance of the above referenced bonds. Unless agreed to the contrary by said legal counsel, the responsibility for

MAR 14 2008

preparation of the bond transcript will be that of bond counsel and all other documentation and requirements of these instructions will be that of local counsel.

The submitted proposed bond ordinance, as prepared by bond counsel, is of standard form and reflects the conditions set out above. The terms and amounts within the bond ordinance are to be administratively approved. Upon such approval, bond counsel may proceed with adoption of the ordinance as he deems appropriate.

The bond transcript is to be prepared in accordance with the requirements of RD Instructions 1780, and in conjunction therewith, contain the applicable items of the suggested index as prepared by bond counsel. Bond Counsel is responsible for complying with Revised Article 9 and ensuring that the government has proper security in the Bonds. All requirements of Revised Article 9 of the Uniform Commercial Code must be satisfied.

The following points are noted:

A. The interest rate of 4.5% is in accordance with 7 U.S.C. §§ 1927 and 1927a, as amended.

B. The loan is to be issued in accordance with RD Instructions §1780.

C. The submitted Loan Resolution, Form RUS Bulletin 1780-27, dated November 28, 2007, and providing for a \$650,000.00 loan, has been properly prepared and executed.

D. The submitted Equal Opportunity Agreement, Form RD 400-1, is undated and, therefore, has not been properly completed. The Assurance Agreement, Form RD 400-4, is dated November 28, 2007, and has been properly prepared and executed.

E. Pending the issuance of the incumbency certificate at closing, the docket is to contain a certified list of the commissioners of the District showing their respective offices and terms.

F. The docket and transcript are to contain copies of the certificate of convenience and necessity from

the Public Service Commission in accordance with the provisions of KRS 278.020.

G. The docket and transcript are to contain copies of the resolution and, if applicable, amendments thereto establishing the rates, rules and regulations of the system which have been approved administratively. Said rates are to be in accord with statutory requirements of the Public Service Commission as set out at KRS 278.030 and KRS 278.160 through KRS 278.190. The rates are to be published pursuant to KRS 424.270.

H. Property evidence has been presented in the form of a Preliminary Title Opinion describing property vested in the District.

1) Should any additional real property be acquired, the docket is to contain title evidence thereon.

2) The docket and bond transcript are to contain a final title opinion inclusive of the date of closing as any property subsequently obtained. As bonds are being issued, such opinion is not to be prepared on Form RD 427-10, Final Title Opinion, as it is inappropriate.

I. The submitted Right-of-Way Certificate, Form RD 442-21, and Opinion of Counsel Relative to Rights-of-Way, Form RD 442-22, are to be discarded, and new forms are to be executed as of the date of closing.

All forms and documents to be executed on behalf of the District are to be signed by the chairman and attested by the secretary with the District seal affixed thereto. Please have each officer indicate his respective office under his signature.

All applicable requirements of RD Instructions 1780, the requirements of the national office and any other conditions must be complied with prior to or at the time of closing the loan.

Mountain Water District
March 11, 2008
Page 4


The certificate below must be executed by the USDA closing officer and the attorney for the District after all requirements herein have been met.

For final approval, there are to be submitted to this office, after having been reviewed by the state office, the following:

1. Certified copies of resolution and any amendments as to rates, rules and regulations.
2. Preliminary and final title opinions, as appropriate.
3. Right-of-Way Certificate and Opinion of Counsel Relative to Rights-of-Way, Forms RD 442-21 and 442-22.
4. Loan Resolution RUS Bulletin 1780-27 and Forms RD 400-1 and 400-4
5. Bond transcript.
6. Certified closing instructions.

Sincerely yours,

ANDREA L. FOSTER
Regional Attorney



Judith E. McKenzie-Abraham
Attorney

Enclosures

cc: W. Randall Jones, Esq.

JEMA/

Mountain Water District
March 11, 2008
Page 5

CERTIFICATE

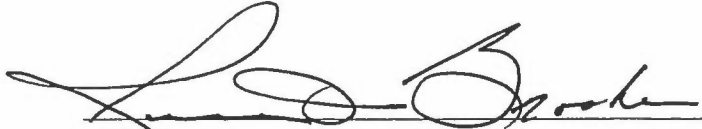
We certify that all requirements of these instructions have been met.

Date: **April 30, 2009.**



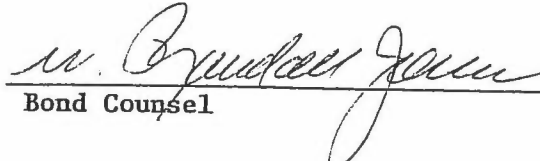
Attorney for the District

Date: **April 30, 2009**



USDA

Date: **April 30, 2009**



Bond Counsel

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTY OF PIKE
MOUNTAIN WATER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 2008

No. R-1

Interest Rate: 4.50 %

\$650,000

KNOW ALL PERSONS BY THESE PRESENTS:

That the Mountain Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Pike County, Kentucky, for value received, hereby promises to pay to

UNITED STATES OF AMERICA
acting by and through the
U.S. DEPARTMENT OF AGRICULTURE
771 Corporate Drive, Suite 200
Lexington, Kentucky 40503-5477

the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of **S P E C I M E N**

SIX HUNDRED FIFTY THOUSAND DOLLARS (\$650,000),

on the first day of January, in years and installments as follows:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2010	\$7,000	2023	\$12,000	2036	\$21,000
2011	7,000	2024	13,000	2037	22,000
2012	7,000	2025	13,000	2038	23,000
2013	8,000	2026	14,000	2039	24,000
2014	8,000	2027	14,000	2040	25,000
2015	8,000	2028	15,000	2041	26,000
2016	9,000	2029	16,000	2042	28,000
2017	9,000	2030	16,000	2043	29,000
2018	10,000	2031	17,000	2044	30,000
2019	10,000	2032	18,000	2045	32,000
2020	11,000	2033	19,000	2046	33,000
2021	11,000	2034	20,000	2047	34,000
2022	11,000	2035	20,000		

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, 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, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond is issued on a parity as to security and source of payment with the outstanding: (i) Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994 (the "1993 Bonds"), authorized by a Resolution adopted by the Commission of the District on March 18, 1993 (the "1993 Bond Resolution"); (ii) Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995 (the "1995 Bonds"), authorized by a Resolution adopted by the Commission of the District on July 19, 1995 (the "1995 Bond Resolution"); (iii) Mountain Water District Waterworks Revenue Bonds, Series 1997, dated October 2, 1997 (the "1997 Bonds"), authorized by a Resolution adopted by the Commission of the District on September 24, 1997 (the "1997 Bond Resolution"); (iv) Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999 (the "1998 Bonds"), authorized by a Resolution adopted by the Commission of the District on October 28, 1998 (the "1998 Bond Resolution"); (v) Mountain Water District Waterworks Revenue Bonds, Series 2001, dated July 26, 2002 (the "2001 Bonds"), authorized by a Resolution adopted by the Commission of the District on October 31, 2001 (the "2001 Bond Resolution"); (vi) Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004 (the "2004 Bonds"), authorized by a Resolution adopted by the Commission of the District on April 28, 2004 (the "2004 Bond Resolution"); and (vii) Mountain Water District Waterworks Revenue Bonds, Series 2005, dated June 22, 2007 (the "2005 Bonds"), authorized by a Resolution adopted by the Commission of the District on October 26, 2005 (the "2005 Bond Resolution") [hereinafter the 1993 Bonds, the 1995 Bonds, the 1997 Bonds, the 1998 Bonds, the 2001 Bonds, the 2004 Bonds and the 2005 Bonds shall be collectively referred to as the "Prior Third Lien Bonds", and the 1993 Bond Resolution, the 1995 Bond Resolution, the 1997 Bond Resolution, the 1998 Bond Resolution, the 2001 Bond Resolution, the 2004 Bond Resolution and the 2005 Bond Resolution shall be collectively referred to as the "Prior Third Lien Bond Resolution"], but subject to the vested rights and priorities in favor of the owners of the outstanding: (i) Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988 (the "1988 Bonds") authorized by a Resolution adopted by the Commission of the District on February 25, 1988 (the "1988 Bond

Resolution"); (ii) Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990 (the "1989 Bonds"), authorized by a Resolution adopted by the Commission of the District on July 20, 1989 (the "1989 Bond Resolution"); (iii) Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992 (the "1990 Bonds"), authorized by a Resolution adopted by the Commission of the District on January 10, 1991 (the "1990 Bond Resolution"); (iv) Kentucky Infrastructure Authority Loans issued in February, 1992, June, 1994, June, 1998, January 2002 and June 2002 (the "KIA Loans") [hereinafter the 1988 Bonds, 1989 Bonds, 1990 Bonds shall be collectively referred to as the "Prior First Lien Bonds", and the 1988 Bond Resolution, the 1989 Bond Resolution and the 1990 Bond Resolution shall be collectively referred to as the "Prior First Lien Bond Resolution"]. Accordingly, this Bond, the Prior Third Lien Bonds, together with any bonds ranking on a parity herewith, is payable from and secured on a third lien basis by a pledge of the gross revenues to be derived from the operation of the System, after providing for the requirements of the Prior First Lien Bonds and the KIA Loans.

This Bond has been issued in full compliance with the Current Bond Resolution and the Prior Third Lien Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the Prior Third Lien Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Mountain Water District Waterworks Sinking Fund of 1993", created in the Prior Third Lien Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitation, and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner 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 owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book 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 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 a multiple of One Hundred Dollars (\$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 owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

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 provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

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, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

S P E C I M E N

IN WITNESS WHEREOF said Mountain Water District, by its Board of Commissioners, has caused this Bond to be executed by its Chairperson, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is April 30, 2009.

MOUNTAIN WATER DISTRICT
Pike County, Kentucky

By _____
Chairperson

Attest:

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said 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 owner or its attorney, such transfer to be made on said book and endorsed hereon.

Date of Registration	Name of Registered Owner	Signature of Bond Registrar
April 30, 2009	UNITED STATES OF AMERICA acting by and through the U.S. DEPARTMENT OF AGRICULTURE 771 Corporate Drive, Suite 200 Lexington, Kentucky 40503-5477	

ASSIGNMENT

S P E C I M E N

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto _____, this ____ day of _____, _____.

By: _____

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

April 30, 2009

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 Water Treatment Plant Project)

We have acted as Bond Counsel in connection with the issuance by the Mountain Water District of Pike County, Kentucky (the "District") of \$650,000 of its Mountain Water District Waterworks Revenue Bonds, Series 2008 (the "Current Bonds"), dated as of the date of this Legal Opinion, bearing interest at the interest rate specified in the Current Bonds, payable semiannually on January 1 and July 1 of each year, with principal amounts falling due on January 1 in each of the respective years, 2010 through 2047, inclusive.

Said Current Bonds are issued pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes and a Bond Resolution (the "Current Bond Resolution") duly adopted by the Commission of the District for the purpose of financing the cost of extensions, additions and improvements to the existing waterworks system (the "System") of the District.

We have examined the transcript of proceedings of the District in connection with the issuance of the Current Bonds and the executed single, fully registered bond, numbered R-1, representing the total authorized principal amount of said Current Bonds, as issued and delivered, and an executed counterpart of the Current Bond Resolution.

Based on such examination, we are of the opinion that the Current Bonds are valid and legally binding and enforceable upon the District according to the import thereof and rank on a parity as to security and source of payment with the outstanding: (i) Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994 (the "1993 Bonds") authorized by a Resolution adopted by the District on March 18, 1993 (the "1993 Bond Resolution"); (ii) Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995 (the "1995 Bonds") authorized by a Resolution adopted by the District on July 19, 1995 (the "1995 Bond Resolution"); (iii) Mountain Water District Waterworks Revenue Bonds, Series 1997, dated October 2, 1997 (the "1997 Bonds"), authorized by a Resolution adopted by the District on September 24, 1997 (the "1997 Bond Resolution"); (iv) Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999 (the "1998 Bonds"), authorized by a Resolution adopted by the District on October 28, 1998 (the "1998 Bond Resolution"); (v) Mountain Water District Waterworks Revenue Bonds, Series 2001, dated July 26, 2002 (the "2001 Bonds"), authorized by a Resolution adopted by the District on October 31, 2001 (the "2001 Bond Resolution"); (vi)

Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004 (the "2004 Bonds"), authorized by a Resolution adopted by the District on April 28, 2004 (the "2004 Bond Resolution"); and (vii) Mountain Water District Waterworks Revenue Bonds, Series 2005, dated June 22, 2007 (the "2005 Bonds"), authorized by a Resolution adopted by the District on October 26, 2005 (the "2005 Bond Resolution") [hereinafter the 1993 Bonds, the 1995 Bonds, the 1997 Bonds, the 1998 Bonds, the 2001 Bonds, the 2004 Bonds and the 2005 Bonds shall be collectively referred to as the "Prior Third Lien Bonds" and the 1993 Bond Resolution, the 1995 Bond Resolution, the 1997 Bond Resolution, the 1998 Bond Resolution, the 2001 Bond Resolution, the 2004 Bond Resolution and the 2005 Bond Resolution shall be collectively referred to as the "Prior Third Lien Bond Resolution"]; but subject to the vested rights and priorities in favor of the owners of the outstanding: (i) Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988 (the "1988 Bonds"), authorized by a Resolution adopted by the District on February 25, 1988 (the "1988 Bond Resolution"); (ii) Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990 (the "1989 Bonds"), authorized by a Resolution adopted by the District on July 20, 1989 (the "1989 Bond Resolution"); (iii) Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992 (the "1990 Bonds"), authorized by a Resolution adopted by the District on January 10, 1991 (the "1990 Bond Resolution") [hereinafter the 1988 Bonds, the 1989 Bonds and the 1990 Bonds shall be collectively referred to as the "Prior First Lien Bonds" and the 1988 Bond Resolution, the 1989 Bond Resolution and the 1990 Bond Resolution shall be collectively referred to as the "Prior First Lien Bond Resolution"]; and the outstanding Kentucky Infrastructure Authority Loans issued in February, 1992, June, 1994, June, 1998, January, 2002 and June, 2002 (the "KIA Loans") and that the Current Bonds and the Prior Third Lien Bonds are secured by and are payable from a third pledge of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Prior Third Lien Bonds and the Current Bonds as the same become due. We express no opinion concerning the sufficiency of such revenues for that purpose.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with the Prior Third Lien Bonds and the Current Bonds, if necessary in order to complete the aforesaid extensions, additions and improvements to the System. The District has also reserved the right to issue additional parity bonds to finance future extensions, additions and/or improvements to the System, provided the necessary showings as to the earnings coverage required by the Prior Third Lien Bond Resolution and Current Bond Resolution are in existence and properly certified.

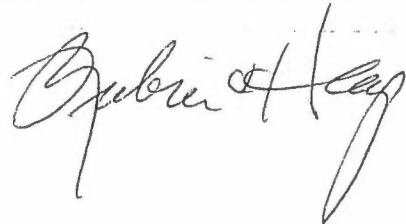
Based on current rulings and official interpretations, and assuming that the District complies with certain covenants contained in the Current Bond Resolution made with respect to compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), including a covenant to comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America as to certain investment earnings on the proceeds of the Current Bonds, we are of the opinion that: (1) interest on the Current Bonds is excludable from gross income for federal income tax purposes; (2) the Current Bonds have been validly designated as "qualified tax-exempt obligations" by the District pursuant to the provisions of Section 265(b)(3) of the Code; (3) the Current Bonds are an issue of "state or local bonds" which are not "private activity bonds"

within the meaning of Section 103 of the Code; (4) interest on the Current Bonds is not included as an item of tax preference in calculating the alternative minimum tax for individuals; (5) interest on the Current Bonds may be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the branch profits tax on foreign corporations, the effect on certain Subchapter S Corporations with excess passive income, and other tax consequences to certain insurance companies; (6) interest on the Current Bonds will be included in adjusted current earnings when calculating the alternative minimum taxable income of corporations; (7) an individual who owns any of the Current Bonds may be required to include in gross income a portion of his or her social security or railroad retirement payments; (8) any taxpayer (individuals or corporations) owning the Current Bonds may have collateral tax consequences if they are deemed to have incurred or have continued to incur indebtedness to purchase or carry tax-exempt obligations; (9) interest on the Current Bonds is exempt from Kentucky income taxes; and (10) the principal of the Current Bonds is exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

No opinion is expressed regarding other federal income tax consequences caused by the receipt of interest on the Current Bonds.

It is to be understood that the rights of the holders of the Current Bonds and the enforceability of the Current Bonds and the Current Bond Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter adopted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

It is provided in the Consolidated Farm and Rural Development Act that if the Current Bonds are sold out of the Agricultural Credit Insurance Fund or out of the Rural Development Insurance Fund as an insured loan, the interest thereon paid to an insured owner shall be included in the taxable income of such owner.

A handwritten signature in cursive script, appearing to read "Gabriel Hayes". The signature is written in dark ink and is located in the lower right quadrant of the page.

**FINAL TITLE OPINION
AS TO WATERWORKS PROJECT**

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).

We, Stratton, Hogg and Maddox, P.S.C., Attorneys at Law, Pikeville, Kentucky, representing the Mountain Water District of Pike County, Kentucky (the "District"), certify:

1. That we have investigated and ascertained the location of the various sites of major structures and installations, if any, to be constructed in connection with certain proposed extensions, additions and improvements (the "Project") to the existing waterworks system of the District (the "System"), together with all rights-of-way and easements necessary in connection with the construction of the Project and in connection with the continued ownership and operation of the System.
2. That we have examined the records of the ownership of said sites and we are of the opinion that said District now owns fee simple title to all of said sites and that said title is free and clear of all liens and encumbrances which might adversely affect the right of the District to the use of the same in operation of the System, subject to the encumbrances referred to in Paragraph 12 hereof.
3. That we have further examined the right-of-way instruments, permits and/or licenses obtained from landowners, public bodies and public utilities.
4. That we have taken cognizance of the fact that the District possesses the power of eminent domain which would enable it to perfect title to any pertinent easements and/or rights-of-way as to which its title might be defective, and that the cost of perfecting any such title is considered to be negligible in view of the fact that in virtually every instance the easement or right-of-way improves, rather than damages, the value of the property, by reason of bringing the System to such property; and accordingly, if and to any possible extent that the District does not have adequate title to such easements and/or rights-of-way for the purpose desired, the District can, in our opinion, obtain such easements and/or rights-of-way, either through negotiation or through the exercise of the power of eminent domain, without exceeding the funds available.
5. That we have examined the instruments creating the aforesaid easements and/or rights-of-way and that it is our opinion that said instruments are valid as to form and substance for the purpose intended, although we have not examined the title records as to each of such easements and/or rights-of-way and express only a limited opinion as to the title thereto, based on such limited examination as set out herein.
6. That based on and subject to the foregoing, we are of the opinion that the District now owns the necessary permanent rights-of-way and easements for ingress to and egress from the aforesaid sites and the necessary permanent rights-of-way and/or easements for water lines to and from said sites, connecting with the mains and lines extending throughout the System, and that the

District has sufficient legal title and interest in said sites, rights-of-way and easements to permit the construction of the necessary facilities thereon as heretofore completed and/or as now contemplated and to permit the operation and maintenance of such facilities thereon during the estimated life of such facility or facilities by the District after the completion of construction.

7. That the District has acquired the necessary permits, franchises and authorizations or other instruments by whatsoever name designated, from public utilities and public bodies, commissions or agencies, authorizing the construction, operation and maintenance of the facilities upon or across streets, roads, highways, railroads and public utilities, whenever and wherever the same are affected.

8. That a right-of-way map, as furnished by the District, shows the location and distribution of all land and rights-of-way acquired by the District and/or necessary to be acquired by the District in connection with the Project. Attention is called to certified copies of all deeds for said rights-of-way and easements over adjacent properties, for the purpose of ingress to and egress from said site locations; also the necessary permits from the Department of Highways of the Commonwealth of Kentucky and from Pike County, Kentucky, insofar as the same affect the roads, streets, highways and other properties belonging to them. These exhibits were furnished with a preliminary certificate and opinion (RD Form 442-22) in connection with the financing of the Project.

9. That in that connection, we have conferred with O'Brien & Gere, the Engineers employed by the District in connection with the Project, concerning the lines set out in said map and concerning the sites necessary, according to said Engineers, for the construction of the Project; that we have satisfied myself that we are thoroughly familiar with the lines and sites required by said map and by the Engineers for the construction of said Project, and that subject to possible exceptions as to title, referred to in Paragraph 2 hereof, we are satisfied that the District has obtained deeds of easements and/or rights-of-way and/or sites required by the District, as set out in said map, and according to information furnished to us by the Engineers, as being necessary for the construction of said Project. We have also discussed with the Engineers the need for being furnished prompt and accurate information as to the legal descriptions of any and all easements, rights-of-way and/or sites, as may be required in connection with any approved change-orders with reference to the Project which may be issued during the course of construction.

10. That the estate and interest of the District in such sites, easements and rights-of-way are legal and valid, and that all deeds, conveyances and documents pertaining to or evidencing ownership or other rights in any interests in land which will or may be utilized by or for the Project or which may be required in connection therewith have been duly recorded as required by law in the office of the Pike County Clerk in Pikeville, Kentucky.

11. That we have examined the various records of Pike County, and other pertinent proceedings, documents and showings and have consulted with officials of the District concerning the title of the District to its existing waterworks System; and that it is a matter of common

knowledge and in no way controverted by such records that the District is the owner of its existing waterworks System.

12. That the title of the District to all of the sites, rights-of-way and/or easements referred to herein and to the existing System is encumbered by a lien on and an exclusive pledge of the revenues of the System, for the benefit of the owners of the outstanding bonds of an authorized issue of \$650,000 of Mountain Water District Waterworks Revenue Bonds, Series 2008 (the "Current Bonds"), which lien and pledge were created or made by the District as security for the issuance of said Current Bonds.

13. That there are no taxes or assessments now delinquent or becoming delinquent relative to or affecting any sites, easements and/or rights-of-way pertaining to the System.

14. That the Project has been and is being constructed in a manner which is consistent with the comprehensive area water plan, is in compliance with all applicable zoning laws, and is not inconsistent with any development plans of the Commonwealth of Kentucky, Pike County, or any multijurisdictional area in which the District is located.

15. That no controversy or litigation is pending, prayed or threatened, involving the creation, organization, existence or boundaries of the District, or the title of any of its officers to their respective positions, or the validity of the Current Bonds, as issued, or the power and authority of the District to construct the Project, to own and operate the System as a revenue-producing undertaking, and to provide and apply adequate revenues therefrom for the full and prompt payment of the principal of and interest on the Current Bonds and that none of the proceedings or authority for the issuance of the Current Bonds has been repealed, revoked, rescinded, modified, changed or altered in any manner, except as set forth in Exhibit A.

IN TESTIMONY WHEREOF, witness our signature this April 30, 2009.

Stratton, Hogg and Maddox, P.S.C.

By *Daniel P. Struth*

EXHIBIT A

There is currently pending an issue concerning the residency of two board members, being Toni Akers, the Chairperson, and Mike Litafik, the Vice Chairman. KRS 74.020 requires that Commissioners be residents of the District. The Public Service Commission for the Commonwealth of Kentucky has been asked to determine if they can legally be Commissioners if they do not reside in the District.

That being stated, it is the opinion of counsel, based on substantive case law, that if it is determined that either one or both are non-residents, and thus not qualified to sit on the Board, that any actions taken by the Board in which they participated are still valid as they are then defacto members, and may serve until they resign or are removed. Their votes are still binding on third parties.

Morgan Keegan

Morgan Keegan & Company, Inc.
Suite 2050
AEGON Center
400 West Market Street
Louisville, Kentucky 40202
502/589-7979
WATS 800/260-0280
Members New York Stock Exchange, Inc.

April 13, 2009

Mr. Will Brown
Mountain Water District
VIA FAX: (606) 631-3087

RE: Mountain Water District Loan #3, Kentucky Rural Water Finance Corporation Loan

Dear Mr. Brown:

This letter is regarding the loan payoff for the above referenced loan. Based on a payoff date of April 30, 2009, the amount due to the Kentucky Rural Water Finance Corporation is \$572,904.77.

	<u>Loan Payoff</u>
Principal	\$548,028.18
Plus: Accrued Interest (1)	28,608.13
Less: Interest Earnings	<u>(3,731.54)</u>
Total	<u>\$572,904.77</u>

(1) Accrued Interest is calculated from May 1, 2008 through April 30, 2009. Daily accrued interest equals \$66.81. If payment is not received on the above referenced payoff date, please add daily accrued interest to the total and notify me as soon as possible as to the new payoff date.

When USDA-RD Automatic Clearing House funds have been received by your Bank, the payoff amount should be wired to Regions Bank at the following address no later than the established closing date:

Wire Payoff:
Regions Bank
Birmingham, Alabama
ABA#: 062005690
For Credit to Account# 0017541387, Wealth Management
Reference: Kentucky Rural Water Finance Corporation
Attention: Ms. Melissa Ragsdale (615) 770-4364

Should you have any questions, please give me a call at (502) 560-1254. Thank you.

Sincerely,

/s/ Tom Strohmeier
Tom Strohmeier

Enclosure

cc: Ms. Ronnie Brooks – USDA – Rural Development – via electronic mail: ronnie.brooks@ky.usda.gov
Mr. Randy Jones – Rubin & Hays – via electronic mail: wrjones@rubinhays.com
Mr. Gary Larimore – KRWFC – via electronic mail: g.larimore@krwa.org
Ms. Melissa Ragsdale – Regions Bank – via electronic mail: melissa.ragsdale@regions.com
Mr. Nick Roederer—Morgan Keegan— via electronic mail: nick.roederer@morgankeegan.com

Mountain Water District (Loan #3)							A-1 Note Issue
Loan #277							
Start Date							05/01/08
End Date							02/26/09
Total Loan Amount							650,000.00
Month	Draws	Loan Rate	Interest	Balance	Inv. Rate	Earnings	
				650,000.00			
05/01/08	392,976.26	4.05%	0.00	257,023.74	2.40%	0.00	
05/15/08	42,285.83	4.05%	0.00	214,737.91	2.40%	239.89	
07/03/08	1,989.35	4.05%	0.00	212,748.56	2.40%	687.16	
08/22/08	34,492.74	4.05%	0.00	178,255.82	2.40%	694.98	
10/01/08	0.00	4.05%	10,968.75	178,255.82	2.40%	463.47	
10/30/08	76,284.00	4.95%	0.00	101,971.82	3.05%	437.96	
02/26/09	0.00	4.95%	12,959.38	101,971.82	3.05%	1,002.16	
			548,028.18			23,928.13	3,525.62

Loan Payoff 568,430.69

Mountain Water District (Loan #3)							B-1 Note Issue
Loan #277							
Start Date							02/26/09
End Date							04/30/09
Total Loan Amount							650,000.00
Month	Draws	Loan Rate	Interest	Balance	Inv. Rate	Earnings	
				650,000.00			
02/26/09	568,430.69	3.70%	0.00	81,569.31	1.42%	0.00	
03/01/09	0.00	3.70%	0.00	81,569.31	1.42%	16.09	
04/30/09	0.00	3.70%	4,680.00	81,569.31	1.42%	189.83	
			568,430.69			4,680.00	205.92

Loan Payoff 572,904.77

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT REGARDING THE SERVICE OF FUTURE CUSTOMERS BUILDING STRUCTURES IN A DESIGNATED FLOODPLAIN.

WHEREAS, the Board of Commissioners (the "Commission") of the Mountain Water District (the "District"), is in the process of arranging to finance the construction of extensions, additions and improvements to the existing water system (the "System") of the District; and

WHEREAS, the Rural Development of the Department of Agriculture of the United States of America (the "RD") has conditionally agreed to purchase a bond issue of the District designated as "Mountain Water District Waterworks Revenue Bonds, Series 2008" (the "Bonds") in the principal amount of \$650,000; and

WHEREAS, the RD has issued a Letter of Conditions to the District (the "Letter of Conditions") which sets forth the requirements the District must meet in order for the RD to purchase the Bonds; and

WHEREAS, said Letter of Conditions requires the District to adopt a Resolution specifying that the District will deny water service to a future customer wishing to build on or develop property located within a designated floodplain, or in the alternative, the customer must provide evidence and a justification for approval by the District and RD officials that there are no other alternatives to construction or development within the designated floodplain.

NOW, THEREFORE, THE BOARD OF COMMISSIONERS OF THE MOUNTAIN WATER DISTRICT DOES RESOLVE AS FOLLOWS:

Section 1. Floodplain Restriction. That pursuant to the Letter of Conditions, the District hereby agrees that it will deny water service to any future customer wishing to build on or develop property within a designated floodplain, or in the alternative, such customer must provide evidence and a justification for approval by the District and RD officials that there are no other alternatives to construction or development within the designated floodplain. The District must be a participant in the National Flood Insurance Program and the customer or developer must obtain the required permits prior to the tap-on restrictions being waived.


Section 2. Severability. That if any clause, provision, paragraph or section of this Resolution be ruled void or unenforceable by any court of competent jurisdiction, the remainder thereof is intended to be adopted and shall be in full force and effect notwithstanding.

Section 3. All Former Provisions in Conflict Repealed; Effective Date of Resolution.

That all resolutions, motions or parts thereof, insofar as same may be in conflict herewith, are repealed, and this Resolution shall take effect from and after its passage and approval as provided by law.

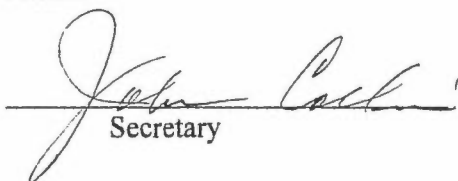
Adopted and approved on this February 27, 2008.

MOUNTAIN WATER DISTRICT



Chairperson

Attest:



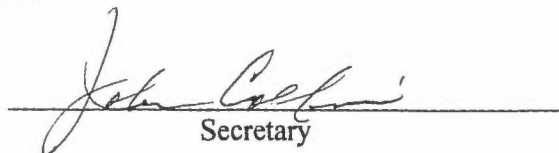
Secretary

CERTIFICATE OF SECRETARY

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Mountain Water District, that the foregoing Resolution is a true copy of a Resolution duly adopted by the District at a meeting held on February 27, 2008 and that said Resolution appears as a matter of public record in the official records of said District.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN WITNESS WHEREOF, I have hereto set my hand as Secretary of the District and the official Seal of the District on this February 27, 2008.



Secretary

(Seal of District)

40

Stratton, Hogg & Maddox, P.S.C.
P.O. Box 1530
Pikeville, Kentucky 41502-1530

April 30, 2009

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).

Dear Mr. Brooks:

We have this date been paid by Mountain Water District (the "District") the sum of \$ 1,687.50, which represents payment to us of 80% of all Basic Legal Fees and 90% of all Additional Legal Fees to which we are entitled for legal services rendered by us in connection with the financing and construction of extensions, additions and improvements to its existing waterworks system, in accordance with our Legal Services Agreement with the District and according to the amounts stipulated therein, leaving a balance of \$ 0 to be paid to us when such construction is completed.

Stratton, Hogg & Maddox, P.S.C.

By Daniel Stratton

HOWARD ENGINEERING AND CONSTRUCTION, INC.
1303 South Main Street
London, Kentucky 40741

April 30, 2009

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).


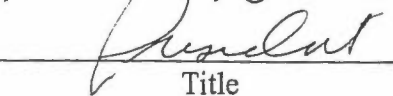
Dear Mr. Brooks:

The undersigned certifies that we have this date been paid by the Mountain Water District (the "District"), for all work performed by us in connection with a project (the "Project") consisting of extensions, additions and improvements to the existing waterworks system of the District, in accordance with our Contract with the District and in accordance with statements submitted by us to the District.

We further certify that all suppliers and subcontractors, if any, to whom payment was due from us in connection with such Project have been paid to date in full, in accordance with our contracts with them and in accordance with statements submitted to us by them.

Dated this April 30, 2009.

Howard Engineering and Construction, Inc.

By 

Title

O'BRIEN & GERE ENGINEERS
1019 Majestic Drive, Suite 110
Lexington, Kentucky 40513

April 30, 2009

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351


Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).

Dear Mr. Brooks:

This is to certify that as of this date, we have been paid by the Mountain Water District (the "District"), the sum of \$ 81,660.36, which constitutes payment to us of all sums to which we are entitled for services rendered by us to date in connection with the construction of a project consisting of extensions, additions and improvements to the existing waterworks system of the District, according to our Agreement for Engineering Services with the District.

Dated this April 30, 2009.

O'Brien & Gere Engineers

By 
Project Manager
Title

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

April 30, 2009

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).

Dear Mr. Brooks:

We have this date been paid by the Mountain Water District (the "District") the sum of \$3,473.55, which, when added to the \$4,608.33 paid to us on March 26, 2008, represents payment to us of all sums to which we are entitled for legal services rendered by us in connection with the financing and construction of extensions, additions and improvements to the existing waterworks system of the District, in accordance with our Legal Services Agreement with the District, and according to the amounts stipulated therein.

Sincerely,

Rubin & Hays

By


W. Randall Jones

WRJ: jlm

CERTIFICATE OF ENGINEERS

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).

We, O'Brien & Gere Engineers, Lexington, Kentucky, hereby state that we are Engineers experienced in the field of waterworks engineering and of recognized reputation in said field, and that we have been duly employed by the Mountain Water District of Pike County, Kentucky (the "District"), in connection with the preparation of plans, designs and specifications for the construction of extensions, additions and improvements (the "Project") to the existing waterworks system (the "System") of the District, which Project is being financed by the issuance of \$650,000 of Mountain Water District Waterworks Revenue Bonds, Series 2008 (the "Current Bonds").

We state that we have consulted with Stratton, Hogg & Maddox, P.S.C., Pikeville, Kentucky (the "Local Counsel"), who has been employed by the District in connection with the Project, that we have examined (a) the attached "Final Title Opinion for Waterworks and Sewer Project" (the "Title Opinion"), signed by said Local Counsel, and the attached printed "Preliminary Title Opinion" (RD Form 1927-9), signed by said Local Counsel; (b) the separate "Opinion of Counsel Relative to Rights-of-way" (RD Form 442-22), signed by said Local Counsel; (c) the descriptions of the sites and easements referred to in said Title Opinion and in said RD Forms and (d) the right-of-way map specifically referred to in said Title Opinion, and we state further as follows:

1. That all of the sites of major structures and installations of the Project lie or will lie within the boundaries of the properties as to which the title of the District is certified in said Title Opinion and in said RD Forms, copies of which have been forwarded to us, and/or on the public rights-of-way for which a permit from the appropriate agency has been obtained.

2. That all of the remaining parts of the Project, have been, can and/or will be constructed, to the extent that such construction requires our approval (a) within the boundaries of the easements and rights-of-way established in said right-of-way map and/or (b) within the boundaries of the easements and rights-of-way which, according to the documents referred to above, have heretofore been obtained or contracted for by the District or can be obtained by the District by purchase or condemnation; or in the beds of highways, streets and alleys, or in other public ways duly dedicated to public use, and with respect to which the District has obtained the necessary permits and/or has the power and right to order said construction therein.

3. That the District has entered into contracts for the construction of the Project; that construction of the Project has proceeded with due diligence, and will continue to proceed hereafter to completion with due diligence; that construction of the Project will be completed within less than three years from said date of commencement of construction; and that it is reasonably anticipated that at least 95% of the funds available, i.e., spendable proceeds of the Current Bonds, will be expended on the costs of construction of the Project within less than three years from the date of delivery of the Current Bonds.

4. That we have conferred with said Local Council concerning the lines set out in said map and concerning the sites necessary for the Project and have satisfied ourselves that said Local Council has been informed by us and is aware of the need for obtaining (a) deeds of easement and/or rights-of-way as to all such easements and/or rights-of-way; and (b) deeds as to any and all sites deemed by us to be necessary in order to assure completion of the Project, as planned.

5. That we have also discussed with said Local Council our awareness of the need, if authorized by the District, to furnish said Local Council prompt and accurate information as to the legal descriptions of any and all easements, rights-of-way and/or sites, as may be necessary or required in connection with approved change-orders or other relocations which may be issued during the course of construction. We state that we will not knowingly approve construction of facilities of the Project on sites or in rights-of-way without first being assured by said Local Council that the appropriate legal title and/or legal right-of-way has been obtained.


6. That to the best of our knowledge, the Project has been and/or can be completed in accordance with the plans and specifications prepared and approved by us within the boundaries of the aforesaid sites, easements and/or rights-of-way, and, to the best of our knowledge, has been and/or can be completed in accordance with the construction contracts duly awarded by the District, at a cost which is within the funds made available to the District and by the District as set out above, based on the information available at this time and the projected final costs for the Project.

7. We certify that the Contractor from whom the District should obtain a statement as to all work performed by such Contractor being paid for in full according to its contract, at the time of delivery of the Current Bonds issued to finance the cost (not otherwise provided) of such Construction Project, is Howard Engineering and Construction, Inc., 1303 South Main Street, London, Kentucky 40741.

8. That in our opinion there are structures in the one hundred (100) year flood plain in the current Project; however the elevations of said structures meet the regulations of the Division of Water as to construction in a flood plain.

IN TESTIMONY WHEREOF, witness our signature to the foregoing this April 30, 2009.

O'Brien & Gere Engineering, Inc.
Consulting Engineers

By 
Registered Professional
Engineer, State of Kentucky
No. 13540

ARBITRAGE CERTIFICATE

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).

1. General. (a) The undersigned is the Chairperson of the Mountain Water District (the "Issuer") of Pike County, Kentucky.

(b) This Certificate is executed for the purpose of establishing the reasonable expectations of the Issuer as to future events regarding the Mountain Water District Waterworks Revenue Bonds, Series 2008 (the "Bonds") in the aggregate principal amount of \$650,000 authorized pursuant to a Resolution (the "Bond Resolution") adopted by the Board of Commissioners of the Issuer in order that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

(c) The Issuer has not been notified of any listing or proposed listing of the Issuer by the Internal Revenue Service as an issuer that may not certify its bonds.

(d) The undersigned is one of the officers of the Issuer delegated with the responsibility of issuing and delivering the Bonds.

(e) To the best of the knowledge, information and belief of the undersigned, the expectations contained in this Certificate are reasonable.

(f) The facts and estimates in this Certificate are based on representations made by O'Brien & Gere Engineers (the "Engineers") employed by the Issuer to prepare the plans and specifications and to supervise the construction of the Project defined in Section 2 hereof. The Issuer is not aware of any facts or circumstances that would cause it to question the accuracy of the representations made by the Engineers.

2. Purpose of the Bonds. (a) The Bonds are being issued for the purpose of providing funds (not otherwise provided) (i) for the permanent financing of the costs of extensions, additions and improvements (the "Project") to the existing waterworks system (the "System") of the Issuer, and (ii) for the costs of issuance of the Bonds.

(b) Upon the completion of the acquisition, construction and equipping of the Project, the Project will be owned and operated by the Issuer.

3. Sources and Disbursement of Funds. The Bonds have been sold to Rural Development (the "RD") at par (\$650,000). The Bonds will be delivered to the RD on the date of this Certificate upon payment by the RD of such purchase price with no accrued interest. Accordingly, the net amount received by the Issuer from the sale of the Bonds will be \$650,000 (the "Net Proceeds").

(b) The Net Proceeds of the Bonds along with the other available moneys described above for the Project will be expended on the acquisition, construction, renovation, improvement and equipping of the Project and said moneys will be deposited in the Construction Fund (as defined in the Bond Resolution) for construction of the Project and for the payment of the costs of issuance of the Bonds.

(c) The Issuer has entered into a contract with a third party for the construction, renovation, improvements and equipping of the Project obligating an expenditure equal to or in excess of \$100,000.

(d) Such construction, renovation, improvement and equipping of the Project will proceed with due diligence to completion.

4. The Bonds. The receipts and disbursements with respect to the Bonds, including issuance costs and accrued interest, are or will be detailed in Requisition Certificates signed by the Issuer and the Engineers.

5. Construction Fund. Amounts deposited in the Construction Fund and earnings with respect to such amounts will be expended for the payment of the balance of costs of the Project prior to the date of completion of the Project. Pending such expenditure, such monies will be invested without restriction as to yield.

6. Sinking Fund. Money deposited in the Sinking Fund will be used to pay the principal of and interest on the Bonds, and the Issuer reasonably expects that there will be no other funds that will be so used. The Sinking Fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Money deposited in the Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the outstanding Bonds and, except for an amount equal to not more than the greater of (a) one-twelfth (1/12) of debt service requirements of the Bonds for the then ensuing year; or (b) one year's earnings on the Sinking Fund, the Sinking Fund will be depleted annually through such application for current debt service requirements of the Bonds. Amounts held in the Sinking Fund will be invested without being limited as to the maximum permissible rate of investment return.

7. Operation and Maintenance Fund. The Bond Resolution ratifies and confirms the creation of an Operation and Maintenance Fund. The moneys in the Operation and Maintenance Fund may be used to pay certain expenses related to the operation and maintenance of the System. Amounts deposited in the Operation and Maintenance Fund will not be reasonably expected to pay the principal of and interest on the Bonds. Amounts held in the Operation and Maintenance Fund will be invested without being limited as to the maximum permissible rate of investment return.

8. Depreciation Fund. (a) The Bond Resolution ratifies and confirms the creation of a Depreciation Fund. The moneys in the Depreciation Fund may be used to pay the costs of unusual or extraordinary maintenance, repairs, renewals and replacements to the System or of paying the cost

of constructing future extensions, additions and/or improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service.

(b) Moneys on deposit in the Depreciation Fund may be used, when necessary, for the purpose of making payments of principal and interest on the Bonds, but such amounts will not be reasonably expected to pay the principal and interest on the Bonds. There will be no assurance that such amounts will be available to meet debt service on the Bonds if the Issuer encounters financial difficulty. Amounts held in the Depreciation Fund will be invested without being limited as to the maximum permissible rate of investment return.

9. No Replacement. No portion of the amounts received from the sale of the Bonds will be used as a substitute for other funds which were otherwise to be used to finance the Project, and which have been or will be used to acquire, directly or indirectly, obligations producing a yield in excess of the yield on the Bonds.

10. No Overissuance. Taking into account other available funds, the amount necessary to provide, or reimburse the Issuer, for payment of expenses of issuing and carrying the Bonds and financing the Project, equals or exceeds the Net Proceeds of the Bonds and income thereon.

11. No Other Obligations. No other governmental obligations have been or will be issued by the Issuer or any other entity (a) at substantially the same time as the Bonds (b) pursuant to a plan of financing common with that of the Bonds and (c) which either will be paid from substantially the same source of funds as the Bonds or will have substantially the same claim to be paid from substantially the same source of funds as the Bonds.

To the best of my knowledge and belief, there are no facts, estimates or circumstances other than those expressed herein that would materially affect the expectations herein expressed, and, to the best of my knowledge and belief, the Issuer's expectations are reasonable.

Dated April 30, 2009.

MOUNTAIN WATER DISTRICT

By Joni Akers
Chairperson

**CERTIFICATE OF EXECUTION, NO LITIGATION
AND OF OUTSTANDING BOND ISSUES**

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project)

We, the undersigned, Chairperson and Secretary, do hereby certify that we are the officers of the Board of Commissioners (the "Commission") of the Mountain Water District (the "District"), constituting the governing body of said District, in Pike County, Kentucky.

1. That pursuant to all legal requirements, including the Bond Resolution duly adopted by said Commission, there have been heretofore lawfully authorized the negotiable "Mountain Water District Waterworks Revenue Bonds, Series 2008" (the "Current Bonds"), in the aggregate principal amount of \$650,000, in the form of fully registered bonds, as such purchaser(s) may determine, bearing interest from the date thereof, which is the same date as the date of this Certificate.

2. That pursuant to the provisions of said Bond Resolution, the purchaser thereof, Rural Development of the Department of Agriculture of the United States of America (the "RD"), duly elected to take delivery of said Current Bonds in the form of a single fully registered bond, representing the total authorized issue of Current Bonds, in the principal amount of \$650,000, dated as of the date of this Certificate, which is the date of delivery of and payment for said Current Bonds, payable to the registered owner (initially the RD), numbered R-1, bearing interest at the rate of 4.50% per annum. Interest on the Current Bonds is payable semiannually on January 1 and July 1, with principal installments being payable on January 1 in each of the respective years, 2010 through 2047, inclusive, as set out in the maturity schedule contained in said Bond Resolution.

3. That said Current Bond has been executed with the genuine signatures of the undersigned Chairperson and Secretary, with the corporate seal (the "Seal") of the District duly affixed to said Current Bond by one of us who was then and is now duly authorized to affix said Seal to said Current Bond, and that at that time, a true impression of said Seal was duly affixed to this Certificate at the place indicated below.

4. That on the date of execution of this Certificate we were, and now are, the duly appointed, qualified and acting officials indicated in this Certificate, and that we were and now are duly authorized to execute the same.

5. That said Current Bonds rank on a parity with the outstanding Prior Third Lien Bonds (as defined in the Current Bond Resolution), and are subject to the vested rights and priorities in favor of the owners of the Prior First Lien Bonds and the KIA Loans (as defined in the Current Bond Resolution).

6. The Prior First Lien Bonds, KIA Loans, Prior Third Lien Bonds and the Current Bonds represent the only issues of bonds (the "Outstanding Bonds") or obligations of said District outstanding which by their terms are in any manner secured by or payable from the revenues of the District's waterworks system (the "System") as of the date hereof.

7. That no controversy or litigation is pending, prayed or threatened involving the creation, organization, existence or boundaries of said District, or the title of any of its officers to their respective positions, or the validity of the Current Bonds, or the power and authority of the District (1) to construct extensions, additions and improvements to its existing System; (2) to own and operate the System, including said extensions, additions and improvements as a revenue-producing undertaking; and (3) to provide and apply adequate revenues from the System for the full and prompt payment of the principal of and interest on the aforesaid Outstanding Bonds, on a parity, and for the cost of operation and maintenance of the System, and that none of the proceedings or authority for the issuance of said Current Bonds has been repealed, revoked, rescinded, modified, changed or altered in any manner, except as set forth in Exhibit A

IN TESTIMONY WHEREOF, we have hereunto affixed our respective official signatures and the Seal of said District, this April 30, 2009.

MOUNTAIN WATER DISTRICT

By: *Soni Akers*
Chairperson

By: *John Cochran*
Secretary

(Seal of District)

CERTIFICATION OF ATTORNEY FOR DISTRICT

We, Stratton, Hogg & Maddox, P.S.C., hereby certify that we are Local Counsel for the Mountain Water District, that we have read the foregoing Certificate of Execution, No Litigation and of Outstanding Bond Issues, and that all of the facts stated therein are true to the best of our knowledge and belief.

Dated this April 30, 2009.

Stratton, Hogg & Maddox, P.S.C.

By: *Paul Stratton*

EXHIBIT A

There is currently pending an issue concerning the residency of two board members, being Toni Akers, the Chairperson, and Mike Litafik, the Vice Chairman. KRS 74.020 requires that Commissioners be residents of the District. The Public Service Commission for the Commonwealth of Kentucky has been asked to determine if they can legally be Commissioners if they do not reside in the District.


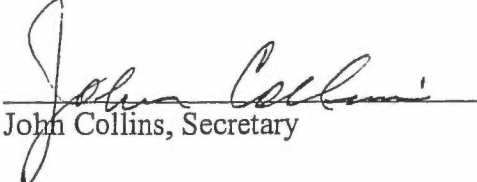
That being stated, it is the opinion of counsel, based on substantive case law, that if it is determined that either one or both are non-residents, and thus not qualified to sit on the Board, that any actions taken by the Board in which they participated are still valid as they are then defacto members, and may serve until they resign or are removed. Their votes are still binding on third parties.

**CERTIFICATE AS TO OFFICIAL SEAL, INCUMBENCY
AND SIGNATURE IDENTIFICATION**

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000 (Water Treatment Plant Project).

We, the undersigned Chairperson and Secretary of the Mountain Water District (the "District") of Pike County, Kentucky, do hereby certify, as of April 30, 2009, that the Seal affixed below is the Official Seal of said District.

We further certify that we are the duly elected, qualified and acting officers of said District, as indicated by our signatures set out below; that the following signatures are our true and genuine signatures; and that our terms of office are as hereinafter set out:

<u>Signatures</u>	<u>Beginning of Term Date</u>	<u>Expiration of Term Date</u>
 Toni Akers, Chairperson	08/01/2007	07/31/2011
 John Collins, Secretary	08/01/2006	07/31/2010

We further certify that the other members of the Commission and their terms are as follows:

<u>Commissioner</u>	<u>Beginning of Term Date</u>	<u>Expiration of Term Date</u>
Mike Litafik	08/01/2005	07/31/2009
Rhonda James	09/01/2008	07/31/2010

(Seal of District)

PRE-CLOSING - MARCH 26, 2008

Re: \$650,000 Mountain Water District Waterworks Revenue Bonds, Series 2008

SIGNATURE

FIRM/COMPANY

RUBIN & HAYS
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

Nancy Jones

Manuel Adrevo

Shelby Hays, M.A. Hays PSC

Fz Jee

MWD Commissioner

John "John" Collins

MWD Comm

Tom Akers

MWD

Mike Stefeld

MWD

Earl Sullivan

MWD

RONNIE BROOKS

USDA Rural Dev

Peggy J Meade

USDA Rural Development

Boye K Lee

O'Brien & Gere

MEMO AS TO PRE-CLOSING

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000.

1. The pre-closing conference took place on March 26, 2008, at 11:00 A.M., E.D.T., at the District's office in Pikeville, Kentucky, and each person present signed the List of Signatures.

2. The requirements of the Rural Development (the "RD") Letter of Conditions and the Closing Instructions were discussed.

3. Matters pertaining to railroad crossings, County road easements, U.S. Highway easements and Kentucky Department of Transportation Utility Access Permits were resolved.

4. The procedure for the payment of funds out of interim financing proceeds was double-checked with the Mountain Water District (the "District") and the RD, and it was ascertained that the District had established the "Mountain Water District Waterworks Construction Account" (the "Construction Account"), at Community Trust Bank, N.A., Pikeville, Kentucky (the "Depository Bank"), pursuant to Section 301 of the Bond Resolution..

Written approval of the Engineers will not be required for payment of items not under the jurisdiction of the Engineers, consisting of administrative costs such as legal fees, land acquisition and related items, in which instances such amounts shall be disbursed upon the issuance of a Requisition Certificate signed by the Chairperson with written approval of the RD.

To the extent that such amounts on deposit in the Construction Account exceed \$100,000 at any time, such Construction Account will be collateralized by a valid pledge of U.S. obligations.

The approving legal opinion of Bond Counsel as to interim financing was handed to the RD and Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky (the "Interim Financing Bank"), and a copy of same was placed in the Transcript.

5. An Operating and Management Plan had been prepared and approved by the District and approved by the RD, and a copy was obtained to be placed in the Transcript.

6. Evidence of the following had been or was obtained and placed in the Transcript:

- (a) Execution of Fidelity Bond of Treasurer.
- (b) Insurance, including real property insurance on above-ground structures, liability insurance, builders' risk insurance and Worker's Compensation.
- (c) Signing of color-coded map.

**FINAL TITLE OPINION
AS TO WATERWORKS PROJECT**

Re: Mountain Water District Waterworks Revenue Bonds, Series 2008, in the principal amount of \$650,000.

I, Daniel Stratton, Attorney at Law, Pikeville, Kentucky, representing the Mountain Water District of Pike County, Kentucky (the "District"), certify:

1. That I have investigated and ascertained the location of the various sites of major structures and installations, if any, to be constructed in connection with certain proposed extensions, additions and improvements (the "Project") to the existing waterworks system of the District (the "System"), together with all rights-of-way and easements necessary in connection with the construction of the Project and in connection with the continued ownership and operation of the System.

2. That I have examined the records of the ownership of said sites and I am of the opinion that said District now owns fee simple title to all of said sites and that said title is free and clear of all liens and encumbrances which might adversely affect the right of the District to the use of the same in operation of the System, subject to the encumbrances referred to in Paragraph 12 hereof.

3. That I have further examined the right-of-way instruments, permits and/or licenses obtained from landowners, public bodies and public utilities.

4. That I have taken cognizance of the fact that the District possesses the power of eminent domain which would enable it to perfect title to any pertinent easements and/or rights-of-way as to which its title might be defective, and that the cost of perfecting any such title is considered to be negligible in view of the fact that in virtually every instance the easement or right-of-way improves, rather than damages, the value of the property, by reason of bringing the System to such property; and accordingly, if and to any possible extent that the District does not have adequate title to such easements and/or rights-of-way for the purpose desired, the District can, in my opinion, obtain such easements and/or rights-of-way, either through negotiation or through the exercise of the power of eminent domain, without exceeding the funds available.

5. That I have examined the instruments creating the aforesaid easements and/or rights-of-way and that it is my opinion that said instruments are valid as to form and substance for the purpose intended, although I have not examined the title records as to each of such easements and/or rights-of-way and express only a limited opinion as to the title thereto, based on such limited examination as set out herein.

6. That based on and subject to the foregoing, I am of the opinion that the District now owns the necessary permanent rights-of-way and easements for ingress to and egress from the aforesaid sites and the necessary permanent rights-of-way and/or easements for water lines to and from said sites, connecting with the mains and lines extending throughout the System, and that the District has sufficient legal title and interest in said sites, rights-of-way and easements to permit the



Committed to the future of rural communities.

220 West First Street, Morehead, KY 40351
Telephone 606/784-6447; Fax 606/784-2076; TTY 859/224-7422

31

3/26/08

**Mr. Gary Larimore, Secretary/Treasurer
Kentucky Rural Water Finance Corporation
P.O. Box 1424
Bowling Green, Ky. 42102-1424**

**Re: Mountain Water District – Water Improvements Project
RD Commitment of Permanent Financing**

Dar Mr. Larimore:

Reference is made to a request from the Mountain Water District, Toni Akers, its Chairperson, for interim financing from the Kentucky Rural Water Finance Corporation to construct water system improvements at the interest rate and terms and conditions agreed upon, as reflected in the attached copy of your loan agreement.

This letter is to confirm certain understandings on behalf of the Rural Utility Service.

Final plans and specifications have been prepared and approved, bids have been taken, and the Mountain Water District is prepared to award the construction contract(s) to the qualified low bidder(s). It has been determined by the District and Rural Utility Service that the conditions of the loan and/or closing can be met.

Funds have been obligated for the project by the Rural Utility Service

It is proposed by Mountain Water District with the approval of Rural Utility Service that the Corporation advance funds in accordance with the agreed terms and conditions stated in your attached agreement, as needed to pay for construction and other authorized and legally eligible expenses incurred by the District, upon presentation of proper statements and work estimates approved by the District's authorized representative, and the authorized official of the Rural Utility Service.

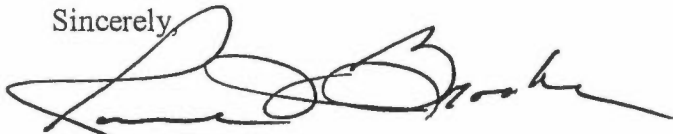
Before the Rural Utility Service loan is closed the District will also be required to provide Rural Utility Service with statements from the contractors, engineer and attorneys, that they have been paid to date in accordance with their contracts or other agreements and in the case of the contractor, that any suppliers and subcontractors have been paid.

We have scheduled the Rural Utility Service loan to be closed when construction to be financed with loan funds is substantially complete, so that funds will be available to pay off the total amount of advances your bank has made for authorized approved purposes, including accrued interest to the date of closing.

We appreciate your assistance to the community and look forward to working with you on this project.

If there are any questions, please call Ronnie Brooks of this office at (606)784-6447, Ext. 117.

Sincerely,



for JIMMY H. HALL
Area Director

Enclosures

cc: RD, State Director, Att: Community Programs
RD, Area Office File
Mountain Water District, P.O. Box 3157, Pikeville, KY 41502
Randy Jones, Rubin & Hays, 450 South Third Street, Louisville, KY 40202
Dan Stratton, Attorney at Law, P.O. Box 1530, Pikeville, KY 41502-1530
Holly Nicholas, O'Brien & Gere, 1019 Majestic Drive, Lexington, KY 40503
Nick Roederer, Morgan & Co., Inc. Aegon Center, 400 West Market St. Louisville,
KY 40202

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

OPINION OF BOND COUNSEL

March 26, 2008

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and Mountain Water District dated as of March 26, 2008

We hereby certify that we have reviewed and are familiar with the proceedings of Board of Commissioners (the "Governing Authority") of the Mountain Water District (the "Borrower"), in connection with the authorization, execution and delivery of a Loan Agreement between the Kentucky Rural Water Finance Corporation, (the "Corporation") and the Borrower, dated March 26, 2008 (the "Loan Agreement") and the form of the Loan Notes from the Borrower to the Corporation (the "Loan Note") evidencing the loan in the amount not to exceed \$650,000 being issued by the Corporation to the Borrower pursuant to the Loan Agreement and the Loan Note to provide interim financing (the "Loan") for the construction of a project (the "Project") consisting of improvements to the waterworks system of the Borrower (the "System"); and the proposed issuance of bonds by the Borrower in the amount of \$650,000, to be dated the date of the issuance thereof (the "Bonds") to repay the Loan and provide permanent financing for the Project.

Our examination of such proceedings included (a) the proceedings of the Governing Authority adopting a resolution authorizing the Loan Agreement (the "Resolution"); (b) the proceedings of the Governing Authority adopting legislation authorizing the Bonds (the "Bond Legislation"); and (c) the proceedings of the Governing Authority accepting the successful bid of the United States Department of Agriculture acting through Rural Development ("RD") for the purchase of the Bond.

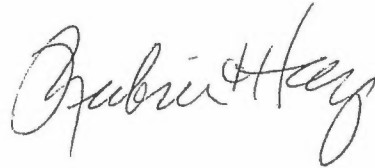
Based upon our examination of the aforesaid proceedings, we are of the opinion that the Borrower has a valid contract with RD, in which the Borrower has agreed to sell and RD has agreed to purchase Bonds at par, and that the Bonds, when issued in accordance with the aforesaid proceedings, will be valid and legally binding upon the Borrower and will be secured by and payable from a pledge of the gross revenues of the System.

Based upon our review of such proceedings and applicable laws, it is our opinion that the Loan Agreement has been validly authorized, executed and delivered by and on behalf of the Borrower.

The rights and remedies of the Corporation under the Loan Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, or similar laws, or judicial decisions affecting the rights of creditors generally, and by the application of equitable principles where equitable remedies are sought.

This opinion letter is issued to, and solely for the benefit and reliance of, the Corporation and may not be relied upon by any persons other than the Corporation.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Gabriel Heagy". The signature is written in dark ink and is positioned below the typed text "Respectfully Submitted,".

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OPINION OF COUNSEL

**Daniel Stratton, Esq.
Stratton, Hogg & Maddox, P.S.C.
P.O. Box 1530
Pikeville, Kentucky 41502-1530**

March 26, 2008

Kentucky Rural Water Finance Corporation
Bowling Green, Kentucky

Regions Bank
Nashville, Tennessee

Rubin & Hays
Louisville, Kentucky

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and Mountain Water District, dated as of March 26, 2008

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the Mountain Water District (the "Borrower"). I am familiar with the organization and existence of the Borrower and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the project (the "Project") with respect to which the Loan Agreement (the "Loan Agreement") by and between the Kentucky Rural Water Finance Corporation ("Corporation") and the Borrower is being authorized, executed and delivered and the Loan Notes (the "Loan Note") from the Borrower to the Corporation is being authorized, and which may be executed and delivered.

I have reviewed the form of Loan Agreement, the Loan Note, the resolution or ordinance of the Borrower authorizing the execution and delivery of said Loan Agreement and Loan Note and the plans, designs and specifications prepared by the Engineers for the Borrower with respect to the Project.

Based upon my review I am of the opinion that:

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

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UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
MOUNTAIN WATER DISTRICT WATERWORKS
REVENUE BOND ANTICIPATION NOTE

Dated: March 26, 2008

\$650,000

For value received, the Mountain Water District (the "Issuer"), acting by and through its Board of Commissioners (the "Governing Body"), hereby acknowledges itself indebted to and promises to pay to the order of:

KENTUCKY RURAL WATER FINANCE CORPORATION

the principal sum of

Six Hundred Fifty Thousand Dollars (\$650,000)

on the Loan Payment Date, with interest thereon payable on the Loan Payment Date (or prior prepayment) accruing from the date hereof at the Interest Rate (hereinafter defined); provided, however, that upon the assignment of this Note to the United States Department of Agriculture acting through Rural Development ("RD"), this Note shall immediately begin accruing interest at the interim financing loan rate then in effect for the Borrower, as published by RD. Capitalized terms not otherwise defined herein shall have the meaning ascribed in that certain Loan Agreement between the Borrower and the Payee, dated as of the date hereof. This Note may be prepaid without penalty on any Interest Payment Date, provided that, until this Note has been assigned to RD, the Borrower gives 30 days written notice thereof to the Corporation and the Trustee.

Both principal hereof and interest hereon are payable in lawful money of the United States of America by electronic fund transfer or by check or draft mailed to the registered owner at the address shown on the Borrower's registration book. Upon final payment, this Note shall be submitted to the Borrower for cancellation.

For the purpose of this Note, the terms set forth below shall be defined as follows:

"Adjusted Interest Rate" shall mean the interest rate per annum, adjusted from time to time on each Interest Payment Date, determined and calculated by the Issuer as the rate sufficient to generate Loan Payments which, together with Loan Payments payable by other borrowers in the Program and monies in the Program funds and accounts, will pay the principal of and interest on the Outstanding Notes on the following Interest Payment Date; provided however that the Adjusted Interest Rate shall not exceed the maximum rate of interest permitted by applicable law.

"Business Day" means any day other than a Saturday, a Sunday, or a day on which banking institutions in the State of Kentucky or the State of New York or the Office of the Trustee is closed as authorized or obligated by law or administrative order or a day on which the New York Stock Exchange is closed.

"Interest Rate" shall mean 4.05% per annum accruing from the date hereof to the first Interest Payment Date and, thereafter, the Adjusted Interest Rate.

"Interest Payment Date" shall mean the first Business Day of each April and October beginning on the date specified by the Payee.

"Remarketing Agent" shall mean Morgan Keegan & Company, Inc.

This Note is a special obligation of the Issuer, payable solely from the proceeds of the sale of the Mountain Water District Waterworks Revenue Bonds, (the "Bonds"), authorized by the Issuer. RD has agreed to purchase said Bonds. The proceeds of the Bonds and the income and revenues to be derived from the operation of the waterworks system of the Issuer (the "System") are hereby irrevocably pledged to the payment of this Note.

This Note is issued pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act") and in anticipation of the issuance of the aforesaid Bonds and the receipt of the aforesaid revenues.

It is further certified that the undersigned is an Authorized Officer of the Issuer, duly authorized to execute this Note on behalf of said Issuer, and that this Note represents a liability of said Issuer only, payable out of the proceeds and revenues, hereinabove mentioned, and that the undersigned, by executing this Note, does not become personally and/or individually liable hereon as a personal or individual debt.

IN WITNESS WHEREOF, the Issuer has caused this Note to be executed by the Authorized Officer, on the date of this Note, which is March 26, 2008.

Mountain Water District

By Joni Akers
Chairperson

(Seal of Issuer)

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT APPROVING AND AUTHORIZING A LOAN AGREEMENT WITH THE KENTUCKY RURAL WATER FINANCE CORPORATION

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

WHEREAS, the Governmental Agency desires the Kentucky Rural Water Finance Corporation (the "Corporation") to act as its agency and instrumentality for the purpose of providing monies to construct the Project and has made an application to the Corporation therefore; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into a Loan Agreement with the Corporation;

NOW, THEREFORE, BE IT RESOLVED by the Governing Authority of Mountain Water District, as follows:

SECTION 1. That the Governing Authority hereby requests to the Corporation to act as its agency and instrumentality in obtaining interim financing and hereby approves and authorizes the Loan Agreement between the Governmental Agency and the Corporation substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the Project and the Loan Note from the Governmental Agency to the Corporation in the amount not to exceed \$650,000.

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

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

Adopted on February 27, 2008.

MOUNTAIN WATER DISTRICT

By Joni Akers
Chairperson

Attest:

By John Collier
Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Mountain Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Governing Authority of said District at a meeting duly held on February 27, 2008; that said official action appears as a matter of public record in the official records or Journal of the Governing Authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.823; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this February 27, 2008.

John Collier
Secretary

TRANSCRIPT OF PROCEEDINGS

MOUNTAIN WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2005

DATED JUNE 22, 2007

91-33

IN THE PRINCIPAL AMOUNT OF \$1,650,000 (Lower Johnscreek)

TRANSCRIPT OF PROCEEDINGS INDEX

MOUNTAIN WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2005,

**DATED JUNE 22, 2007,
IN THE PRINCIPAL AMOUNT OF \$1,650,000**

PRE-FINANCING PROCEEDINGS

A. Creation of Mountain Water District

1. Opinion on Due Incorporation and Continued Existence of District.

B. Employment Agreements

2. Engineering employment requirements:
 - (a) Agreement for Engineering Services.
 - (b) Opinion as to Legal Sufficiency of Engineers' Contract.
3. Attorneys' employment requirements:
 - (a) Legal Services Agreement of Bond Counsel.
 - (b) Legal Services Agreement of Local Counsel.
 - (c) Minutes and Order of the District approving Legal Services Agreements.

C. Rural Development Conditions

4. RD Letter of Conditions.

D. Construction Documentation

5. Final Engineering Report.
6. Construction Bids and Awards:
 - (a) Affidavit of Publication of Advertisement.
 - (b) Opinion of Counsel Relative to Advertising for Construction Bids, Award of Contracts and Execution Thereof.

E. Public Service Commission Documentation

7. Public Service Commission:
 - (a) Application for Approval.
 - (b) Order granting Certificate of Public Convenience and Necessity.

PROCEEDINGS AUTHORIZING BONDS

8. Minutes of Meetings of the Board of Commissioners of the Mountain Water District, held on October 26, 2005 and November 8, 2005 authorizing the Bonds.
9. Bond Resolution.
10. PSC Approved Rules and Regulations.
11. PSC Rate Tariff.
12. Notice of Bond Sale.
13. Official Notice of Sale of Bonds.
14. Bid Form.
15. Affidavits of Publication of Notice of Bond Sale and Notice of Proposed Rate Change.
16. Bid of RD.
17. Resolution accepting successful bid of the RD for the purchase of the Bonds.
18. Letter of State Local Debt Officer of Kentucky as to compliance with KRS 66.045.

PRE-CLOSING PROCEEDINGS

A. District Certifications

19. Certificate as to Number of Users.
20. Certificate as to Official Seal, Incumbency and Signature Identification.
21. Certificate of No Litigation and of Outstanding Bond Issues.

B. Rural Development Certifications and Forms

- 22. Certificate of Bondowner as to Issuance of the Mountain Water District Waterworks Revenue Bonds, Series 2005 Ranking on a Parity with Other Bonds of the District.
- 23. Certificate of RD as to Insurance and Bonding.
- 24. RD Forms as follows:
 - (a) 400-1, Equal Opportunity Agreement.
 - (b) 400-3, Notice to Contractors and Applicant.
 - (c) 400-4, Assurance Agreement.
 - (d) 400-8, Compliance Review.
 - (e) 1927-9, Preliminary Title Opinion.
 - (f) 442-7, Operating Budget.
 - (g) 442-21, Right of Way Certificate.
 - (h) 442-22, Opinion of Counsel Relative to Rights of Way.
 - (i) 1910-11, Applicant Certification Federal Collection Policies for Consumer or Commercial Debts.
 - (j) 1940-1, Request for Obligation of Funds.
 - (k) 1780-27, Loan Resolution.
 - (l) AD-1047, Certification Regarding Debarment, Suspension and other Responsibility Matters - Primary Covered Transaction.
 - (m) AD-1049, Certification Regarding Drug-Free Workplace Requirements.

C. Interim Financing

- 25. Loan Agreement by and between the Kentucky Rural Water Finance Corporation and District.
- 26. Resolution of District Approving Loan Agreement.
- 27. Bond Anticipation Note Specimen.
- 28. Opinion of Local Counsel.
- 29. Opinion of Bond Counsel.
- 30. Letter of RD as to Commitment to Purchase Bonds.

D. Pre-Closing Documentation

31. Title Opinion (For Purposes of Pre-Closing).
32. Memo as to Pre-Closing.
33. List of Signatures of Persons Attending Pre-Closing.

CLOSING

A. District Certifications

34. Certificate as to Official Seal, Incumbency and Signature Identification.
35. Certificate of Execution, No Litigation and Outstanding Bond Issues.
36. Arbitrage Certificate.
37. Certificate of Receipt of Bond Proceeds and Bond Delivery.

B. Engineer Certifications

38. Certificate of Engineers.

C. Miscellaneous Documentation

39. Letters of Attorneys, Engineers and Contractors as to payments being made to date according to contracts and amounts stipulated.
40. Floodplain Resolution.
41. Letter of Morgan Keegan, Louisville, Kentucky as to amount owed at time of closing.

D. Opinions

42. Final Title Opinion.
43. Legal Opinion of Bond Counsel.

E. Closing Documentation and Bond Specimen

44. Bond Specimen and Certificate as to printing of Bond in accordance with RD requirements.
45. Rural Development Maturity Schedule.
46. Compliance with and Signing of RD closing instructions.
47. Memo as to Closing.
48. Internal Revenue Service Form 8038-G.
49. List of Signatures of Persons Attending Closing.

CLOSING - JUNE 22, 2007

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Water Project).

SIGNATURE

FIRM/COMPANY

RUBIN & HAYS
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

Brandy Jones

RONNIE BROOKS

USDA / PD

Terry Spears

MWD

John Collins

Wanuel P. Stutton

Shirley Hays MWD Secy RHC

Carmen Matthews

MWD

Paul Brown

MWD

Information Return for Tax-Exempt Governmental Obligations

▶ Under Internal Revenue Code section 149(e)
▶ See separate instructions.

OMB No. 1545-0720

Caution: If the issue price is under \$100,000, use Form 8038-GC.

Part I Reporting Authority		If Amended Return, check here <input type="checkbox"/>	
1 Issuer's name Mountain Water District	2 Issuer's employer identification number 61 1098805		
3 Number and street (or P.O. box if mail is not delivered to street address) P.O. Box 3157	Room/suite	4 Report number 3 07-02	
5 City, town, or post office, state, and ZIP code Pikeville, Kentucky 41502		6 Date of issue June 22, 2007	
7 Name of issue Mountain Water District Waterworks Revenue Bonds, Series 2005		8 CUSIP number None	
9 Name and title of officer or legal representative whom the IRS may call for more information Mr. Will Brown, Superintendent		10 Telephone number of officer or legal representative (606) 631-9162	

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11 <input type="checkbox"/> Education	11	
12 <input type="checkbox"/> Health and hospital	12	
13 <input type="checkbox"/> Transportation	13	
14 <input type="checkbox"/> Public safety	14	
15 <input type="checkbox"/> Environment (including sewage bonds)	15	
16 <input type="checkbox"/> Housing	16	
17 <input checked="" type="checkbox"/> Utilities	17	\$1,650,000
18 <input type="checkbox"/> Other. Describe ▶	18	
19 If obligations are TANs or RANs, check box <input type="checkbox"/> If obligations are BANs, check box <input type="checkbox"/>		
20 If obligations are in the form of a lease or installment sale, check box <input type="checkbox"/>		

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	January 1, 2045	\$ 1,650,000	\$ 1,650,000	25.85 years	4.125 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22	
23 Issue price of entire issue (enter amount from line 21, column (b))	23	1,650,000
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	18,000
25 Proceeds used for credit enhancement	25	
26 Proceeds allocated to reasonably required reserve or replacement fund	26	
27 Proceeds used to currently refund prior issues	27	
28 Proceeds used to advance refund prior issues	28	
29 Total (add lines 24 through 28)	29	18,000
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	1,632,000

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

31 Enter the remaining weighted average maturity of the bonds to be currently refunded ▶ _____ years

32 Enter the remaining weighted average maturity of the bonds to be advance refunded ▶ _____ years

33 Enter the last date on which the refunded bonds will be called ▶ _____

34 Enter the date(s) the refunded bonds were issued ▶ _____

Part VI Miscellaneous

35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) ▶ _____

36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions) ▶ _____

b Enter the final maturity date of the guaranteed investment contract ▶ _____

37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units ▶ _____

b If this issue is a loan made from the proceeds of another tax-exempt issue, check box and enter the name of the issuer ▶ _____ and the date of the issue ▶ _____

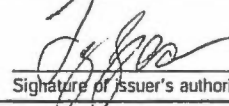
38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box

39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box

40 If the issuer has identified a hedge, check box

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Sign Here

▶  **June 22, 2007** ▶ **Terry Spears, Acting Chairperson**

Signature of issuer's authorized representative Date Type or print name and title



MEMO AS TO CLOSING

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the amount of \$1,650,000.

1. The closing took place on June 21, 2007, at 11:00 A.M., E.D.T., at the District's office in Pikeville, Kentucky, and each person present signed the List of Signatures.

2. Bond Counsel and the Rural Development (the "RD") District Director satisfied themselves that all of the requirements of the RD Letter of Conditions had previously been met or were being met at the time of the closing.

3. The letter of closing instructions of the Regional Attorney was checked, signed on page 3 by Local Counsel, Bond Counsel and the RD representative, and placed in the Transcript.

4. All matters relating to the necessary easements and Deeds had been resolved, and all such easements and Deeds had been obtained.

5. All necessary approvals of State agencies had been obtained and had been placed in the Transcript.

6. A letter had been obtained from the Engineers to the effect that no railroad easements or stream crossings were necessary in the construction of the project and such letter had been placed in the Transcript.

7. County road easements and all other necessary Highway Easements and Permits had been obtained, and evidence thereof was placed in the Transcript.

8. An Operating and Management Plan had been approved by the RD and executed by the District officials, and a copy had been obtained and placed in the Transcript.

9. The RD District Director executed a Certificate, verifying the number of existing waterworks users, the number of new users, and the deposit of connection fees paid by such new users, into certain funds of the District, and the Certificate had been placed in the Transcript.

10. Signed copies of certain RD Forms, as follows, were obtained and placed in the Transcript:

- (a) 400-1, Equal Opportunity Agreement.
- (b) 400-3, Notice to Contractors and Applicants.
- (c) 400-4, Assurance Agreement.
- (d) 400-8, Compliance Review.
- (e) 427-9, Preliminary Title Opinion as to each site.
- (f) 442-3, Balance Sheet
- (g) 442-7, Operating Budget.
- (h) 442-21, Right-of-Way Certificate.
- (i) 442-22, Opinion of Counsel Relative to Rights-of-Way.
- (j) 1940-1, Request for Obligation of Funds.
- (k) 1780-27, Loan Resolution.

To the extent that any of such RD Forms had been brought up to date, copies were obtained and placed in the Transcript.

11. The color-coded map had been signed by the Chairman, the Engineer and Local Counsel, and a copy of the relevant portion had been obtained and placed in the Transcript.

12. The fidelity bond of the Treasurer had been obtained as required by the RD Letter of Conditions and by the Bond Resolution, a copy had been examined, and evidence thereof was placed in the Transcript.

13. All necessary renewal insurance on the Project, including real property insurance on above-ground structures, liability and Worker's Compensation had been obtained, and such policies were examined, and evidence thereof was placed in the Transcript.

14. Bond Counsel's list of closing requirements, the Transcript Index, was checked, and it was found that all such requirements had been or were being complied with.

15. The Bond had been dated June 22, 2007, on the front, in the panel and opposite the registration form, and was signed by the Chairman of the District and by the Secretary, who affixed the District Seal to the Bond and also signed the registration form, after which the Legal Opinion on the Bond was signed by Bond Counsel.

16. The Bond was delivered to the RD in exchange for payment.

17. A statement was obtained from the Engineers showing the final total cost of the project, the funds available from the proceeds of the Bonds, the amount expended to date, the amounts due and owing to the Engineers, Attorneys, Contractors and others, as of the closing date, and other information necessary to show the adequacy of the available funds to pay all of the necessary costs of the Project, and said statement was placed in the Transcript.

19. The following closing papers, prepared by Bond Counsel and dated June 22, 2007, were properly executed and placed in the Transcript:

- (a) Certificate as to Official Seal, Incumbency and Signature Identification.
- (b) Certificate of Execution, No Litigation and Outstanding Bond Issues.
- (c) Arbitrage Certificate.
- (d) Certificate of Receipt of Bond Proceeds and Bond Delivery.
- (e) Certificate of Engineers.
- (f) Certificate of RD as to Insurance and Bonding.
- (g) Letters of Contractors, Engineers, Local Counsel and Bond Counsel as to payments being made to date according to Contracts and amounts stipulated.
- (h) Final Title Opinion.
- (i) Legal Opinion of Bond Counsel.
- (j) Letter of RD Regional Attorney, signed by all parties.
- (k) Signature Sheet.

20. The closing was considered completed.



1718 Peachtree Road, Suite 576
Atlanta, Georgia 30309
Telephone: 404 347-1060
Facsimile: 404 347-1065

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October 13, 2005

United States
Department of
Agriculture

Office of the
General
Counsel

Kenneth Slone
State Director
Rural Development
Lexington, Kentucky

Dear Mr. Slone:

Subject: Mountain Water District
RUS Loan - \$1,650,000.00
RUS Grant - \$600,000.00

These closing instructions are issued in response to your transmittal memorandum of September 19, 2005.

The purpose of this project is to provide potable water to approximately 332 households located in the Lower Johns Creek Area of Pike County. The proposed project consists of approximately 11 miles of 4" - 8" waterlines, two 20,000 gallon water storage tanks and two booster pump stations.

The submitted docket contains a certification from the District's attorney stating that the District is a legal entity which is still in existence. As reflected in the proposed Bond Transcript of Proceedings Index, a copy of the order creating the District will be included in the Bond Transcript.

The loan indebtedness is to be evidenced by "Mountain Waterworks Revenue Bonds, Series 2005, in the amount of \$1,650,000", which are secured by and payable from a third pledge of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Current Bonds as the same become due.

The District has retained local counsel Daniel Stratton of Pikeville, Kentucky, and bond counsel W. Randall Jones of Rubin and Hays in Louisville, Kentucky, to provide all legal assistance in the issuance of the above referenced bonds. Unless agreed to the contrary by said legal counsel, the responsibility for

preparation of the bond transcript will be that of bond counsel and all other documentation and requirements of these instructions will be that of local counsel.

The submitted proposed bond ordinance, as prepared by bond counsel, is of standard form and reflects the conditions set out above. The terms and amounts within the bond ordinance are to be administratively approved. Upon such approval, bond counsel may proceed with adoption of the ordinance as he deems appropriate.

The bond transcript is to be prepared in accordance with the requirements of RD Instructions, and in conjunction therewith, contain the applicable items of the suggested index as prepared by bond counsel. Bond Counsel is responsible for complying with Revised Article 9 and ensuring that the government has proper security in the Bonds. All requirements of Revised Article 9 of the Uniform Commercial Code must be satisfied.

The following points are noted:

A. The interest rate of 4.5% is in accordance with 7 U.S.C. §§ 1927 and 1927a, as amended.

B. The loan is to be issued in accordance with RD Instruction 1780 and, in particular, § 1780-D.

C. The submitted Loan Resolution, RUS Bulletin 1780-27, dated January 26, 2005, and providing for a \$1,650,000.00 loan and a \$600,000.00 grant has been properly prepared or executed.

D. The submitted Equal Opportunity Agreement, Form RD 400-1, and Assurance Agreement, Form RD 400-4, dated January 26, 2005, have been properly prepared and executed.

E. The docket is to contain a properly completed and executed Association Water or Sewer System Grant Agreement, Form RD 1942-31, dated on or subsequent to the date of the loan resolution.

F. Pending the issuance of the incumbency certificate at closing, the docket is to contain a certified list of the commissioners of the District showing their respective offices and terms.

G. The docket and transcript are to contain copies of the certificate of convenience and necessity from the Public Service Commission in accordance with the provisions of KRS 278.020.

H. The docket and transcript are to contain copies of the resolution and, if applicable, amendments thereto establishing the rates, rules and regulations of the system which have been approved administratively. Said rates are to be in accord with statutory requirements of the Public Service Commission as set out at KRS 278.030 and KRS 278.160 through KRS 278.190. The rates are to be published pursuant to KRS 424.270.

I. Property evidence has been submitted in the form of Preliminary Title Opinions describing existing fee simple and easement property vested in the District. One particular opinion expresses concern as to the proper owner of the property. We recommend that this point be clarified to the best of the examiner's ability prior to closing.

1) Should any additional real property be acquired, the docket is to contain title evidence thereon.

2) The docket and bond transcript are to contain a final title opinion inclusive of the date of closing as any property subsequently obtained. As bonds are being issued, such opinion is not to be prepared on Form RD 427-10, Final Title Opinion, as it is inappropriate.

J. The submitted Right-of-Way Certificate, Form RD 442-21, and Opinion of Counsel Relative to Rights-of-Way, Form RD 442-22, are to be discarded, and new forms are to be executed as of the date of closing.

All forms and documents to be executed on behalf of the District are to be signed by the chairman and attested by the secretary with the District seal affixed thereto. Please have each officer indicate his respective office under his signature.

All applicable requirements of RD Instructions 1780, the requirements of the national office and any other conditions must be complied with prior to or at the time of closing the loan.

The certificate below must be executed by the USDA closing officer and the attorney for the District after all requirements herein have been met.


For final approval, there are to be submitted to this office, after having been reviewed by the state office, the following:

1. Certified copies of resolution and any amendments as to rates, rules and regulations.
2. Loan Agreement, Form RUS Bulletin 1780-27.
3. Forms 400-1 and 400-4.
4. Grant Agreement, Form RD 1942-31.
5. Preliminary and final title opinions, as appropriate.
6. Right-of-Way Certificate and Opinion of Counsel Relative to Rights-of-Way, Forms RD 442-21 and 442-22.
7. Bond transcript.

8. Certified closing instructions.

Sincerely yours,

JARU RULEY
Acting Regional Attorney


Judith E. McKenzie-Abraham
Attorney

Enclosures


cc: W. Randall Jones, Esq.

JEMA/

CERTIFICATE

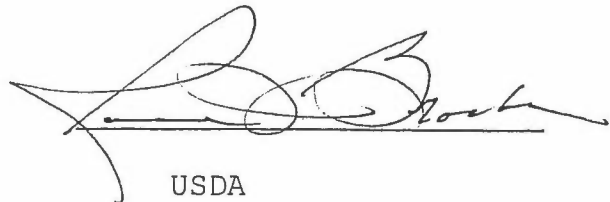
We certify that all requirements of these instructions
have been met.

Date: June 22, 2007.



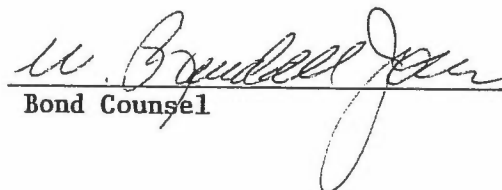
Attorney for the District

Date: June 22, 2007.



USDA

Date: June 22, 2007.



Bond Counsel

SAM A. BLYTHE, PRESIDENT
DAVID R. BLYTHE, VICE PRESIDENT

441
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502-585-4616
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502-585-1236

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June 20, 2007

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CERTIFICATE OF PRINTING

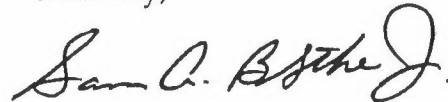
RE: Mountain Water District, Waterworks Revenue Bonds, Series 2005, in the amount of \$1,650,000. Nine (9) Bonds, all numbered R-1 and printed on green borders.

This certifies that the above mentioned Bonds have been prepared and printed by Westerfield-Bonte Co., and that all work on these Bonds has been executed entirely on the premises of Westerfield-Bonte Co.

This issue was printed in full compliance with requirements of the U.S. Department of Agriculture.

This also certifies that only the amount of Bonds shown above has been printed and delivered as instructed.

Sincerely,



Sam A. Blythe, Jr.
President
Westerfield-Bonte Co.

Job #89958
SAB/lms

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

June 22, 2007

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Water Project)

We have acted as Bond Counsel in connection with the issuance by the Mountain Water District of Pike County, Kentucky (the "District") of \$1,650,000 of its Mountain Water District Waterworks Revenue Bonds, Series 2005 (the "Current Bonds"), dated as of the date of this Legal Opinion, bearing interest at the interest rate specified in the Current Bonds, payable semiannually on January 1 and July 1 of each year, with principal amounts falling due on January 1 in each of the respective years, 2008 through 2045, inclusive.

Said Current Bonds are issued pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes and a Bond Resolution (the "Current Bond Resolution") duly adopted by the Commission of the District for the purpose of financing the cost of extensions, additions and improvements to the existing waterworks system (the "System") of the District.

We have examined the transcript of proceedings of the District in connection with the issuance of the Current Bonds and the executed single, fully registered bond, numbered R-1, representing the total authorized principal amount of said Current Bonds, as issued and delivered, and an executed counterpart of the Current Bond Resolution.

Based on such examination, we are of the opinion that the Current Bonds are valid and legally binding and enforceable upon the District according to the import thereof and rank on a parity as to security and source of payment with the outstanding: (i) Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994 (the "1993 Bonds") authorized by a Resolution adopted by the District on March 18, 1993 (the "1993 Bond Resolution"); (ii) Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995 (the "1995 Bonds") authorized by a Resolution adopted by the District on July 19, 1995 (the "1995 Bond Resolution"); (iii) Mountain Water District Waterworks Revenue Bonds, Series 1997, dated October 2, 1997 (the "1997 Bonds"), authorized by a Resolution adopted by the District on September 24, 1997 (the "1997 Bond Resolution"); (iv) Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999 (the "1998 Bonds"), authorized by a Resolution adopted by the District on October 28, 1998 (the "1998 Bond Resolution"); (v) Mountain Water District Waterworks Revenue Bonds, Series 2001, dated July 26, 2002 (the "2001 Bonds"), authorized by

a Resolution adopted by the District on October 31, 2001 (the "2001 Bond Resolution"); and (vi) Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004 (the "2004 Bonds"), authorized by a Resolution adopted by the District on April 28, 2004 (the "2004 Bond Resolution") [hereinafter the 1993 Bonds, the 1995 Bonds, the 1997 Bonds, the 1998 Bonds, the 2001 Bonds and the 2004 Bonds shall be collectively referred to as the "Prior Third Lien Bonds" and the 1993 Bond Resolution, the 1995 Bond Resolution, the 1997 Bond Resolution, the 1998 Bond Resolution, the 2001 Bond Resolution and the 2004 Bond Resolution shall be collectively referred to as the "Prior Third Lien Bond Resolution"]; but subject to the vested rights and priorities in favor of the owners of the outstanding: (i) Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988 (the "1988 Bonds"), authorized by a Resolution adopted by the District on February 25, 1988 (the "1988 Bond Resolution"); (ii) Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990 (the "1989 Bonds"), authorized by a Resolution adopted by the District on July 20, 1989 (the "1989 Bond Resolution"); (iii) Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992 (the "1990 Bonds"), authorized by a Resolution adopted by the District on January 10, 1991 (the "1990 Bond Resolution") [hereinafter the 1988 Bonds, the 1989 Bonds and the 1990 Bonds shall be collectively referred to as the "Prior First Lien Bonds" and the 1988 Bond Resolution, the 1989 Bond Resolution and the 1990 Bond Resolution shall be collectively referred to as the "Prior First Lien Bond Resolution"]; and the outstanding Kentucky Infrastructure Authority Loans issued in February, 1992, June, 1994, June, 1998, January, 2002 and June, 2002 (the "KIA Loans") and that the Current Bonds and the Prior Third Lien Bonds are secured by and are payable from a third pledge of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Prior Third Lien Bonds and the Current Bonds as the same become due. We express no opinion concerning the sufficiency of such revenues for that purpose.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with the Prior Third Lien Bonds and the Current Bonds, if necessary in order to complete the aforesaid extensions, additions and improvements to the System. The District has also reserved the right to issue additional parity bonds to finance future extensions, additions and/or improvements to the System, provided the necessary showings as to the earnings coverage required by the Prior Third Lien Bond Resolution and Current Bond Resolution are in existence and properly certified.

Based on current rulings and official interpretations, and assuming that the District complies with certain covenants contained in the Current Bond Resolution made with respect to compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), including a covenant to comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America as to certain investment earnings on the proceeds of the Current Bonds, we are of the opinion that: (1) interest on the Current Bonds is excludable from gross income for federal income tax purposes; (2) the Current Bonds have been validly designated as "qualified tax-exempt obligations" by the District pursuant to the provisions of Section 265(b)(3) of the Code; (3) the Current Bonds are an issue of "state or local bonds" which are not "private activity bonds" within the meaning of Section 103 of the Code; (4) interest on the Current Bonds is not included as an item of tax preference in calculating the alternative minimum tax for individuals; (5) interest on

the Current Bonds may be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the branch profits tax on foreign corporations, the effect on certain Subchapter S Corporations with excess passive income, and other tax consequences to certain insurance companies; (6) interest on the Current Bonds will be included in adjusted current earnings when calculating the alternative minimum taxable income of corporations; (7) an individual who owns any of the Current Bonds may be required to include in gross income a portion of his or her social security or railroad retirement payments; (8) any taxpayer (individuals or corporations) owning the Current Bonds may have collateral tax consequences if they are deemed to have incurred or have continued to incur indebtedness to purchase or carry tax-exempt obligations; (9) interest on the Current Bonds is exempt from Kentucky income taxes; and (10) the principal of the Current Bonds is exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

No opinion is expressed regarding other federal income tax consequences caused by the receipt of interest on the Current Bonds.

It is to be understood that the rights of the holders of the Current Bonds and the enforceability of the Current Bonds and the Current Bond Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter adopted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

It is provided in the Consolidated Farm and Rural Development Act that if the Current Bonds are sold out of the Agricultural Credit Insurance Fund or out of the Rural Development Insurance Fund as an insured loan, the interest thereon paid to an insured owner shall be included in the taxable income of such owner.

A handwritten signature in cursive script, appearing to read "Robert Hays". The signature is written in dark ink and is positioned in the lower right quadrant of the page.

42

**FINAL TITLE OPINION
AS TO WATERWORKS PROJECT**

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Water Project).

I, Daniel Stratton, Attorney at Law, Pikeville, Kentucky, representing the Mountain Water District of Pike County, Kentucky (the "District"), certify:

1. That I have investigated and ascertained the location of the various sites of major structures and installations, if any, to be constructed in connection with certain proposed extensions, additions and improvements (the "Project") to the existing waterworks system of the District (the "System"), together with all rights-of-way and easements necessary in connection with the construction of the Project and in connection with the continued ownership and operation of the System.

2. That I have examined the records of the ownership of said sites and I am of the opinion that said District now owns fee simple title to all of said sites and that said title is free and clear of all liens and encumbrances which might adversely affect the right of the District to the use of the same in operation of the System, subject to the encumbrances referred to in Paragraph 12 hereof.

3. That I have further examined the right-of-way instruments, permits and/or licenses obtained from landowners, public bodies and public utilities.

4. That I have taken cognizance of the fact that the District possesses the power of eminent domain which would enable it to perfect title to any pertinent easements and/or rights-of-way as to which its title might be defective, and that the cost of perfecting any such title is considered to be negligible in view of the fact that in virtually every instance the easement or right-of-way improves, rather than damages, the value of the property, by reason of bringing the System to such property; and accordingly, if and to any possible extent that the District does not have adequate title to such easements and/or rights-of-way for the purpose desired, the District can, in my opinion, obtain such easements and/or rights-of-way, either through negotiation or through the exercise of the power of eminent domain, without exceeding the funds available.

5. That I have examined the instruments creating the aforesaid easements and/or rights-of-way and that it is my opinion that said instruments are valid as to form and substance for the purpose intended, although I have not examined the title records as to each of such easements and/or rights-of-way and express only a limited opinion as to the title thereto, based on such limited examination as set out herein.

6. That based on and subject to the foregoing, I am of the opinion that the District now owns the necessary permanent rights-of-way and easements for ingress to and egress from the aforesaid sites and the necessary permanent rights-of-way and/or easements for water lines to and from said sites, connecting with the mains and lines extending throughout the System, and that the District has sufficient legal title and interest in said sites, rights-of-way and easements to permit the

construction of the necessary facilities thereon as heretofore completed and/or as now contemplated and to permit the operation and maintenance of such facilities thereon during the estimated life of such facility or facilities by the District after the completion of construction.

7. That the District has acquired the necessary permits, franchises and authorizations or other instruments by whatsoever name designated, from public utilities and public bodies, commissions or agencies, authorizing the construction, operation and maintenance of the facilities upon or across streets, roads, highways, railroads and public utilities, whenever and wherever the same are affected.

8. That a right-of-way map, as furnished by the District, shows the location and distribution of all land and rights-of-way acquired by the District and/or necessary to be acquired by the District in connection with the Project. Attention is called to certified copies of all deeds for said rights-of-way and easements over adjacent properties, for the purpose of ingress to and egress from said site locations; also the necessary permits from the Department of Highways of the Commonwealth of Kentucky and from Pike County, Kentucky, insofar as the same affect the roads, streets, highways and other properties belonging to them. These exhibits were furnished with a preliminary certificate and opinion (RD Form 442-22) in connection with the financing of the Project.

9. That in that connection, I have conferred with Summit Engineering, Inc., the Engineers employed by the District in connection with the Project, concerning the lines set out in said map and concerning the sites necessary, according to said Engineers, for the construction of the Project; that I have satisfied myself that I am thoroughly familiar with the lines and sites required by said map and by the Engineers for the construction of said Project, and that subject to possible exceptions as to title, referred to in Paragraph 2 hereof, I am satisfied that the District has obtained deeds of easements and/or rights-of-way and/or sites required by the District, as set out in said map, and according to information furnished to me by the Engineers, as being necessary for the construction of said Project. I have also discussed with the Engineers the need for being furnished prompt and accurate information as to the legal descriptions of any and all easements, rights-of-way and/or sites, as may be required in connection with any approved change-orders with reference to the Project which may be issued during the course of construction.

10. That the estate and interest of the District in such sites, easements and rights-of-way are legal and valid, and that all deeds, conveyances and documents pertaining to or evidencing ownership or other rights in any interests in land which will or may be utilized by or for the Project or which may be required in connection therewith have been duly recorded as required by law in the office of the Pike County Clerk in Pikeville, Kentucky.

11. That I have examined the various records of Pike County, and other pertinent proceedings, documents and showings and have consulted with officials of the District concerning the title of the District to its existing waterworks System; and that it is a matter of common knowledge and in no way controverted by such records that the District is the owner of its existing waterworks System.


12. That the title of the District to all of the sites, rights-of-way and/or easements referred to herein and to the existing System is encumbered by a lien on and an exclusive pledge of the revenues of the System, for the benefit of the owners of the outstanding bonds of an authorized issue of \$1,650,000 of Mountain Water District Waterworks Revenue Bonds, Series 2005 (the "Current Bonds"), which lien and pledge were created or made by the District as security for the issuance of said Current Bonds.

13. That there are no taxes or assessments now delinquent or becoming delinquent relative to or affecting any sites, easements and/or rights-of-way pertaining to the System.

14. That the Project has been and is being constructed in a manner which is consistent with the comprehensive area water plan, is in compliance with all applicable zoning laws, and is not inconsistent with any development plans of the Commonwealth of Kentucky, Pike County, or any multijurisdictional area in which the District is located.

15. That no controversy or litigation is pending, prayed or threatened, involving the creation, organization, existence or boundaries of the District, or the title of any of its officers to their respective positions, or the validity of the Current Bonds, as issued, or the power and authority of the District to construct the Project, to own and operate the System as a revenue-producing undertaking, and to provide and apply adequate revenues therefrom for the full and prompt payment of the principal of and interest on the Current Bonds and that none of the proceedings or authority for the issuance of the Current Bonds has been repealed, revoked, rescinded, modified, changed or altered in any manner.

IN TESTIMONY WHEREOF, witness my signature this June 22, 2007.



Daniel Stratton, Esq.
Attorney at Law
Pikeville, Kentucky

Morgan Keegan

Morgan Keegan & Company, Inc.
Suite 2050
AEGON Center
400 West Market Street
Louisville, Kentucky 40202
502/589-7979
WATS 800/260-0280

Members New York Stock Exchange, Inc.

June 22, 2007

Ms. Trish Varney
Mountain Water District
VIA FACSIMILE (606) 631-3087

RE: Mountain Water District, Kentucky Rural Water Finance Corporation Loans

Dear Ms. Varney:

This letter is regarding the loan payoff for the above referenced loans. Based on a payoff date of June 22, 2007, the amount due to the Kentucky Rural Water Finance Corporation is \$2,180,300.32.

	<u>Loan Payoffs</u>	
	<u>Loan #1</u>	<u>Loan #2</u>
Principal	\$1,466,618.01	\$635,000.00
Plus: Accrued Interest (1)	115,078.33	15,675.83
Less: Interest Earnings	<u>(47,744.57)</u>	<u>(4,327.28)</u>
Total	<u>\$1,533,951.77</u>	<u>\$646,348.55</u>

Total Payoff \$2,180,300.32

(1) Accrued Interest is calculated from November 28, 2005 through June 22, 2007 on Loan #1 and from December 15, 2006 through June 22, 2007 on Loan #2. Daily accrued interest equals \$300.28. If payment is not received on the above referenced payoff date, please add daily accrued interest to the total and notify me as soon as possible as to the new payoff date.

When USDA-RD Automatic Clearing House funds have been received by the District's Bank, the payoff amount (\$2,180,300.32) should be wired to Regions Bank at the following address no later than the established closing date:

Wire Payoff:
Regions Bank
Birmingham, Alabama
ABA#: 062-005-690
For Credit to Account# 0300000701, Trust Dept Checking
Reference: Kentucky Rural Water Finance Corporation
Attention: Mr. Wally Duke (615) 770-4359

Should you have any questions, please give me a call at (502) 560-1274. Thank you.

Sincerely,

/s/ Nick Roederer

Nick Roederer

Enclosure

cc: Mr. Ronnie Brooks – USDA – Rural Development – via electronic mail: ronnie.brooks@ky.usda.gov
Mr. Randy Jones – Rubin & Hays – via electronic mail: wrjones@rubinhays.com
Mr. Gary Larimore – KRWFC – via electronic mail: g.larimore@krwa.org
Mr. Wally Duke – Regions Bank – via electronic mail: wallace.duke@regions.com

Mountain Water District (Loan #1)						A-1 Note Issue	
Loan #238							
Start Date							11/28/05
End Date							06/22/07
Total Loan Amount							1,650,000.00
Month	Draws	Loan Rate	Interest	Balance	Inv. Rate	Earnings	
				1,650,000.00			
11/28/05	183,939.10	4.10%	0.00	1,466,060.90	3.65%	0.00	
12/28/05	10,836.86	4.10%	0.00	1,455,224.04	3.65%	4,459.27	
01/24/06	99,392.25	4.10%	0.00	1,355,831.79	3.65%	3,836.13	
02/17/06	77,768.63	4.10%	0.00	1,278,063.16	3.65%	3,161.72	
03/29/06	81,389.33	4.10%	0.00	1,196,673.83	3.65%	5,442.42	
04/02/06	0.00	4.10%	23,301.67	1,196,673.83	3.65%	363.99	
04/27/06	142,731.95	4.40%	0.00	1,053,941.88	4.73%	3,930.74	
06/02/06	210,284.17	4.40%	0.00	843,657.71	4.73%	4,846.67	
06/27/06	227,107.61	4.40%	0.00	616,550.10	4.73%	2,771.18	
07/31/06	186,237.95	4.40%	0.00	430,312.15	4.73%	2,754.27	
08/30/06	0.00	4.40%	29,846.67	430,312.15	4.73%	1,696.15	
08/30/06	1,239,573.65	4.60%	0.00	410,426.35	5.05%	0.00	
10/01/06	0.00	4.60%	0.00	410,426.35	5.05%	1,784.78	
12/01/06	0.00	4.60%	0.00	410,426.35	5.05%	3,454.42	
03/28/07	140,977.89	4.60%	0.00	269,448.46	5.05%	6,736.12	
04/02/07	0.00	4.60%	44,696.67	269,448.46	5.05%	151.19	
04/27/07	64,699.62	4.70%	0.00	204,748.84	4.95%	926.23	
06/01/07	41,252.65	4.70%	0.00	163,496.19	4.95%	957.20	
06/22/07	0.00	4.70%	17,233.33	163,496.19	4.95%	472.10	
	1,486,503.81		61,930.00			14,482.04	

Loan Payoff	1,533,951.77
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Mountain Water District (Loan #2)						A-1 Note Issue	
Loan #258							
Start Date						12/15/06	
End Date						06/22/07	
Total Loan Amount						650,000.00	
Month	Draws	Loan Rate	Interest	Balance	Inv. Rate	Earnings	
				650,000.00			
12/15/06	128,042.38	4.60%	0.00	521,957.62	5.05%	0.00	
01/10/07	28,523.23	4.60%	0.00	493,434.39	5.05%	1,830.48	
01/26/07	301,524.89	4.60%	0.00	191,909.50	5.05%	1,107.49	
03/01/07	119,652.42	4.60%	0.00	72,257.08	5.05%	942.22	
03/28/07	57,257.08	4.60%	0.00	15,000.00	5.05%	273.67	
04/02/07	0.00	4.60%	8,886.94	15,000.00	5.05%	8.42	
05/01/07	0.00	4.70%	0.00	15,000.00	4.95%	59.81	
06/22/07	0.00	4.70%	6,788.89	15,000.00	4.95%	105.19	
635,000.00			15,675.83			4,327.28	

Loan Payoff	646,348.55
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RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT REGARDING THE SERVICE OF FUTURE CUSTOMERS BUILDING STRUCTURES IN A DESIGNATED FLOODPLAIN.

WHEREAS, the Board of Commissioners (the "Commission") of the Mountain Water District (the "District"), is in the process of arranging to finance the construction of extensions, additions and improvements to the existing water system (the "System") of the District; and

WHEREAS, the Rural Development of the Department of Agriculture of the United States of America (the "RD") has conditionally agreed to purchase a bond issue of the District designated as "Mountain Water District Waterworks Revenue Bonds, Series 2005" (the "Bonds") in the principal amount of \$1,650,000; and

WHEREAS, the RD has issued a Letter of Conditions to the District (the "Letter of Conditions") which sets forth the requirements the District must meet in order for the RD to purchase the Bonds; and

WHEREAS, said Letter of Conditions requires the District to adopt a Resolution specifying that the District will deny water service to a future customer wishing to build on or develop property located within a designated floodplain, or in the alternative, the customer must provide evidence and a justification for approval by the District and RD officials that there are no other alternatives to construction or development within the designated floodplain.

NOW, THEREFORE, THE BOARD OF COMMISSIONERS OF THE MOUNTAIN WATER DISTRICT DOES RESOLVE AS FOLLOWS:

Section 1. Floodplain Restriction. That pursuant to the Letter of Conditions, the District hereby agrees that it will deny water service to any future customer wishing to build on or develop property within a designated floodplain, or in the alternative, such customer must provide evidence and a justification for approval by the District and RD officials that there are no other alternatives to construction or development within the designated floodplain. The District must be a participant in the National Flood Insurance Program and the customer or developer must obtain the required permits prior to the tap-on restrictions being waived.

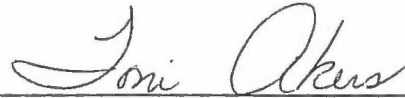
Section 2. Severability. That if any clause, provision, paragraph or section of this Resolution be ruled void or unenforceable by any court of competent jurisdiction, the remainder thereof is intended to be adopted and shall be in full force and effect notwithstanding.

Section 3. All Former Provisions in Conflict Repealed; Effective Date of Resolution.

That all resolutions, motions or parts thereof, insofar as same may be in conflict herewith, are repealed, and this Resolution shall take effect from and after its passage and approval as provided by law.

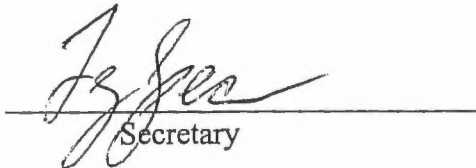
Adopted and approved on this October 26, 2005.

MOUNTAIN WATER DISTRICT



Chairperson

Attest:

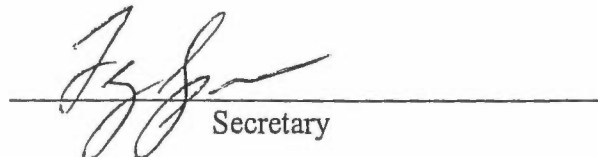

Secretary

CERTIFICATE OF SECRETARY

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Mountain Water District, that the foregoing Resolution is a true copy of a Resolution duly adopted by the District at a meeting held on October 26, 2005 and that said Resolution appears as a matter of public record in the official records of said District.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN WITNESS WHEREOF, I have hereto set my hand as Secretary of the District and the official Seal of the District on this October 26, 2005.


Secretary

(Seal of District)

H2O Construction Co., Inc.
91 Hillcrest Drive
Pikeville, Kentucky 41501

June 22, 2007

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Project).

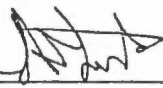
Dear Mr. Brooks:

The undersigned certifies that we have this date been paid by the Mountain Water District (the "District"), for all work performed by us in connection with a project (the "Project") consisting of extensions, additions and improvements to the existing waterworks system of the District, in accordance with our Contract with the District and in accordance with statements submitted by us to the District.

We further certify that all suppliers and subcontractors, if any, to whom payment was due from us in connection with such Project have been paid to date in full, in accordance with our contracts with them and in accordance with statements submitted to us by them.

Dated this June 22, 2007.

H2O Construction Co., Inc.

By  _____
Secretary _____
Title

PATRIOT CONSTRUCTION CO.
35 Darius Sullivan Road
Lick Creek, Kentucky 41540

June 22, 2007

Mr. Ronnie Brooks
Rural Development
230 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Project).

Dear Mr. Brooks:

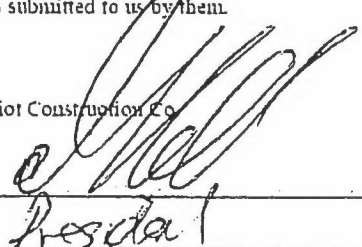
The undersigned certifies that we have this date been paid by the Mountain Water District (the "District"), for all work performed by us in connection with a project (the "Project") consisting of extensions, additions and improvements to the existing waterworks system of the District, in accordance with our Contract with the District and in accordance with statements submitted by us to the District.

We further certify that all suppliers and subcontractors, if any, to whom payment was due from us in connection with such Project have been paid to date in full in accordance with our contracts with them and in accordance with statements submitted to us by them.

Dated this June 22, 2007.

Patriot Construction Co.

By


Resda

Title

Stratton, Hogg & Maddox, P.S.C.
P.O. Box 1530
Pikeville, Kentucky 41502-1530

June 22, 2007

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Project).

Dear Mr. Brooks:

I have this date been paid by Mountain Water District (the "District") the sum of \$ 1552.35, which represents payment to me of 80% of all Basic Legal Fees and 90% of all Additional Legal Fees to which I am entitled for legal services rendered by me in connection with the financing and construction of extensions, additions and improvements to its existing waterworks system, in accordance with our Legal Services Agreement with the District and according to the amounts stipulated therein, leaving a balance of \$ 1029.38 to be paid to us when such construction is completed.



Daniel Stratton, Esq.

SUMMIT ENGINEERING, INC.
120 Prosperous Place, Suite 101
Lexington, Kentucky 40509

June 22, 2007

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Project).

Dear Mr. Brooks:

This is to certify that as of this date, we have been paid by the Mountain Water District (the "District"), the sum of \$ 251,469.00, which constitutes payment to us of all sums to which we are entitled for services rendered by us to date in connection with the construction of a project consisting of extensions, additions and improvements to the existing waterworks system of the District, according to our Agreement for Engineering Services with the District.

Dated this June 22, 2007.

Summit Engineering, Inc.

By 

Vice President

Title

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

June 22, 2007

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Project).

Dear Mr. Brooks:

We have this date been paid by the Mountain Water District (the "District") the sum of \$7,600.38, which, when added to the \$8,031.05 paid to us on November 8, 2005, represents payment to us of all sums to which we are entitled for legal services rendered by us in connection with the financing and construction of extensions, additions and improvements to the existing waterworks system of the District, in accordance with our Legal Services Agreement with the District, and according to the amounts stipulated therein.

Sincerely,

Rubin & Hays

By


W. Randall Jones

WRJ: jlm

CERTIFICATE OF ENGINEERS

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Water Project).

We, Summit Engineering, Inc., Pikeville, Kentucky, hereby state that we are Engineers experienced in the field of waterworks engineering and of recognized reputation in said field, and that we have been duly employed by the Mountain Water District of Pike County, Kentucky (the "District"), in connection with the preparation of plans, designs and specifications for the construction of extensions, additions and improvements (the "Project") to the existing waterworks system (the "System") of the District, which Project is being financed by the issuance of \$1,650,000 of Mountain Water District Waterworks Revenue Bonds, Series 2005 (the "Current Bonds") and other funds.

We state that we have consulted with Daniel Stratton, Esq., Pikeville, Kentucky (the "Local Counsel"), who has been employed by the District in connection with the Project, that we have examined (a) the attached "Final Title Opinion for Waterworks and Sewer Project" (the "Title Opinion"), signed by said Local Counsel, and the attached printed "Preliminary Title Opinion" (RD Form 1927-9), signed by said Local Counsel; (b) the separate "Opinion of Counsel Relative to Rights-of-way" (RD Form 442-22), signed by said Local Counsel; (c) the descriptions of the sites and easements referred to in said Title Opinion and in said RD Forms and (d) the right-of-way map specifically referred to in said Title Opinion, and we state further as follows:

1. That all of the sites of major structures and installations of the Project lie or will lie within the boundaries of the properties as to which the title of the District is certified in said Title Opinion and in said RD Forms, copies of which have been forwarded to us; and/or on the public rights-of-way for which a permit from the appropriate agency has been obtained.

2. That all of the remaining parts of the Project, have been, can and/or will be constructed, to the extent that such construction requires our approval (a) within the boundaries of the easements and rights-of-way established in said right-of-way map and/or (b) within the boundaries of the easements and rights-of-way which, according to the documents referred to above, have heretofore been obtained or contracted for by the District or can be obtained by the District by purchase or condemnation; or in the beds of highways, streets and alleys, or in other public ways duly dedicated to public use, and with respect to which the District has obtained the necessary permits and/or has the power and right to order said construction therein.

3. That the District has entered into contracts for the construction of the Project; that construction of the Project has proceeded with due diligence, and will continue to proceed hereafter to completion with due diligence; that construction of the Project will be completed within less than three years from said date of commencement of construction; and that it is reasonably anticipated that at least 95% of the funds available, i.e., spendable proceeds of the Current Bonds, will be expended on the costs of construction of the Project within less than three years from the date of delivery of the Current Bonds.

4. That we have conferred with said Local Council concerning the lines set out in said map and concerning the sites necessary for the Project and have satisfied ourselves that said Local Council has been informed by us and is aware of the need for obtaining (a) deeds of easement and/or rights-of-way as to all such easements and/or rights-of-way; and (b) deeds as to any and all sites deemed by us to be necessary in order to assure completion of the Project, as planned.

5. That we have also discussed with said Local Council our awareness of the need, if authorized by the District, to furnish said Local Council prompt and accurate information as to the legal descriptions of any and all easements, rights-of-way and/or sites, as may be necessary or required in connection with approved change-orders or other relocations which may be issued during the course of construction. We state that we will not knowingly approve construction of facilities of the Project on sites or in rights-of-way without first being assured by said Local Council that the appropriate legal title and/or legal right-of-way has been obtained.


6. That to the best of our knowledge, the Project has been and/or can be completed in accordance with the plans and specifications prepared and approved by us within the boundaries of the aforesaid sites, easements and/or rights-of-way, and, to the best of our knowledge, has been and/or can be completed in accordance with the construction contracts duly awarded by the District, at a cost which is within the funds made available to the District and by the District as set out above, based on the information available at this time and the projected final costs for the Project.

7. We certify that the prime Contractors from whom the District should obtain statements as to all work performed by such Contractors being paid for in full according to their contracts, at the time of delivery of the Current Bonds issued to finance the cost (not otherwise provided) of such Construction Project, are (i) B P Pipeline, HC 76, Box 838, Quincy, Kentucky 41166; and (ii) Patriot Construction, 35 Darius Sullivan Road, Lick Creek, Kentucky 41540.

8. That in our opinion there are structures in the one hundred (100) year flood plain in the current Project; however the elevations of said structures meet the regulations of the Division of Water as to construction in a flood plain.

IN TESTIMONY WHEREOF, witness our signature to the foregoing this June 22, 2007.

Summit Engineering, Inc.
Consulting Engineers

By 
Registered Professional
Engineer, State of Kentucky
No. 13 575

**CERTIFICATE OF RECEIPT OF BOND PROCEEDS
AND BOND DELIVERY**


Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Water Project).

The undersigned Acting Chairperson and Acting Secretary of the Mountain Water District (the "District") of Pike County, Kentucky, for and on behalf of said District, do hereby acknowledge receipt of a wire transfer from the Rural Development of the Department of Agriculture of the United States of America (the "RD"), in payment for the purchase and delivery of a certain single, fully registered Bond of said District, entitled "Mountain Water District Waterworks Revenue Bonds, Series 2005" (the "Current Bonds"), in the face amount of \$1,650,000, numbered R-1, dated the same date as the date of this Certificate.

We further certify that the Current Bonds have been lawfully issued and sold by the District and delivered to the purchaser on the date hereof.

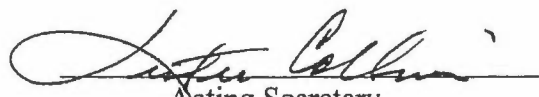
IN TESTIMONY WHEREOF, witness our official signatures and the corporate seal of said District on this June 22, 2007.

MOUNTAIN WATER DISTRICT

By 
Acting Chairperson

(Seal of District)

Attest:


Acting Secretary

ARBITRAGE CERTIFICATE

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Water Project).

1. General. (a) The undersigned is the Acting Chairperson of the Mountain Water District (the "Issuer") of Pike County, Kentucky.

(b) This Certificate is executed for the purpose of establishing the reasonable expectations of the Issuer as to future events regarding the Mountain Water District Waterworks Revenue Bonds, Series 2005 (the "Bonds") in the aggregate principal amount of \$1,650,000 authorized pursuant to a Resolution (the "Bond Resolution") adopted by the Board of Commissioners of the Issuer in order that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

(c) The Issuer has not been notified of any listing or proposed listing of the Issuer by the Internal Revenue Service as an issuer that may not certify its bonds.

(d) The undersigned is one of the officers of the Issuer delegated with the responsibility of issuing and delivering the Bonds.

(e) To the best of the knowledge, information and belief of the undersigned, the expectations contained in this Certificate are reasonable.

(f) The facts and estimates in this Certificate are based on representations made by Summit Engineering, Inc. (the "Engineers") employed by the Issuer to prepare the plans and specifications and to supervise the construction of the Project defined in Section 2 hereof. The Issuer is not aware of any facts or circumstances that would cause it to question the accuracy of the representations made by the Engineers.

2. Purpose of the Bonds. (a) The Bonds are being issued for the purpose of providing funds (not otherwise provided) (i) for the permanent financing of the costs of extensions, additions and improvements (the "Project") to the existing waterworks system (the "System") of the Issuer, and (ii) for the costs of issuance of the Bonds.

(b) Upon the completion of the acquisition, construction and equipping of the Project, the Project will be owned and operated by the Issuer.

3. Sources and Disbursement of Funds. The Bonds have been sold to Rural Development (the "RD") at par (\$1,650,000). The Bonds will be delivered to the RD on the date of this Certificate upon payment by the RD of such purchase price with no accrued interest. Accordingly, the net amount received by the Issuer from the sale of the Bonds will be \$1,650,000 (the "Net Proceeds").

(b) The Net Proceeds of the Bonds along with the other available moneys described above for the Project will be expended on the acquisition, construction, renovation, improvement and equipping of the Project and said moneys will be deposited in the Construction Fund (as defined in the Bond Resolution) for construction of the Project and for the payment of the costs of issuance of the Bonds.

(c) The Issuer has entered into a contract with a third party for the construction, renovation, improvements and equipping of the Project obligating an expenditure equal to or in excess of \$100,000.

(d) Such construction, renovation, improvement and equipping of the Project will proceed with due diligence to completion.

4. The Bonds. The receipts and disbursements with respect to the Bonds, including issuance costs and accrued interest, are or will be detailed in Requisition Certificates signed by the Issuer and the Engineers.

5. Construction Fund. Amounts deposited in the Construction Fund and earnings with respect to such amounts will be expended for the payment of the balance of costs of the Project prior to the date of completion of the Project. Pending such expenditure, such monies will be invested without restriction as to yield.

6. Sinking Fund. Money deposited in the Sinking Fund will be used to pay the principal of and interest on the Bonds, and the Issuer reasonably expects that there will be no other funds that will be so used. The Sinking Fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Money deposited in the Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the outstanding Bonds and, except for an amount equal to not more than the greater of (a) one-twelfth (1/12) of debt service requirements of the Bonds for the then ensuing year; or (b) one year's earnings on the Sinking Fund, the Sinking Fund will be depleted annually through such application for current debt service requirements of the Bonds. Amounts held in the Sinking Fund will be invested without being limited as to the maximum permissible rate of investment return.

7. Operation and Maintenance Fund. The Bond Resolution ratifies and confirms the creation of an Operation and Maintenance Fund. The moneys in the Operation and Maintenance Fund may be used to pay certain expenses related to the operation and maintenance of the System. Amounts deposited in the Operation and Maintenance Fund will not be reasonably expected to pay the principal of and interest on the Bonds. Amounts held in the Operation and Maintenance Fund will be invested without being limited as to the maximum permissible rate of investment return.

8. Depreciation Fund. (a) The Bond Resolution ratifies and confirms the creation of a Depreciation Fund. The moneys in the Depreciation Fund may be used to pay the costs of unusual or extraordinary maintenance, repairs, renewals and replacements to the System or of paying the cost

of constructing future extensions, additions and/or improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service.

(b) Moneys on deposit in the Depreciation Fund may be used, when necessary, for the purpose of making payments of principal and interest on the Bonds, but such amounts will not be reasonably expected to pay the principal and interest on the Bonds. There will be no assurance that such amounts will be available to meet debt service on the Bonds if the Issuer encounters financial difficulty. Amounts held in the Depreciation Fund will be invested without being limited as to the maximum permissible rate of investment return.

9. No Replacement. No portion of the amounts received from the sale of the Bonds will be used as a substitute for other funds which were otherwise to be used to finance the Project, and which have been or will be used to acquire, directly or indirectly, obligations producing a yield in excess of the yield on the Bonds.

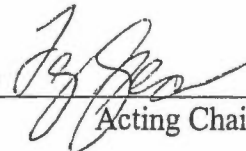
10. No Overissuance. Taking into account other available funds, the amount necessary to provide, or reimburse the Issuer, for payment of expenses of issuing and carrying the Bonds and financing the Project, equals or exceeds the Net Proceeds of the Bonds and income thereon.

11. No Other Obligations. No other governmental obligations have been or will be issued by the Issuer or any other entity (a) at substantially the same time as the Bonds (b) pursuant to a plan of financing common with that of the Bonds and (c) which either will be paid from substantially the same source of funds as the Bonds or will have substantially the same claim to be paid from substantially the same source of funds as the Bonds.

To the best of my knowledge and belief, there are no facts, estimates or circumstances other than those expressed herein that would materially affect the expectations herein expressed, and, to the best of my knowledge and belief, the Issuer's expectations are reasonable.

Dated June 22, 2007.

MOUNTAIN WATER DISTRICT

By  _____
Acting Chairperson

**CERTIFICATE OF EXECUTION, NO LITIGATION
AND OF OUTSTANDING BOND ISSUES**

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Water Project).

We, the undersigned, Acting Chairperson and Acting Secretary, do hereby certify that we are the officers of the Board of Commissioners (the "Commission") of the Mountain Water District (the "District"), constituting the governing body of said District, in Pike County, Kentucky.

1. That pursuant to all legal requirements, including the Bond Resolution duly adopted by said Commission, there have been heretofore lawfully authorized the negotiable "Mountain Water District Waterworks Revenue Bonds, Series 2005" (the "Current Bonds"), in the aggregate principal amount of \$1,650,000, in the form of fully registered bonds, as such purchaser(s) may determine, bearing interest from the date thereof, which is the same date as the date of this Certificate.

2. That pursuant to the provisions of said Bond Resolution, the purchaser thereof, Rural Development of the Department of Agriculture of the United States of America (the "RD"), duly elected to take delivery of said Current Bonds in the form of a single fully registered bond, representing the total authorized issue of Current Bonds, in the principal amount of \$1,650,000, dated as of the date of this Certificate, which is the date of delivery of and payment for said Current Bonds, payable to the registered owner (initially the RD), numbered R-1, bearing interest at the rate of 4.125% per annum. Interest on the Current Bonds is payable semiannually on January 1 and July 1, with principal installments being payable on January 1 in each of the respective years, 2008 through 2045, inclusive, as set out in the maturity schedule contained in said Bond Resolution.

3. That said Current Bond has been executed with the genuine signatures of the undersigned Chairperson and Secretary, with the corporate seal (the "Seal") of the District duly affixed to said Current Bond by one of us who was then and is now duly authorized to affix said Seal to said Current Bond, and that at that time, a true impression of said Seal was duly affixed to this Certificate at the place indicated below.

4. That on the date of execution of this Certificate we were, and now are, the duly appointed, qualified and acting officials indicated in this Certificate, and that we were and now are duly authorized to execute the same.


5. That said Current Bonds rank on a parity with the outstanding Prior Third Lien Bonds (as defined in the Current Bond Resolution), and are subject to the vested rights and priorities in favor of the owners of the Prior First Lien Bonds and the KIA Loans (as defined in the Current Bond Resolution).

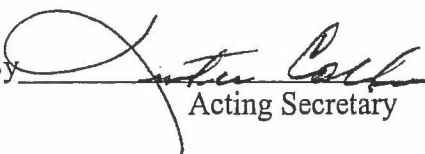
6. The Prior First Lien Bonds, KIA Loans, Prior Third Lien Bonds and the Current Bonds represent the only issues of bonds (the "Outstanding Bonds") or obligations of said District outstanding which by their terms are in any manner secured by or payable from the revenues of the District's waterworks system (the "System") as of the date hereof.

7. That no controversy or litigation is pending, prayed or threatened involving the creation, organization, existence or boundaries of said District, or the title of any of its officers to their respective positions, or the validity of the Current Bonds, or the power and authority of the District (1) to construct extensions, additions and improvements to its existing System; (2) to own and operate the System, including said extensions, additions and improvements as a revenue-producing undertaking; and (3) to provide and apply adequate revenues from the System for the full and prompt payment of the principal of and interest on the aforesaid Outstanding Bonds, on a parity, and for the cost of operation and maintenance of the System, and that none of the proceedings or authority for the issuance of said Current Bonds has been repealed, revoked, rescinded, modified, changed or altered in any manner.

IN TESTIMONY WHEREOF, we have hereunto affixed our respective official signatures and the Seal of said District, this June 22, 2007.

MOUNTAIN WATER DISTRICT

By 
Acting Chairperson

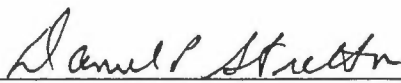
By 
Acting Secretary

(Seal of District)

CERTIFICATION OF ATTORNEY FOR DISTRICT

I, Daniel Stratton, Esq., hereby certify that I am Local Counsel for the Mountain Water District, that I have read the foregoing Certificate of Execution, No Litigation and of Outstanding Bond Issues, and that all of the facts stated therein are true to the best of my knowledge and belief.

Dated this June 22, 2007.

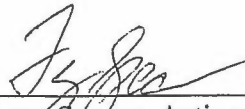
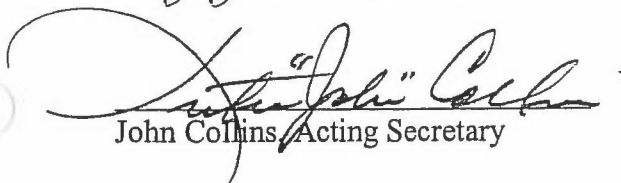

Daniel Stratton, Esq.
Pikeville, Kentucky

**CERTIFICATE AS TO OFFICIAL SEAL, INCUMBENCY
AND SIGNATURE IDENTIFICATION**

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000 (Lower John's Creek Water Project).

We, the undersigned Acting Chairperson and Acting Secretary of the Mountain Water District (the "District") of Pike County, Kentucky, do hereby certify that the Seal affixed below is the Official Seal of said District.

We further certify that we are the duly elected, qualified and acting officers of said District, as indicated by our signatures set out below; that the following signatures are our true and genuine signatures; and that our terms of office are as hereinafter set out:

<u>Signatures</u>	<u>Beginning of Term Date</u>	<u>Expiration of Term Date</u>
 _____ Terry Spears, Acting Chairperson	08/01/2002	07/31/2010
 _____ John Collins, Acting Secretary	08/01/2003	07/31/2010

We further certify that the other members of the Commission and their terms are as follows:

<u>Commissioner</u>	<u>Beginning of Term Date</u>	<u>Expiration of Term Date</u>
Mike Litafik	08/01/2005	07/31/2009
Toni Akers	08/01/2002	07/31/2007
Earl Sullivan	08/01/2005	07/31/2009

(Seal of District)

MEMO AS TO PRE-CLOSING

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000.

1. The pre-closing conference took place on November 8, 2005, at 11:00 A.M., E.S.T., at the District's office in Pikeville, Kentucky, and each person present signed the List of Signatures.

2. The requirements of the Rural Development (the "RD") Letter of Conditions and the Closing Instructions were discussed.

3. Matters pertaining to railroad crossings, County road easements, U.S. Highway easements and Kentucky Department of Transportation Utility Access Permits were resolved.

4. The procedure for the payment of funds out of interim financing proceeds was double-checked with the Mountain Water District (the "District") and the RD, and it was ascertained that the District had established the "Mountain Water District Waterworks Construction Account" (the "Construction Account"), at Community Trust Bank, N.A., Pikeville, Kentucky (the "Depository Bank"), pursuant to Section 301 of the Bond Resolution..

Written approval of the Engineers will not be required for payment of items not under the jurisdiction of the Engineers, consisting of administrative costs such as legal fees, land acquisition and related items, in which instances such amounts shall be disbursed upon the issuance of a Requisition Certificate signed by the Chairperson with written approval of the RD.

To the extent that such amounts on deposit in the Construction Account exceed \$100,000 at any time, such Construction Account will be collateralized by a valid pledge of U.S. obligations.

The approving legal opinion of Bond Counsel as to interim financing was handed to the RD and Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky (the "Interim Financing Bank"), and a copy of same was placed in the Transcript.

5. An Operating and Management Plan had been prepared and approved by the District and approved by the RD, and a copy was obtained to be placed in the Transcript.

6. Evidence of the following had been or was obtained and placed in the Transcript:

- (a) Execution of Fidelity Bond of Treasurer.
- (b) Insurance, including real property insurance on above-ground structures, liability insurance, builders' risk insurance and Worker's Compensation.
- (c) Signing of color-coded map.

**FINAL TITLE OPINION
AS TO WATERWORKS PROJECT**

Re: Mountain Water District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$1,650,000.

I, Daniel Stratton, Attorney at Law, Pikeville, Kentucky, representing the Mountain Water District of Pike County, Kentucky (the "District"), certify:

1. That I have investigated and ascertained the location of the various sites of major structures and installations, if any, to be constructed in connection with certain proposed extensions, additions and improvements (the "Project") to the existing waterworks system of the District (the "System"), together with all rights-of-way and easements necessary in connection with the construction of the Project and in connection with the continued ownership and operation of the System.

2. That I have examined the records of the ownership of said sites and I am of the opinion that said District now owns fee simple title to all of said sites and that said title is free and clear of all liens and encumbrances which might adversely affect the right of the District to the use of the same in operation of the System, subject to the encumbrances referred to in Paragraph 12 hereof.

3. That I have further examined the right-of-way instruments, permits and/or licenses obtained from landowners, public bodies and public utilities.

4. That I have taken cognizance of the fact that the District possesses the power of eminent domain which would enable it to perfect title to any pertinent easements and/or rights-of-way as to which its title might be defective, and that the cost of perfecting any such title is considered to be negligible in view of the fact that in virtually every instance the easement or right-of-way improves, rather than damages, the value of the property, by reason of bringing the System to such property; and accordingly, if and to any possible extent that the District does not have adequate title to such easements and/or rights-of-way for the purpose desired, the District can, in my opinion, obtain such easements and/or rights-of-way, either through negotiation or through the exercise of the power of eminent domain, without exceeding the funds available.

5. That I have examined the instruments creating the aforesaid easements and/or rights-of-way and that it is my opinion that said instruments are valid as to form and substance for the purpose intended, although I have not examined the title records as to each of such easements and/or rights-of-way and express only a limited opinion as to the title thereto, based on such limited examination as set out herein.

6. That based on and subject to the foregoing, I am of the opinion that the District now owns the necessary permanent rights-of-way and easements for ingress to and egress from the aforesaid sites and the necessary permanent rights-of-way and/or easements for water lines to and from said sites, connecting with the mains and lines extending throughout the System, and that the District has sufficient legal title and interest in said sites, rights-of-way and easements to permit the

construction of the necessary facilities thereon as heretofore completed and/or as now contemplated and to permit the operation and maintenance of such facilities thereon during the estimated life of such facility or facilities by the District after the completion of construction.

7. That the District has acquired the necessary permits, franchises and authorizations or other instruments by whatsoever name designated, from public utilities and public bodies, commissions or agencies, authorizing the construction, operation and maintenance of the facilities upon or across streets, roads, highways, railroads and public utilities, whenever and wherever the same are affected.

8. That a right-of-way map, as furnished by the District, shows the location and distribution of all land and rights-of-way acquired by the District and/or necessary to be acquired by the District in connection with the Project. Attention is called to certified copies of all deeds for said rights-of-way and easements over adjacent properties, for the purpose of ingress to and egress from said site locations; also the necessary permits from the Department of Highways of the Commonwealth of Kentucky and from Pike County, Kentucky, insofar as the same affect the roads, streets, highways and other properties belonging to them. These exhibits were furnished with a preliminary certificate and opinion (RD Form 442-22) in connection with the financing of the Project.

9. That in that connection, I have conferred with Kenvirons, Inc., the Engineers employed by the District in connection with the Project, concerning the lines set out in said map and concerning the sites necessary, according to said Engineers, for the construction of the Project; that I have satisfied myself that I am thoroughly familiar with the lines and sites required by said map and by the Engineers for the construction of said Project, and that subject to possible exceptions as to title, referred to in Paragraph 2 hereof, I am satisfied that the District has obtained deeds of easements and/or rights-of-way and/or sites required by the District, as set out in said map, and according to information furnished to me by the Engineers, as being necessary for the construction of said Project. I have also discussed with the Engineers the need for being furnished prompt and accurate information as to the legal descriptions of any and all easements, rights-of-way and/or sites, as may be required in connection with any approved change-orders with reference to the Project which may be issued during the course of construction.

10. That the estate and interest of the District in such sites, easements and rights-of-way are legal and valid, and that all deeds, conveyances and documents pertaining to or evidencing ownership or other rights in any interests in land which will or may be utilized by or for the Project or which may be required in connection therewith have been duly recorded as required by law in the office of the Pike County Clerk in Pikeville, Kentucky.

11. That I have examined the various records of Pike County, and other pertinent proceedings, documents and showings and have consulted with officials of the District concerning the title of the District to its existing waterworks System; and that it is a matter of common knowledge and in no way controverted by such records that the District is the owner of its existing waterworks System.

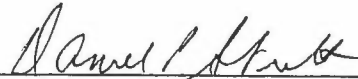
12. That the title of the District to all of the sites, rights-of-way and/or easements referred to herein and to the existing System is encumbered by a lien on and an exclusive pledge of the revenues of the System, for the benefit of the owners of the outstanding bonds of an authorized issue of \$1,650,000 of Mountain Water District Waterworks Revenue Bonds, Series 2005 (the "Current Bonds"), which lien and pledge were created or made by the District as security for the issuance of said Current Bonds.

13. That there are no taxes or assessments now delinquent or becoming delinquent relative to or affecting any sites, easements and/or rights-of-way pertaining to the System.

14. That the Project has been and is being constructed in a manner which is consistent with the comprehensive area water plan, is in compliance with all applicable zoning laws, and is not inconsistent with any development plans of the Commonwealth of Kentucky, Pike County, or any multijurisdictional area in which the District is located.

15. That no controversy or litigation is pending, prayed or threatened, involving the creation, organization, existence or boundaries of the District, or the title of any of its officers to their respective positions, or the validity of the Current Bonds, as issued, or the power and authority of the District to construct the Project, to own and operate the System as a revenue-producing undertaking, and to provide and apply adequate revenues therefrom for the full and prompt payment of the principal of and interest on the Current Bonds and that none of the proceedings or authority for the issuance of the Current Bonds has been repealed, revoked, rescinded, modified, changed or altered in any manner.

IN TESTIMONY WHEREOF, witness my signature this November 8, 2005.



Daniel Stratton, Esq.
Attorney at Law
Pikeville, Kentucky

*See attached
exception*

**ATTACHMENT TO FINAL TITLE OPINION
ON GEORGIA ADAMS, ET, AL, PROPERTY, DRY FORK
JOES CREEK, PIKE COUNTY, KENTUCKY**

The final title opinion on Georgia Adams, ET, AL, Property, Dry Fork Joes Creek, Pike County, Kentucky is subject to the following exception:

The reference deed in Deed Book 64, Page 539, as recorded on June 30, 1930 in the Pike County Court Clerk's Office is a deed to David Adams and J.D. Adams, Jr. Other than certain gas leases, this examiner could find no out conveyances of the surface by either J.D. Adams or David Adams, Jr. Neither was there an affidavit of decent or a will recorded for either person.

In a collateral document with Johns Creek Coal, which was a release that referenced the same source of title as referenced above, we discovered that the following individuals had interest as listed below:

Georgia Adams	3/8
Elizabeth Adams, deceased by Bill Maynard, Administrator	1/8
Tony Adams	1/8
James Adams	1/8
Larry Adams	1/8
Doran Kazee	1/8

Mountain Water District has obtained a right-of-way easement from all of the above named individuals. Based on interviews with these individuals it appears there were no affidavits of descents or wills for David Adams or J.D. Adams, nor was anyone interested in doing any. The tax bill goes to Georgia Adams. This examiner has no basis upon which to render an opinion that these individuals own the subject property, but it appears that they may. Accordingly, this opinion is limited by the provisions of this attachment. If, in the event, there are other heirs then Mountain Water District can condemn the property if they cannot obtain an easement. In the alternative the portable tank on the property can be relocated.

Robin Hay
30



**United States Department of Agriculture
Rural Development
Morehead Area Office**

November 8, 2005

Mr. Gary Larimore
Kentucky Rural Water Finance Corporation
P O Box 1424
Bowling Green, KY 42102-1424

RE: Mountain Water District
Rural Development Commitment of Permanent Financing

Dear Mr. Larimore:

Reference is made to a request from the Mountain Water District, Ms. Toni Akers, Chairperson, for interim financing from your bank to expand its water system at the interest rate and terms and conditions agreed upon, as reflected in the attached copy of your letter.

This letter is to confirm certain understandings on behalf of the USDA Rural Development.

Final plans and specifications have been prepared and approved, bids have been taken, and the District has awarded the contract to the qualified low bidder. It has been determined by the District and USDA Rural Development that the conditions of the loan closing can be met.

Funds in the amount of \$1,650,000.00 have been obligated for the project, as evidenced by the attached documentation.

It is proposed by the District with the approval of the USDA Rural Development that the Corporation advance funds in accordance with the agreed terms and conditions stated in your attached letter, as needed to pay for construction and other authorized and legally eligible expenses incurred by the District. It must be understood that advances of the interim loan funds will be made only upon presentation of proper statements and partial payment estimates prepared by the contractor, approved for payment by the District's engineer, their District's authorized representative, and the authorized official of the USDA Rural Development.

The loan will be scheduled for closing by USDA Rural Development when construction to be financed by the RD loan funds is substantially complete in accordance with the RD approved contract documents, drawings, and specifications. At that time, funds not exceeding the RD loan amount will

220 West First Street, Morehead, KY 40351
Phone: (606) 784-6447 • Fax: (606) 784-2076 • 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,
1400 Independence Avenue, SW, Washington, DC 20250-9410

be available to pay off the amount of loan advance your lending institution has made for authorized approved purposes, including accrued interest to the date of closing.

Prior to loan closing, the District will also be required to provide USDA Rural Development with statements from the contractors, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and subcontractors have been paid.

USDA Rural Development appreciates your assistance to the District and the community and looks forward to working with you on this project.

If there any questions, please contact Elwood Howe, Area Specialist at 606-784-6447, Ext. 112.

Sincerely,



for Jimmy H. Hall
Area Director

enclosure

cc: Rural Development State Director
ATTN: Community Programs
Mountain Water District
Rubin & Hays
Summit Engineers

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

OPINION OF BOND COUNSEL

November 8, 2005

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and the Mountain Water District, dated as of November 8, 2005

We hereby certify that we have reviewed and are familiar with the proceedings of the Board of Commissioners (the "Governing Authority") of the Mountain Water District (the "Governmental Agency"), in connection with the authorization, execution and delivery of a Loan Agreement between the Kentucky Rural Water Finance Corporation, (the "Corporation") and the Governmental Agency, dated November 8, 2005 (the "Loan Agreement") and the form of the Loan Notes from the Governmental Agency to the Corporation (the "Loan Note") evidencing the loan in the amount not to exceed \$1,650,000 being issued by the Corporation to the Governmental Agency pursuant to the Loan Agreement and the Loan Note to provide interim financing (the "Loan") for the construction of a project (the "Project") consisting of improvements to the waterworks system of the Governmental Agency (the "System"); and the proposed issuance of bonds by the Governmental Agency in the amount of \$1,650,000, to be dated the date of the issuance thereof (the "Bonds") to repay the Loan and provide permanent financing for the Project.

Our examination of such proceedings included (a) the proceedings of the Governing Authority adopting a resolution authorizing the Loan Agreement (the "Resolution") (b) the proceedings of the Governing Authority adopting legislation authorizing the Bonds (the "Bond Legislation"); and (c) the proceedings of the Governing Authority accepting the successful bid of the United States Department of Agriculture, Rural Development (the "RD") for the purchase of the Bonds.

Based upon our examination of the aforesaid proceedings, we are of the opinion that the Governmental Agency has a valid contract with the RD, in which the Governmental Agency has agreed to sell and RD has agreed to purchase Bonds at par, and that the Bonds, when issued in accordance with the aforesaid proceedings, will be valid and legally binding upon the Governmental Agency and will be secured by and payable from a pledge of the gross revenues of the System.

Based upon our review of such proceedings and applicable laws, it is our opinion that the Loan Agreement has been validly authorized, executed and delivered by and on behalf of the Governmental Agency.

The rights and remedies of the Corporation under the Loan Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, or similar laws, or judicial decisions affecting the rights of creditors generally, and by the application of equitable principles where equitable remedies are sought.

This opinion letter is issued to, and solely for the benefit and reliance of, the Corporation and may not be relied upon by any persons other than the Corporation.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Arthur & Hay".

28

OPINION OF COUNSEL

**Stratton, Hogg & Maddox, P.S.C.
P.O. Box 1530
Pikeville, Kentucky 41502-1530**

November 8, 2005

Kentucky Rural Water Finance Corporation
Bowling Green, Kentucky

The Bank of New York
Cincinnati, Ohio

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and the Mountain Water District dated as of November 8, 2005

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the Mountain Water District (the "Governmental Agency"). I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the project (the "Project") with respect to which the Loan Agreement (the "Loan Agreement") by and between the Kentucky Rural Water Finance Corporation ("Corporation") and the Governmental Agency is being authorized, executed and delivered and the Loan Notes (the "Loan Note") from the Governmental Agency to the Corporation is being authorized, and which may be executed and delivered.

I have reviewed the form of Loan Agreement, the Loan Note, the resolution or ordinance of the Governmental Agency authorizing the execution and delivery of said Loan Agreement and Loan Note and the plans, designs and specifications prepared by the Engineers for the Governmental Agency with respect to the Project.

Based upon my review I am of the opinion that:

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

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

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

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

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

(6) None of the proceedings taken by the Governmental Agency for the authorization, execution or delivery of the Loan Agreement or the Loan Note has or have been repealed, rescinded, or revoked.

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

Very truly yours,

David S. Street

27

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
MOUNTAIN WATER DISTRICT
WATERWORKS REVENUE BOND ANTICIPATION NOTE

Dated: November 8, 2005

\$1,650,000

For value received, the Mountain Water District (the "Issuer"), acting by and through its Board of Commissioners (the "Governing Body"), hereby acknowledges itself indebted to and promises to pay to the order of:

KENTUCKY RURAL WATER FINANCE CORPORATION

the principal sum of

ONE MILLION SIX HUNDRED FIFTY THOUSAND DOLLARS (\$1,650,000)

on or before September 1, 2006, with interest thereon payable on the date of maturity (or prior prepayment) from the date hereof at the Interest Rate (hereinafter defined).

This Note represents the authorized aggregate principal amount of \$1,650,000, authorized to be issued by the Issuer for the purpose of obtaining funds to finance on an interim basis the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system (the "System") of the Issuer, pending the issuance and delivery of \$1,650,000 of Mountain Water District Waterworks Revenue Bonds, (the "Bonds"), authorized by the Bond Resolution of the Governing Body of the Issuer (the "Bond Legislation"), the proceeds of which Bonds will be supplemented by certain federal grants (the "Grants") as set forth and accepted in the Bond Legislation. The United States of America, acting through Rural Development (the "RD"), has agreed to purchase said Bonds.

For the purpose of this Note, the terms set forth below shall be defined as follows:

"Adjusted Interest Rate" shall mean the interest rate per annum, adjusted from time to time on each Interest Rate Conversion Date, determined and calculated by the Remarketing Agent, that is necessary to cover the interest costs on the Notes and the administrative fees, expenses and costs of the Program, including but not limited to the costs incurred in issuing the Loan and the Notes issued to fund the Loan; provided however that the Adjusted Interest Rate shall not exceed 6.00% per annum.

"Business Day" means any day other than a Saturday, a Sunday, a day on which banking institutions in the State of Kentucky or the State of New York are required to be made or the principal corporate trust office of the Trustee is located are closed as authorized or obligated by law or administrative order or a day on which the New York Stock Exchange is closed.

"Interest Rate" shall mean 4.10% per annum accruing from the date of this Loan Agreement

to the next succeeding Interest Rate Conversion Date and thereafter from the Interest Rate Conversion Date to the earlier of the next succeeding Interest Rate Conversion Date or the Maturity Date at the Adjusted Interest Rate.

"Interest Rate Conversion Date" shall mean the first Business Day of each April and October beginning on the first Interest Rate Conversion Date succeeding the date of this Loan Agreement.

"Remarketing Agent" shall mean Morgan Keegan & Co., Inc.

This Note is a special obligation of the Issuer, payable solely from the proceeds of the sale of the Bonds, the proceeds of said Grants, and, from the income and revenues to be derived from the operation of said System, which Bond proceeds, Grants and revenues are hereby irrevocably pledged to the payment of this Note, as authorized by said Bond Legislation.

This Note is issued pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act") and in anticipation of the issuance of the aforesaid Bonds and the receipt of the aforesaid Grants and revenues, and neither this Note, nor the interest hereon, constitutes or evidences an indebtedness of the Issuer.

It is hereby certified that the proceeds of this Note will be disbursed in accordance with the Bond Legislation, authorizing the issuance of Bond Anticipation Notes, and that the proceeds of this Note will be subject to all of the conditions of said Bond Legislation.

It is further certified that the undersigned is the Chairperson of said Issuer, that he is duly authorized to execute this Note on behalf of said Issuer, and that this Note represents a liability of said Issuer only, payable out of the first proceeds of said sources, herein above mentioned, and that the undersigned, by executing this Note, does not become personally and/or individually liable hereon as his personal or individual debt.

IN WITNESS WHEREOF, said Mountain Water District, in the Commonwealth of Kentucky, by its Governing Body, has caused this Note to be executed by the Chairperson of said Issuer and its Corporate Seal to be hereunto affixed, on the date of this Note, which is November 8, 2005.

Mountain Water District

By Joni Akus
Chairperson

(Seal of Issuer)

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT APPROVING AND AUTHORIZING A LOAN AGREEMENT WITH THE KENTUCKY RURAL WATER FINANCE CORPORATION

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

WHEREAS, the Governmental Agency desires the Kentucky Rural Water Finance Corporation (the "Corporation") to act as its agency and instrumentality for the purpose of providing monies to construct the Project and has made an application to the Corporation therefore; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into a Loan Agreement with the Corporation;

NOW, THEREFORE, BE IT RESOLVED by the Governing Authority of Mountain Water District, as follows:

SECTION 1. That the Governing Authority hereby requests to the Corporation to act as its agency and instrumentality in obtaining interim financing and hereby approves and authorizes the Loan Agreement between the Governmental Agency and the Corporation substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the Project and the Loan Note from the Governmental Agency to the Corporation in the amount not to exceed \$1,650,000.

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

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

Adopted on October 26, 2005.

MOUNTAIN WATER DISTRICT

By Joni Akers
Chairperson

Attest:

By [Signature]
Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Mountain Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Governing Authority of said District at a meeting duly held on October 26, 2005; that said official action appears as a matter of public record in the official records or Journal of the Governing Authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.823; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 26th day of October, 2005.

[Signature]
Secretary

Russell Fork WTP
91-24

LOAN AGREEMENT

By and Between

KENTUCKY RURAL WATER FINANCE CORPORATION

and

MOUNTAIN WATER DISTRICT

dated November 8, 2001

LOAN AGREEMENT

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LOAN AGREEMENT

This Loan Agreement made and entered into as of the 8th day of November, 2001 (the "Loan Agreement") by and between the Kentucky Rural Water Finance Corporation, a non-profit corporation instrumentality of the various entities of the Commonwealth of Kentucky (the "Corporation") and the Mountain Water District (the "Governmental Agency"):

WITNESSETH

WHEREAS, the Corporation has established its Public Projects Construction Financing Program (the "Program") designed to provide financing of construction to governmental entities under which the Corporation has determined to issue under its Public Projects Construction Notes, Series 2000, dated August 1, 2000 (the "Notes") pursuant to a Trust Indenture dated as of August 1, 2000 (the Indenture") between the Corporation and The Fifth Third Bank, trustee (the "Trustee"), the net proceeds of which will be applied for the benefit of such governmental entities by making Loans, pursuant to Loan Agreements for Construction of their Projects, in order to provide a centralized source of interim construction financing and to reduce interest costs financing expenses of such governmental entities; and

WHEREAS, the Governmental Agency has obtained a commitment for Permanent Financing for its Project as hereinafter defined, from RD; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to acquire, construct, and finance the Project, and the Corporation has determined that the Project is a project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Corporation; and

WHEREAS RD has or will appropriate funds in amounts sufficient to enable it to honor said commitments for Permanent Financing of such Projects; and

WHEREAS, the Corporation has found and determined that the construction of the Project will be in furtherance of the purposes of the Corporation and the Governmental Agency under the Act; and

WHEREAS, pursuant to this Loan Agreement the Governmental Agency will proceed with the construction of the Project; and

WHEREAS, pursuant to this Loan Agreement the Governmental Agency will irrevocably assign to the Trustee, for the benefit of the Corporation, all right, title and interest in and to monies to be received pursuant to the Permanent Financing, which monies will be used by the Trustee to pay principal of and interest on the Notes; and

WHEREAS, the Corporation is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon

the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained; and

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

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

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. All of the terms utilized in this Loan Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Loan Agreement by reference, the same as if set forth hereby verbatim provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"*Act*" shall mean Chapter 58 of the Kentucky Revised Statutes, as amended.

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

"*Authorized Officer*" shall mean the President, Vice-President, Treasurer or Secretary of the Corporation, and any other of its members, officers, agents, or employees duly authorized by resolution of the Corporation to perform the act or sign the document in question.

"*Business Day*" shall mean any day other than a Saturday, Sunday or other legal holiday on which the main corporate trust office of the Trustee is closed.

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

"*Commitment Letter*" means the RD Commitment Letter evidencing the approval by RD of Permanent Financing for the Project.

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

"*Corporation*" shall mean the Kentucky Rural Water Finance Corporation, a non-profit corporation and an instrumentality of the Governmental Agency and other governmental entities.

"*Costs*" or "*Project Costs*" shall mean the costs of the Project as approved by RD including interest during the construction of the Project.

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

"*Governmental Agency*" shall mean any agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct, and operate a Project, including specifically but not by way of limitation, incorporated

cities, counties, sanitation districts, water districts, public authorities, sewer construction districts, metropolitan sewer districts, sanitation taxing districts, and any other agencies, commissions, districts, or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Loan Agreement shall mean the Governmental Agency identified in the Application.

"*Governmental Agency's Account*" shall mean the separate accounts within the Program Fund under the Indenture, established for each particular Project.

"*Indenture*" shall mean the Trust Indenture dated as of August 1, 2000, between the Corporation and the Trustee, outstanding to which the Notes have been issued and are secured.

"*Investment Earnings*" shall mean interest earned on amounts on deposit in the Governmental Agency's Account established for the Governmental Agency.

"*Loan*" shall mean the loan effected, pursuant to one or more draws, under this Loan Agreement from the Corporation to the Governmental Agency in the principal amount set forth in the Application, for the purpose of defraying the costs incidental to the Construction of the Project.

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

"*Loan Note*" shall mean the notes of the Governmental Agency to the Corporation dated as of their respective dates assigned to the Trustee representing the loan obligations of the Governmental Agency set forth in this Loan Agreement.

"*Loan Payment Date*" shall mean the Business Day agreed to by the Trustee which day shall be no more than three (3) Business Days after receipt by the Governmental Agency of the proceeds of the Permanent Financing.

"*Loan Payments*" shall mean all payments to the Corporation by the Governmental Agency under this Loan Agreement.

"*Maturity Date*" shall mean the Maturity Date for the Loan.

"*Note*" or "*Notes*" shall mean any of the Corporation's \$30,000,000 Public Projects Construction Notes, Series 2000, dated August 1, 2000.

"*Permanent Financing*" shall mean bonds issued by the Governmental Agency and delivered to RD as purchaser.

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

"*Program*" shall mean the Public Projects Construction Financing Program of the Corporation as distinguished from any other programs of the Corporation.

"*Project*" shall mean, when used generally, an infrastructure project as defined in the Act, and when used in specific reference to the Governmental Agency, the Project described in the Application.

"*RD*" means the Rural Development of the United States Department of Agriculture or its successors or assigns.

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

"*System*" shall mean the utility system owned and operated by the Governmental Agency of which the Project shall become a part.

"*Trustee*" shall mean The Fifth Third Bank, Cincinnati Ohio, and its successor or successors, and any other corporation acting at any time as Trustee under the Indenture.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

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

(A) The Corporation is a non-profit corporation and an instrumentality of the Governmental Agency and other governmental entities, has all necessary power and authority to enter into, and perform its obligations under, this Loan Agreement, and has duly authorized the execution and delivery of this Loan Agreement.

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

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

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

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

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

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

(C) This Loan Agreement and the Loan Note has been duly executed and delivered by the Governmental Agency and are valid and binding obligations of the Governmental Agency enforceable in accordance with their terms, except to the extent that the enforceability thereof may

be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

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

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

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

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

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

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

Section 2.3. Representations and Warranties of the Governmental Agency Concerning the Commitment Letter. The Governmental Agency additionally represents and warrants that the Governmental Agency has (i) received all approvals of RD required in connection with the Construction of the Project, (ii) received a commitment for Permanent Financing of its Project with presently obligated funds on or before the Maturity Date and (iii) if the Permanent Financing is to be provided by RD, sold its obligations representing the Permanent Financing to RD, as evidenced by an opinion of bond counsel.

Section 2.4. Representations Concerning the Permanent Financing. The Governmental Agency acknowledges and agrees that the Corporation has relied upon the establishment of the Permanent Financing by the Governmental Agency and RD, and that the Corporation and its officers, agents and employees have made an independent investigation thereof or otherwise attempted to verify the circumstances regarding the Permanent Financing. The Governmental Agency further represents to the Corporation that such Permanent Financing has been established by the Governmental Agency and RD with all due regard for the character and nature of the Project, including the potential impact of foreseeable occurrences that reasonably might be expected to delay the scheduled completion of the Project.

Section 2.5. Representations, Warranties and Covenants Concerning RD. If the Permanent Financing is to be provided by RD, the Governmental Agency further represents, warrants and covenants, as follows:

(A) The Governmental Agency is not in breach of or in default under any of the provisions of the loan documents or any instruments, proceedings or other documentation authorizing the issuance of or securing the payment of the Permanent Financing.

(B) The execution and delivery of the RD loan documents and the compliance with the provisions thereof, do not and will not in any material respect conflict with or constitute on the part of the Governmental Agency a breach of or default under any contract, agreement, instrument, indenture or proceedings or any law, regulation, court order or consent decree to which the Governmental Agency is now subject.

(C) The RD loan documents have been duly authorized, executed and delivered by the Governmental Agency and are valid and binding obligations of the Governmental Agency.

(D) The Permanent Financing has been duly authorized and sold to RD pursuant to law and shall constitute a valid and binding obligation of the Governmental Agency upon delivery to RD and the payment therefor in accordance with the terms of sale.

(E) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body known to be pending or threatened against the Governmental Agency in any way contesting or affecting any authority for the issuance of or the validity of the Permanent Financing or the RD loan documents or in any way adversely affecting the transactions contemplated thereby.

(F) The Governmental Agency will comply in all respects with the terms and provisions of the RD loan documents.

(G) The Governmental Agency will promptly remit, in accordance with the provisions of the RD loan documents, each disbursement from its Governmental Agency's Account to the person or persons to whom payment is then due and owing.

(H) The Governmental Agency will not unilaterally terminate, or enter into any agreement to terminate, any of the RD loan documents and will give to the Corporation and the Trustee prompt written notice, appropriately documented, of any amendment to or modification of any of the RD loan documents.

ARTICLE III

CORPORATION'S AGREEMENT TO MAKE LOAN; TERMS

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

Section 3.2. Principal Amount Of Loan Established; Loan Payments; Disbursement of Funds. The principal amount of the Loan shall be \$800,000 (the "Loan Amount"). Principal shall be paid in full on or before December 15, 2001 (the "Maturity Date"). The Loan shall bear interest at a per annum rate equal to 5.25%, and shall accrue on the outstanding principal amount of the Loan disbursed pursuant to one or more Loan Notes from the respective dates of disbursement and shall be payable on the Loan Payment Date. The Loan shall be evidenced by the execution by the Governmental Agency of the Loan Note and delivery and assignment thereof to the Trustee.

The proceeds of the Loan shall be deposited in a Governmental Agency's Account established for the Governmental Agency. The Corporation shall disburse amounts from such Governmental Agency's Account as Construction of the Project progresses upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto.

Payment of principal of the Loan shall be made at the principal corporate trust office of the Trustee on the Loan Payment Date, which date shall not be after the Maturity Date. In addition to the payment of principal of and interest on the Loan, the Governmental Agency shall pay to the Corporation all of the expenses and fees, including any share of investment earnings required to be rebated to the United States of America pursuant to the Code, arising from the making of the Loan by the Corporation to the Governmental Agency. ~~The Governmental Agency shall receive a credit against its payment of principal hereunder in an amount equal to (i) amounts remaining in its Governmental Agency's Account on the date the Loan is paid in full and (ii) Investment Earnings.~~

Section 3.3. Rebate to Governmental Agency. Within ninety (90) days following the payment in full of the Notes of the Corporation issued under the Indenture, the Corporation shall rebate or cause to be rebated to the Governmental Agency a portion of the monies remaining in the accounts held by the Trustee under the Indenture after repayment of or provision for repayment of all necessary fees, costs and expenses of the Trustee and the Administrative Costs of the Program (the "Rebate Amount"), on the following basis:

- (A) All interest paid on the Loans provided that if the remaining Rebate Amount is not sufficient to rebate all interest paid on all Loans, the rebate will be equal to the remaining Rebate Amount multiplied by a ratio whose numerator is the Governmental Agency's Loan amount and whose denominator is the total Loan amounts on all Governmental Agency's Accounts.

Section 3.4. Covenant Regarding Permanent Financing. The Governmental Agency does hereby separately covenant that if for any reason RD fails to provide the Permanent Financing by accepting delivery thereof on or before the Maturity Date, the Governmental Agency shall continue to pay interest on the Loan at the rate set forth in Section 3.2 from amounts in its Governmental Agency's Account or its own funds, as determined by the Corporation, and if RD has not purchased the Permanent Financing by December 15, 2001 retire the Loan on such date. Such retirement shall be effected from the proceeds of other temporary or Permanent Financing or other borrowing of whatever nature or from any other legally available funds of the Governmental Agency.

The Governmental Agency will give to the Corporation and the Trustee prompt written notice, appropriately documented, of any modification, suspension, termination, annulment or other change in status of the RD commitment for Permanent Financing. In such event the Corporation shall provide express written instructions to the Trustee specifically detailing to the Trustee the manner in which the duties of the Trustee under the Indenture will change as a result of such modification, suspension, annulment or other change.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan. By the execution of this Loan Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Loan made hereunder, the Governmental Agency shall supply the Corporation, if requested, appropriate documentation, satisfactory to the Corporation, in its sole discretion, indicating the following:

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

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

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

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

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

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

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

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

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

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

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

(L) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers to the Governmental Agency and approved by state and federal agencies, but only to the extent such approvals may be required.

(M) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Corporation noting the participation of the Corporation in the financing of the Project.

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

(O) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the Project sites and the costs of Construction. The Governmental Agency shall permit the Corporation, acting by and through its duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records

relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Corporation such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state grants.

(P) The Governmental Agency shall require that any bid for any portion of the Construction of the Project be accompanied by a bid bond, certified check or other negotiable instrument payable to the Governmental Agency, as assurance that the bidder will, upon acceptance of such bid, execute the necessary contractual documents within the required time.

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

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

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

Section 4.2. Disbursements of Loan; Requisition for Funds. The Governmental Agency shall submit to the Trustee a Loan Note and a Requisition for Funds during the first five days of each month (or such other designated period as is acceptable to the Trustee). The Loan Note shall be in substantially the same form as that attached to this Loan Agreement as Exhibit C and made a part hereof and the Requisition of Funds shall be in substantially the same form as that attached to this Loan Agreement as Exhibit B and made a part hereof.

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

ARTICLE V

ASSIGNMENT AND GENERAL COVENANTS OF THE GOVERNMENTAL AGENCY

Section 5.1. Pledge and Assignment. The Governmental Agency does hereby irrevocably assign and pledge to the Corporation and its successors or assigns, for the benefit of the owners of all Notes issued under the Indenture, all right, title and interest of the Governmental Agency in and to the proceeds of the Permanent Financing and all monies to be received from RD, as applicable, pursuant to RD's expressed intention to provide Permanent Financing for the Project. The Governmental Agency acknowledges and agrees that the Corporation pursuant to the Indenture has assigned and pledged to the Trustee for the benefit and security of the owners of the Notes all of its rights under the provisions of this Loan Agreement and the Loan Note. Accordingly, this Loan Agreement shall not be terminated, modified or changed by the Corporation or the Governmental Agency except with the consent of the Trustee in the manner and subject to the conditions permitted by the terms and provisions of the Indenture.

Section 5.2. Further Assurance. At any time and all times the Governmental Agency shall, so far as it maybe authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 5.3. Completion of Project. The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency so that the Permanent Financing can be delivered on or prior to the Maturity Date.

Section 5.4. Tax Covenant. The Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Corporation in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Corporation. The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 5.5 Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Project, which shall at all reasonable times be subject to the inspection of the Corporation.

Section 5.6. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of any agreements regarding the Permanent Financing and under any provisions of the Act and this Loan Agreement in accordance with the terms of such provisions.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

Section 6.1. Events of Default Defined. The following will be "Events of Default" under this Loan Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Loan Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any Loan payments at the times specified herein including the principal and interest due on the Loan Note.

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

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

Section 6.2. Remedies on Default. Whenever any Event of Default referred to in Section 6.1 has occurred and is continuing, the Corporation may, without any further demand or notice, take one or any combination of the following remedial steps:

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

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

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

Section 6.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of Judicial proceedings to enforce the rights of the Corporation under this Loan Agreement, the Corporation shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Corporation may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 6.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 6.5. Consent to Powers of Corporation Under Act and this Loan Agreement. The Governmental Agency hereby acknowledges to the Corporation its understanding of the provisions of the Act and this Loan Agreement, vesting in the Corporation certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Corporation should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Corporation in the due and prompt implementation of this Loan Agreement.

Section 6.6. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 6.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto is in default under any of the provisions hereof and the nondefaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the nondefaulting party the fees of such attorneys and such other expenses so incurred by the nondefaulting party.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.1. Approval not to be Unreasonably Withheld. Any approval of the Corporation required by this Loan Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Corporation, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Loan Agreement requiring the approval of the Corporation or the satisfaction or the evidence of satisfaction of the Corporation shall be interpreted as requiring action by an authorized officer of the Corporation granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 7.2. Effective Date. This Loan Agreement shall become effective as of the date first set forth herein above and shall continue to full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Loan Agreement have been fully satisfied.

Section 7.3. Binding Effect. This Loan Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Loan Agreement shall not be revocable by either of the parties, nor assignable by either parties without the written consent of the other party.

Section 7.4. Severability. In the event that any provision of this Loan Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

~~**Section 7.5. Execution in Counterparts.** This Loan Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.~~

Section 7.6. Applicable Law. This Loan Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 7.7. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

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

KENTUCKY RURAL WATER FINANCE
CORPORATION

By _____

Title _____

MOUNTAIN WATER DISTRICT

By *Joni Akers*
Chairperson

EXHIBIT A

**KENTUCKY RURAL WATER FINANCE CORPORATION
PUBLIC PROJECTS INTERIM CONSTRUCTION FINANCING**

APPLICATION FOR INTERIM FINANCING FOR RD LOANS

Governmental Entity:

Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____ Fax Number: _____

Project Engineer:

Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____ Fax Number: _____

RD District Loan Officer:

Name: _____

Address: _____

Telephone Number: _____ Fax Number: _____

Bond Counsel:

Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____ Fax Number: _____

Brief Description of Project: _____

Date of RD Letter of Conditions: _____

Amount of Interim Financing Requested: _____

Estimated Date of Construction Commencement (RD Pre-Closing): _____

Estimated Date of Construction Completion: _____

Estimated Date of RD Final Closing: _____

Depository Bank for Construction Account:

Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____ Fax Number: _____

Wire Instructions (if known): _____

Please return application and RD Letter of Conditions to:
Kentucky Rural Water Finance Corporation
3251 Spring Hollow Avenue
Bowling Green, Kentucky 42102-1424

EXHIBIT B

**REQUEST FOR PAYMENT WITH RESPECT TO
KENTUCKY RURAL WATER FINANCE CORPORATION
(PUBLIC PROJECTS CONSTRUCTION FINANCING PROGRAM)**

Request No. _____

Dated _____

To: Fifth Third Bank
Corporate Trust Administration
Mail Drop 1090D2
38 Fountain Square Plaza
Cincinnati, Ohio 45263
Fax Number: (513) 744-6785

From: _____ ("Governmental Agency")

Contact Person: _____

Address: _____

Ladies and Gentlemen:

The above identified Governmental Agency has entered into a Loan Agreement with the _____ Kentucky Rural Water Finance Corporation (the "Corporation") for the acquisition and construction _____ of facilities described in the Loan Agreement as the "Project."

Pursuant to the Loan Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Corporation's funding share of these expenses is in the amount so denoted in this request totaling \$ _____ and is set forth in Exhibit A attached hereto.

Respectfully submitted,

Governmental Agency

By _____

Title _____

Certificate of Consulting Engineers as to
Payment Request

The undersigned, a duly qualified and licensed Engineer hereby certifies that he or she represents the Governmental Agency submitting this request and that all expenses represented in this request were duly incurred for the Construction of the "Project," and that such expenses have not been the subject of any request for disbursement previously submitted.

Engineer/Consultant

Firm Name _____

By _____

Title _____

APPROVED:

Rural Development

By _____

Title _____

EXHIBIT C

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY

REVENUE BOND ANTICIPATION NOTE

Dated: _____ \$ _____

For value received, the _____ (the "Issuer"), acting by and through its _____ (the "Governing Body"), hereby acknowledges itself indebted to and promises to pay to the order of:

KENTUCKY RURAL WATER FINANCE CORPORATION

the principal sum of

_____ (\$ _____)

on or before December 15, 2001, with interest thereon payable on the date of maturity (or prior prepayment) from the date of any respective disbursements hereunder at the rate of 5.25% per annum.

This Note represents the authorized aggregate principal amount of \$ _____, authorized to be issued by the Issuer for the purpose of obtaining funds to finance on an interim basis the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing _____ system (the "System") of the Issuer, pending the issuance and delivery of \$ _____ of _____ Revenue Bonds, (the "Bonds"), authorized by the Bond _____ of the Governing Body of the Issuer, adopted on _____, _____ (the "Bond Legislation"), the proceeds of which Bonds will be supplemented by (a) certain federal grants (the "Grants") as set forth and accepted in the Bond Legislation and (b) certain connection charges. The United States of America, acting through its Rural Development (the "RD"), has agreed to purchase said Bonds.

Disbursements of the proceeds of this Note shall be made in accordance with the Loan Agreement by and between the Issuer and the Kentucky Rural Water Finance Corporation dated the date hereof and by the execution by the Issuer of one or more Disbursement Notes in the form attached hereto as Exhibit A. Interest shall accrue on the amount of the disbursed proceeds from the date of said disbursement until the date of maturity of this Note.

This Note is a special obligation of the Issuer, payable solely from the proceeds of the sale of the Bonds, the proceeds of said Grants, and, from the income and revenues to be derived from the operation of said System, which Bond proceeds, Grants and revenues are hereby irrevocably pledged to the payment of this Note, as authorized by said Bond Legislation.

This Note is issued pursuant to Chapters 58 and _____ of the Kentucky Revised Statutes (the "Act") and in anticipation of the issuance of the aforesaid Bonds and the receipt of the aforesaid Grants and revenues, and neither this Note, nor the interest hereon, constitutes or evidences an indebtedness of the Issuer.

It is hereby certified that the proceeds of this Note will be disbursed in accordance with the Bond Legislation, authorizing the issuance of Bond Anticipation Notes, and that the proceeds of this Note will be subject to all of the conditions of said Bond Legislation.

It is further certified that the undersigned is the _____ of said Issuer, that he is duly authorized to execute this Note and all Disbursement Notes on behalf of said Issuer, and that this Note represents a liability of said Issuer only, payable out of the first proceeds of said sources, herein above mentioned, and that the undersigned, by executing this Note or any Disbursement Note, does not become personally and/or individually liable hereon as his personal or individual debt.

IN WITNESS WHEREOF, said _____, in the Commonwealth of Kentucky, by its Governing Body, has caused this Note to be executed by the _____ of said Issuer and its Corporate Seal to be hereunto affixed, on the date of this Note, which is _____, 20____.

By _____

Title _____

(Seal of Issuer)

Exhibit A to Master Note

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY

REVENUE BOND ANTICIPATION NOTE

DISBURSEMENT NOTE

No. _____

\$ _____

For value received, the _____ (the "Issuer"), acting by and through its _____ (the "Governing Body"), and pursuant to the Issuer's _____ Revenue Bond Anticipation Note, dated _____, _____, in the aggregate principal amount of \$ _____ (the "Master Note"), requests the disbursement of \$ _____, which when added to the previous disbursements made pursuant to the Master Note represents a total disbursement made as of the date of this Disbursement Note in the sum of \$ _____.

The Issuer hereby acknowledges itself indebted to and promises to pay to the order of Kentucky Rural Water Finance Corporation the amount disbursed hereunder and any other amounts disbursed under the Master Note, on or before the date of maturity of the Master Note, with interest payable on the amount disbursed hereunder from the date of this Disbursement Note at the rate set forth in the Master Note.

~~This Disbursement Note shall be subject to the terms and provisions of the Master Note.~~

IN WITNESS WHEREOF, said Issuer, by its Governing Body, has caused this Note to be executed by the Issuer and its Corporate Seal to be hereunto affixed, on the date of this Disbursement Note, which is _____.

By _____

Title _____

EXHIBIT D

RESOLUTION _____

RESOLUTION OF THE _____ APPROVING AND
AUTHORIZING A LOAN AGREEMENT WITH THE KENTUCKY RURAL
WATER FINANCE CORPORATION

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

WHEREAS, the Governmental Agency desires the Kentucky Rural Water Finance
Corporation (the "Corporation") to act as its agency and instrumentality for the purpose of providing
monies to construct the Project and has made an application to the Corporation therefore; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter
into a Loan Agreement with the Corporation;

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

SECTION 1. That the Governing Authority hereby requests to the Corporation to act as its
agency and instrumentality in obtaining interim financing and hereby approves and authorizes the
Loan Agreement between the Governmental Agency and the Corporation substantially in the form
~~on file with the Governmental Agency for the purpose of providing the necessary financing to the~~
Governmental Agency for the Project and the Loan Note from the Governmental Agency to the
Corporation in the amount not to exceed \$_____.

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

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

Adopted on _____.

By _____

Title _____

Attest:

By _____

Title _____

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting _____ of _____; that the foregoing is a full, true and correct copy of a Resolution adopted by the Governing Authority of _____ at a meeting duly held on _____, 20__; that said official action appears as a matter of public record in the official records or Journal of the Governing Authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.823; that a quorum was present at said meeting; that said official action has not been ~~modified, amended, revoked or repealed and is now in full force and effect.~~

IN TESTIMONY WHEREOF, witness my signature this _____ day of _____, 20__.

Title _____

EXHIBIT E

OPINION OF COUNSEL

[Letterhead of Counsel to Governmental Agency]

Kentucky Rural Water Finance Corporation
Bowling Green, Kentucky

Fifth Third Bank
Cincinnati, Ohio

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and _____ dated as of _____

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to _____ (the "Governmental Agency"). I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the project (the "Project") with respect to which the Loan Agreement (the "Loan Agreement") by and between the Kentucky Rural Water Finance Corporation ("Corporation") and the Governmental Agency is being authorized, executed and delivered and the Loan Notes (the "Loan Note") from the Governmental Agency to the Corporation is being authorized, and which may be executed and delivered.

I have reviewed the form of Loan Agreement, the Loan Note, the resolution or ordinance of the Governmental Agency authorizing the execution and delivery of said Loan Agreement and Loan Note and the plans, designs and specifications prepared by the Engineers for the Governmental Agency with respect to the Project.

Based upon my review I am of the opinion that:

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

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

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

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

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

~~(6) None of the proceedings taken by the Governmental Agency for the authorization, execution or delivery of the Loan Agreement or the Loan Note has or have been repealed, rescinded, or revoked.~~

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

Very truly yours,

EXHIBIT F

OPINION OF BOND COUNSEL

[Letterhead of Bond Counsel to Governmental Agency]

[Date]

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and _____ dated as of _____

We hereby certify that we have reviewed and are familiar with the proceedings of _____ (the "Governing Authority") of the _____ (the "Governmental Agency"), in connection with the authorization, execution and delivery of a Loan Agreement between the Kentucky Rural Water Finance Corporation, (the "Corporation") and the Governmental Agency, dated _____, 20____ (the "Loan Agreement") and the form of the Loan Notes from the Governmental Agency to the Corporation (the "Loan Note") evidencing the loan in the amount not to exceed \$ _____ being issued by the Corporation to the Governmental Agency pursuant to the Loan Agreement and the Loan Note to provide interim financing (the "Loan") for the construction of a project (the "Project") consisting of improvements to the _____ system of the Governmental Agency (the "System"); and the proposed issuance of bonds by the Governmental Agency in the amount of \$ _____, to be dated the date of the issuance thereof (the "Bonds") to repay the Loan and provide permanent financing for the Project.

Our examination of such proceedings included (a) the proceedings of the Governing Authority held on _____, 20____, adopting a resolution authorizing the Loan Agreement (the "Resolution") (b) the proceedings of the Governing Authority held on _____, 20____, adopting legislation authorizing the Bonds (the "Bond Legislation"); and (c) the proceedings of the Governing Authority held on _____, 20____, accepting the successful bid of the United States Department of Agriculture, Rural Development (the "RD") for the purchase of the Bond.

Based upon our examination of the aforesaid proceedings, we are of the opinion that the Governmental Agency has a valid contract with the RD, in which the Governmental Agency has agreed to sell and RD has agreed to purchase Bonds at par, and that the Bonds, when issued in accordance with the aforesaid proceedings, will be valid and legally binding upon the Governmental Agency and will be secured by and payable from a pledge of the gross revenues of the System.

Based upon our review of such proceedings and applicable laws, it is our opinion that the Loan Agreement has been validly authorized, executed and delivered by and on behalf of the Governmental Agency.

The rights and remedies of the Corporation under the Loan Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, or similar laws, or judicial decisions affecting the rights of creditors generally, and by the application of equitable principles where equitable remedies are sought.

This opinion letter is issued to, and solely for the benefit and reliance of, the Corporation and may not be relied upon by any persons other than the Corporation.

Respectfully Submitted,

EXHIBIT G

RD COMMITMENT LETTER



1718 Peachtree Road, Suite 576
Atlanta, Georgia 30309
Telephone: (404) 347-1060
Facsimile: (404) 347-1065

56

June 20, 2001

United States
Department of
Agriculture

Office of the
General
Counsel

Kenneth Slone
State Director
Rural Development
Lexington, Kentucky

Subject: Mountain Water District
Pike County, Kentucky
RUS Loan - \$800,000.00
RUS Grant - \$400,000.00
ARC Grant - \$350,000.00

Dear Mr. Slone:

These closing instructions are issued in response to your transmittal memorandum of May 15, 2001.

The proposed project consists of the construction of a two-MGD water treatment plant to supplement the Water District's main water supply which comes from the City of Pikeville. The project is considered Phase I of \$11,000 plus project, which includes additional water storage tanks, booster pump stations and water transmission lines.

The Mountain Water District's (hereinafter District) attorney has submitted a statement indicating that the District has maintained continued existence, is in good standing and has the authority to enter an agreement with Rural Development. As reflected in the proposed Bond Transcript of Proceedings Index, a copy of the order creating the District will be included in the Bond Transcript.

The loan indebtedness is to be evidenced by "Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000", which are secured by and payable from a third pledge of a fixed portion of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Prior Third Lien Bonds and the Current Bonds as the same become due.

The District has retained local counsel H. Edward Maddox of Pikeville, Kentucky, and bond counsel W. Randall Jones of Rubin and Hays in Louisville, Kentucky, to provide all legal assistance in the issuance of the

JUN 22 2001

above referenced bonds. Unless agreed to the contrary by said legal counsel, the responsibility for preparation of the bond transcript will be that of bond counsel and all other documentation and requirements of these instructions will be that of local counsel.

The submitted proposed bond ordinance, as prepared by bond counsel, is of standard form and reflects the conditions set out above. The terms and amounts within the bond ordinance are to be administratively approved. Upon such approval, bond counsel may proceed with adoption of the ordinance as he deems appropriate.

The bond transcript is to be prepared in accordance with the requirements of FmHA Instructions 1942.19, and in conjunction therewith, contain the applicable items of the suggested index as prepared by bond counsel.

The following points are noted:

A. The interest rate of 3.25% in accordance with 7 U.S.C. §§ 1927 and 1927a, as amended.

B. The loan is to be issued in accordance with FmHA Instruction 1942-A and, in particular, § 1942.19.

C. The submitted Loan Resolution, Form FmHA 1942-47, dated January 31, 2000, providing for a \$800,000.00 loan, and a \$400,000 grant have been properly prepared and executed.

D. The submitted Equal Opportunity Agreement, Form FmHA 400-1, and Assurance Agreement, Form FmHA 400-4, both dated January 31, 2000, have been properly prepared and executed.

E. The docket is to contain a properly completed and executed Association Water or Sewer System Grant Agreement, Form FmHA 1942-31, dated on or subsequent to the date of the loan resolution.

F. Pending the issuance of the incumbency certificate at closing, the docket is to contain a certified list of the commissioners of the District showing their respective offices and terms.

G. The docket and transcript are to contain copies of the certificate of convenience and necessity from the Public Service Commission in accordance with the

provisions of KRS 278.020.

H. The docket and transcript are to contain copies of the resolution and, if applicable, amendments thereto establishing the rates, rules and regulations of the system which have been approved administratively. Said rates are to be in accord with statutory requirements of the Public Service Commission as set out at KRS 278.030 and KRS 278.160 through KRS 278.190. The rates are to be published pursuant to KRS 424.270.

I. Title evidence has been submitted in the form of a narrative title opinion provided local counsel. The opinion indicates that the present owners of the property to be obtained by the District have good and merchantable title to the property.

1) Should any real additional property be acquired, the docket is to contain title evidence thereon.

2) The docket and bond transcript are to contain a final title opinion inclusive of the date of closing as any property subsequently obtained. As bonds are being issued, such opinion is not to be prepared on Form FmHA 427-10, Final Title Opinion, as it is inappropriate.

J. The District has submitted two several Water Purchase Contracts. The first is between the District and Sandy Valley Water District. The contract is undated but references the District Resolution dated December 15, 1988. The contract was executed but does not contain an attestation from Rural Development. The contract was drafted on Form FHA-442-30 and contains all the proper terms and requirements. The contract is scheduled to run for a period of 40 years, however, the lack of an execution date on the contract raises great concern.

A second submitted contract is between the District and Williamson Utility Board. The contract is dated August 27, 1982, and was drafted on Form FHA 442-30. The contract meets all requirements and is scheduled to run for a period of 40 years. The contract is legally sufficient. Nevertheless, the agency should ensure that the contract extends for the life of the loan.

The third contract is between the District and the City of Pikeville and is dated January 13, 1987. The contract was schedule to run for a period of 40 years, however, the contract was amended on March 26, 1990. According to the amendment, the contract will run for an additional 7 years for a total term of 47 years. Again, the agency mut ensure that the District has an adequate supply of water for the entire life of the loan. The contract is legally sufficient but may require an extension.

K. The submitted Right-of-Way Certificate, Form FmHA 442-21, and Opinion of Counsel Relative to Rights-of-Way, Form FmHA 442-22, are to be discarded, and new forms are to be executed as of the date of closing.

All forms and documents to be executed on behalf of the District are to be signed by the chairman and attested by the secretary with the District seal affixed thereto. Please have each officer indicate his respective office under his signature.

All applicable requirements of FmHA Instructions 1942-A, the requirements of the national office and any other conditions must be complied with prior to or at the time of closing the loan.

The certificate below must be executed by the USDA closing officer and the attorney for the District after all requirements herein have been met.

For final approval, there are to be submitted to this office, after having been reviewed by the state office, the following:

1. Certified copies of resolution and any amendments as to rates, rules and regulations.
2. Grant Agreement, Form FmHA 1942-31.
3. Preliminary and final title opinions, as appropriate.
4. Right-of-Way Certificate and Opinion of Counsel Relative to Rights-of-Way, Forms FmHA 442-21 and 442-22.
5. Bond transcript.
6. Copy of Water Purchase Contracts and any amendments.

Mountain Water District
June 20, 2001
Page 5

7. Certified closing instructions.

Sincerely yours,

DONALD R. KRONENBERGER, JR.
Regional Attorney


Judith E. McKenzie-Abraham
Attorney

Enclosures


cc: W. Randall Jones, Esq.

JEMA/

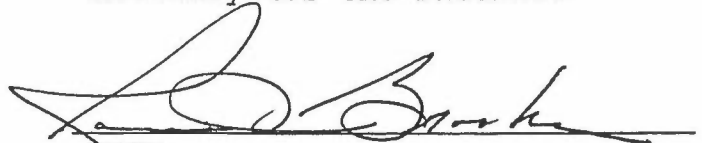
CERTIFICATE

We certify that all requirements of these instructions have been met.

Date: 26 July 2002


Attorney for the District

Date: 7/26/02


USDA

Date: 7/26/2002

W. Randall Jones
Bond Counsel

Information Return for Tax-Exempt Governmental Obligations
▶ Under Internal Revenue Code section 149(e)
▶ See separate instructions.

OMB No. 1545-0720

Caution: If the issue price is under \$100,000, use Form 8038-GC.

Part I Reporting Authority		If Amended Return, check here <input type="checkbox"/>	
1 Issuer's name Mountain Water District	2 Issuer's employer identification number 61 1098805	3 Number and street (or P.O. box if mail is not delivered to street address) P.O. Box 3157	4 Report number 3 2002-01
5 City, town, or post office, state, and ZIP code Pikeville, Kentucky 41502	6 Date of issue July 26, 2002	7 Name of issue Mountain Water District Waterworks Revenue Bonds, Series 2001	8 CUSIP number None
9 Name and title of officer or legal representative whom the IRS may call for more information Mr. Will Brown, Superintendent	10 Telephone number of officer or legal representative (606) 631-9162		

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule	
11 <input type="checkbox"/> Education	11
12 <input type="checkbox"/> Health and hospital	12
13 <input type="checkbox"/> Transportation	13
14 <input type="checkbox"/> Public safety	14
15 <input type="checkbox"/> Environment (including sewage bonds)	15
16 <input type="checkbox"/> Housing	16
17 <input checked="" type="checkbox"/> Utilities	17 800,000
18 <input type="checkbox"/> Other. Describe ▶	18
19 If obligations are TANs or RANs, check box <input type="checkbox"/> If obligations are BANs, check box <input type="checkbox"/>	
20 If obligations are in the form of a lease or installment sale, check box <input type="checkbox"/>	

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.				
(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21 January 1, 2042	\$ 800,000	\$ 800,000	25.67 years	3.2500 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)				
22 Proceeds used for accrued interest	22			
23 Issue price of entire issue (enter amount from line 21, column (b))	23			800,000
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	19,000		
25 Proceeds used for credit enhancement	25			
26 Proceeds allocated to reasonably required reserve or replacement fund	26			
27 Proceeds used to currently refund prior issues	27			
28 Proceeds used to advance refund prior issues	28			
29 Total (add lines 24 through 28)	29			19,000
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30			781,000

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)	
31 Enter the remaining weighted average maturity of the bonds to be currently refunded	_____ years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded	_____ years
33 Enter the last date on which the refunded bonds will be called	_____
34 Enter the date(s) the refunded bonds were issued	_____

Part VI Miscellaneous	
35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35
36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions)	36a
b Enter the final maturity date of the guaranteed investment contract	37a
37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units	
b If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input type="checkbox"/> and enter the name of the issuer	
38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box <input checked="" type="checkbox"/>	
39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box <input type="checkbox"/>	
40 If the issuer has identified a hedge, check box <input type="checkbox"/>	

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Sign Here

Toni Akers
Signature of issuer's authorized representative

July 26, 2002
Date

Toni Akers, Chairperson
Type or print name and title



MEMO AS TO CLOSING

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000.

1. The closing took place on July 26, 2002, at 11:00 A.M., E.D.T., at the District's office in Pikeville, Kentucky, and each person present signed the List of Signatures.

2. Bond Counsel and the Rural Development (the "RD") Manager satisfied themselves that all of the requirements of the RD Letter of Conditions, dated December 20, 1999, had previously been met or were being met at the time of the closing.

3. The letter of closing instructions of the Regional Attorney, dated June 20, 2001, was checked, signed on page 3 by Local Counsel, Bond Counsel and the RD representative, and placed in the Transcript.

4. All matters relating to the necessary easements and Deeds had been resolved, and all such easements and Deeds had been obtained.

5. All necessary approvals of State agencies had been obtained and had been placed in the Transcript.

6. A letter had been obtained from the Engineers to the effect that no railroad easements or stream crossings were necessary in the construction of the project and such letter had been placed in the Transcript.

7. County road easements and all other necessary Highway Easements and Permits had been obtained, and evidence thereof was placed in the Transcript.

8. An Operating and Management Plan had been approved by the RD and executed by the District officials, and a copy had been obtained and placed in the Transcript.

9. The RD Manager had executed a Certificate at the pre-closing, verifying the number of existing waterworks users, the number of new users, and the deposit of connection fees paid by such new users, into certain funds of the District, and the Certificate had been placed in the Transcript.

10. Signed copies of certain RD Forms, as follows, had been obtained at the pre-closing and placed in the Transcript:

- (a) 400-1, Equal Opportunity Agreement.
- (b) 400-3, Notice to Contractors and Applicants.
- (c) 400-4, Assurance Agreement.
- (d) 400-8, Compliance Review.
- (e) 427-9, Preliminary Title Opinion as to each site.
- (f) 442-7, Operating Budget.
- (g) 442-21, Right-of-Way Certificate.
- (h) 442-22, Opinion of Counsel Relative to Rights-of-Way.
- (i) 1940-1, Request for Obligation of Funds.
- (j) 1942-31, Grant Agreement.
- (k) 1942-47, Loan Resolution.

To the extent that any of such RD Forms had been brought up to date, copies were obtained and placed in the Transcript.

11. The color-coded map had been signed by the Chairman, the Engineer and Local Counsel, and a copy of the relevant portion had been obtained and placed in the Transcript.

12. The fidelity bond of the Treasurer in the amount of \$452,000 had been obtained as required by the RD Letter of Conditions and by the Bond Resolution, a copy had been examined, and evidence thereof was placed in the Transcript.

13. All necessary renewal insurance on the Project, including real property insurance on above-ground structures, liability and Worker's Compensation had been obtained, and such policies were examined, and evidence thereof was placed in the Transcript.

14. Bond Counsel's list of closing requirements, the Transcript Index, was checked, and it was found that all such requirements had been or were being complied with.

15. The Bond had been dated July 26, 2002, on the front, in the panel and opposite the registration form, and was signed by the Chairman of the District and by the Secretary, who affixed the District Seal to the Bond and also signed the registration form, after which the Legal Opinion on the Bond was signed by Bond Counsel.

16. The Bond was delivered to the RD in exchange for payment.

17. A statement was obtained from the Engineers showing the final total cost of the project, the funds available from the proceeds of the Bonds, the amount expended to date, the amounts due and owing to the Engineers, Attorneys, Contractors and others, as of the closing date, and other information necessary to show the adequacy of the available funds to pay all of the necessary costs of the Project, and said statement was placed in the Transcript.

18. The following closing papers, prepared by Bond Counsel and dated July 26, 2002, were properly executed and placed in the Transcript:

- (a) Certificate as to Official Seal, Incumbency and Signature Identification.
- (b) Certificate of Execution, No Litigation and Outstanding Bond Issues.
- (c) Arbitrage Certificate.
- (d) Certificate of Receipt of Bond Proceeds and Bond Delivery.
- (e) Certificate of Receipt of RD Grant Proceeds as of Date of Bond Closing.
- (f) Certificate of Engineers.
- (g) Certificate of RD as to Insurance and Bonding.
- (h) Letters of Contractors, Engineers, Local Counsel and Bond Counsel as to payments being made to date according to Contracts and amounts stipulated.
- (i) Letter of Kirkpatrick Pettis, Lexington, Kentucky, acknowledging payment in full of all interim financing, including interest.
- (j) Final Title Opinion.
- (k) Legal Opinion of Bond Counsel.
- (l) Letter of RD Regional Attorney, signed by all parties.
- (m) Signature Sheet.

19. The closing was considered completed.



1718 Peachtree Road, Suite 576
Atlanta, Georgia 30309
Telephone: (404) 347-1060
Facsimile: (404) 347-1065

W
56

June 20, 2001

United States
Department of
Agriculture

Office of the
General
Counsel

Kenneth Slone
State Director
Rural Development
Lexington, Kentucky

Subject: Mountain Water District
Pike County, Kentucky
RUS Loan - \$800,000.00
RUS Grant - \$400,000.00
ARC Grant - \$350,000.00

Dear Mr. Slone:

These closing instructions are issued in response to your transmittal memorandum of May 15, 2001.

The proposed project consists of the construction of a two-MGD water treatment plant to supplement the Water District's main water supply which comes from the City of Pikeville. The project is considered Phase I of \$11,000 plus project, which includes additional water storage tanks, booster pump stations and water transmission lines.

The Mountain Water District's (hereinafter District) attorney has submitted a statement indicating that the District has maintained continued existence, is in good standing and has the authority to enter an agreement with Rural Development. As reflected in the proposed Bond Transcript of Proceedings Index, a copy of the order creating the District will be included in the Bond Transcript.

The loan indebtedness is to be evidenced by "Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000", which are secured by and payable from a third pledge of a fixed portion of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Prior Third Lien Bonds and the Current Bonds as the same become due.

The District has retained local counsel H. Edward Maddox of Pikeville, Kentucky, and bond counsel W. Randall Jones of Rubin and Hays in Louisville, Kentucky, to provide all legal assistance in the issuance of the

JUN 22 2001

above referenced bonds. Unless agreed to the contrary by said legal counsel, the responsibility for preparation of the bond transcript will be that of bond counsel and all other documentation and requirements of these instructions will be that of local counsel.

The submitted proposed bond ordinance, as prepared by bond counsel, is of standard form and reflects the conditions set out above. The terms and amounts within the bond ordinance are to be administratively approved. Upon such approval, bond counsel may proceed with adoption of the ordinance as he deems appropriate.

The bond transcript is to be prepared in accordance with the requirements of FmHA Instructions 1942.19, and in conjunction therewith, contain the applicable items of the suggested index as prepared by bond counsel.

The following points are noted:

A. The interest rate of 3.25% in accordance with 7 U.S.C. §§ 1927 and 1927a, as amended.

B. The loan is to be issued in accordance with FmHA Instruction 1942-A and, in particular, § 1942.19.

C. The submitted Loan Resolution, Form FmHA 1942-47, dated January 31, 2000, providing for a \$800,000.00 loan, and a \$400,000 grant have been properly prepared and executed.

D. The submitted Equal Opportunity Agreement, Form FmHA 400-1, and Assurance Agreement, Form FmHA 400-4, both dated January 31, 2000, have been properly prepared and executed.

E. The docket is to contain a properly completed and executed Association Water or Sewer System Grant Agreement, Form FmHA 1942-31, dated on or subsequent to the date of the loan resolution.

F. Pending the issuance of the incumbency certificate at closing, the docket is to contain a certified list of the commissioners of the District showing their respective offices and terms.

G. The docket and transcript are to contain copies of the certificate of convenience and necessity from the Public Service Commission in accordance with the

provisions of KRS 278.020.

H. The docket and transcript are to contain copies of the resolution and, if applicable, amendments thereto establishing the rates, rules and regulations of the system which have been approved administratively. Said rates are to be in accord with statutory requirements of the Public Service Commission as set out at KRS 278.030 and KRS 278.160 through KRS 278.190. The rates are to be published pursuant to KRS 424.270.

I. Title evidence has been submitted in the form of a narrative title opinion provided local counsel. The opinion indicates that the present owners of the property to be obtained by the District have good and merchantable title to the property.

1) Should any real additional property be acquired, the docket is to contain title evidence thereon.

2) The docket and bond transcript are to contain a final title opinion inclusive of the date of closing as any property subsequently obtained. As bonds are being issued, such opinion is not to be prepared on Form FmHA 427-10, Final ~~Title Opinion, as it is inappropriate.~~

J. The District has submitted two several Water Purchase Contracts. The first is between the District and Sandy Valley Water District. The contract is undated but references the District Resolution dated December 15, 1988. The contract was executed but does not contain an attestation from Rural Development. The contract was drafted on Form FHA-442-30 and contains all the proper terms and requirements. The contract is scheduled to run for a period of 40 years, however, the lack of an execution date on the contract raises great concern.

A second submitted contract is between the District and Williamson Utility Board. The contract is dated August 27, 1982, and was drafted on Form FHA 442-30. The contract meets all requirements and is scheduled to run for a period of 40 years. The contract is legally sufficient. Nevertheless, the agency should ensure that the contract extends for the life of the loan.

The third contract is between the District and the City of Pikeville and is dated January 13, 1987. The contract was schedule to run for a period of 40 years, however, the contract was amended on March 26, 1990. According to the amendment, the contract will run for an additional 7 years for a total term of 47 years. Again, the agency mut ensure that the District has an adequate supply of water for the entire life of the loan. The contract is legally sufficient but may require an extension.

K. The submitted Right-of-Way Certificate, Form FmHA 442-21, and Opinion of Counsel Relative to Rights-of-Way, Form FmHA 442-22, are to be discarded, and new forms are to be executed as of the date of closing.

All forms and documents to be executed on behalf of the District are to be signed by the chairman and attested by the secretary with the District seal affixed thereto. Please have each officer indicate his respective office under his signature.

All applicable requirements of FmHA Instructions 1942-A, the requirements of the national office and any other conditions must be complied with prior to or at the time of closing the loan.

The certificate below must be executed by the USDA closing officer and the attorney for the District after all requirements herein have been met.

For final approval, there are to be submitted to this office, after having been reviewed by the state office, the following:

1. Certified copies of resolution and any amendments as to rates, rules and regulations.
2. Grant Agreement, Form FmHA 1942-31.
3. Preliminary and final title opinions, as appropriate.
4. Right-of-Way Certificate and Opinion of Counsel Relative to Rights-of-Way, Forms FmHA 442-21 and 442-22.
5. Bond transcript.
6. Copy of Water Purchase Contracts and any amendments.

7. Certified closing instructions.

Sincerely yours,

DONALD R. KRONENBERGER, JR.
Regional Attorney


Judith E. McKenzie-Abraham
Attorney

Enclosures

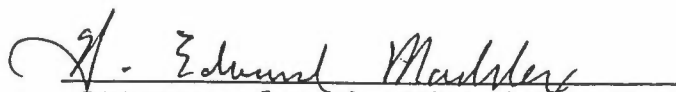
cc: W. Randall Jones, Esq.

JEMA/

CERTIFICATE

We certify that all requirements of these instructions have been met.

Date: 26 July 2002


Attorney for the District

Date: 7/26/02


USDA

Date: 7/26/2002

W. Randall Jones
Board Counsel



WESTERFIELD-BONTE COMPANY, INC.

Specialty Printers since 1910

PRESIDENT
SAM A. BLYTHE
VICE PRESIDENT
DAVID R. BLYTHE

July 22, 2002

U.S. Department of Agriculture
Rural Development Administration
771 Corporate Drive, Suite 200
Lexington, Kentucky 40503

CERTIFICATE OF PRINTING

RE: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000. Nine (9) Bonds, all numbered R-1 and printed on maroon borders.

This certifies that the above mentioned Bonds have been prepared and printed by Westerfield-Bonte Co., and that all work on these Bonds has been executed entirely on the premises of Westerfield-Bonte Co.

This issue was printed in full compliance with requirements of the U.S. Department of Agriculture.

This also certifies that only the amount of Bonds shown above has been printed and delivered as instructed.

Sincerely,

Sam A. Blythe, Jr.
President
Westerfield-Bonte Co.

Job #82675
July 22, 2002
SAB/rgr

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 Email: rh@rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

PARALEGAL
MARY M. EMBRY

July 26, 2002

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds Creek/Mouthcard Project)

We have acted as Bond Counsel in connection with the issuance by the Mountain Water District of Pike County, Kentucky (the "District") of \$800,000 of its Mountain Water District Waterworks Revenue Bonds, Series 2001 (the "Current Bonds"), dated as of the date of this Legal Opinion, bearing interest at the interest rate specified in the Current Bonds, payable semiannually on January 1 and July 1 of each year, with principal amounts falling due on January 1 in each of the respective years, 2005 through 2042, inclusive.

Said Current Bonds are issued pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes and a Bond Resolution (the "Current Bond Resolution") duly adopted by the Commission of the District for the purpose of financing the cost of extensions, additions and improvements to the existing waterworks system (the "System") of the District.

We have examined the transcript of proceedings of the District in connection with the issuance of the Current Bonds and the executed single, fully registered bond, numbered R-1, representing the total authorized principal amount of said Current Bonds, as issued and delivered, and an executed counterpart of the Current Bond Resolution.

Based on such examination, we are of the opinion that the Current Bonds are valid and legally binding and enforceable upon the District according to the import thereof and rank on a parity as to security and source of payment with the outstanding: (i) Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994 (the "1993 Bonds") authorized by a Resolution adopted by the District on March 18, 1993 (the "1993 Bond Resolution"); (ii) Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995 (the "1995 Bonds") authorized by a Resolution adopted by the District on July 19, 1995 (the "1995 Bond Resolution"); (iii) Mountain Water District Waterworks Revenue Bonds, Series 1997, dated October 2, 1997 (the "1997 Bonds"), authorized by a Resolution adopted by the District on September 24, 1997 (the "1997 Bond Resolution"); and (iv) Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999 (the "1998 Bonds"), authorized by a Resolution adopted by the District on October 28, 1998 (the "1998 Bond Resolution") [hereinafter the 1993 Bonds, the 1995

Bonds, the 1997 Bonds and the 1998 Bonds shall be collectively referred to as the "Prior Third Lien Bonds" and the 1993 Bond Resolution, the 1995 Bond Resolution, the 1997 Bond Resolution and the 1998 Bond Resolution shall be collectively referred to as the "Prior Third Lien Bond Resolution"]; but subject to the vested rights and priorities in favor of the owners of the outstanding: (i) Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988 (the "1988 Bonds"), authorized by a Resolution adopted by the District on February 25, 1988 (the "1988 Bond Resolution"); (ii) Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990 (the "1989 Bonds"), authorized by a Resolution adopted by the District on July 20, 1989 (the "1989 Bond Resolution"); (iii) Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992 (the "1990 Bonds"), authorized by a Resolution adopted by the District on January 10, 1991 (the "1990 Bond Resolution") [hereinafter the Series 1988 Bonds, the Series 1989 Bonds and the Series 1990 Bonds shall be collectively referred to as the "Prior First Lien Bonds" and the 1988 Bond Resolution, the 1989 Bond Resolution and the 1990 Bond Resolution shall be collectively referred to as the "Prior First Lien Bond Resolution"]; and the outstanding Kentucky Infrastructure Authority Loans issued in February, 1992, June, 1994 and June, 1998 (the "KIA Loans") and that the Current Bonds and the Prior Third Lien Bonds are secured by and are payable from a third pledge of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Prior Third Lien Bonds and the Current Bonds as the same become due. We express no opinion concerning the sufficiency of such revenues for that purpose.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with the Prior Third Lien Bonds and the Current Bonds, if necessary in order to complete the aforesaid extensions, additions and improvements to the System. The District has also reserved the right to issue additional parity bonds to finance future extensions, additions and/or improvements to the System, provided the necessary showings as to the earnings coverage required by the Prior Third Lien Bond Resolution and Current Bond Resolution are in existence and properly certified.

Based on current rulings and official interpretations, and assuming that the District complies with certain covenants contained in the Current Bond Resolution made with respect to compliance with the provisions of the Internal Revenue Code of 1986 (the "Code"), including a covenant to comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America as to certain investment earnings on the proceeds of the Current Bonds, we are of the opinion that: (1) interest on the Current Bonds is excludable from gross income for federal income tax purposes; (2) the Current Bonds have been validly designated as "qualified tax-exempt obligations" by the District pursuant to the provisions of Section 265(b)(3) of the Code; (3) the Current Bonds are an issue of "state or local bonds" which are not "private activity bonds" within the meaning of Section 103 of the Code; (4) interest on the Current Bonds is not included as an item of tax preference in calculating the alternative minimum tax for individuals; (5) interest on the Current Bonds may be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the branch profits tax on foreign corporations, the effect on certain Subchapter S Corporations with excess passive income, and other tax consequences to certain insurance companies; (6) interest on the Current Bonds will be included

in adjusted current earnings when calculating the alternative minimum taxable income of corporations; (7) an individual who owns any of the Current Bonds may be required to include in gross income a portion of his or her social security or railroad retirement payments; (8) any taxpayer (individuals or corporations) owning the Current Bonds may have collateral tax consequences if they are deemed to have incurred or have continued to incur indebtedness to purchase or carry tax-exempt obligations; (9) interest on the Current Bonds is exempt from Kentucky income taxes; and (10) the principal of the Current Bonds is exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

No opinion is expressed regarding other federal income tax consequences caused by the receipt of interest on the Current Bonds.

It is to be understood that the rights of the holders of the Current Bonds and the enforceability of the Current Bonds and the Current Bond Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter adopted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

It is provided in the Consolidated Farm and Rural Development Act that if the Current Bonds are sold out of the Agricultural Credit Insurance Fund or out of the Rural Development Insurance Fund as an insured loan, the interest thereon paid to an insured owner shall be included in the taxable income of such owner.



FINAL TITLE OPINION
AS TO WATERWORKS PROJECT

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds Creek/Mouthcard Project).

We, Stratton, Hogg & Maddox, P.S.C., Attorneys at Law, Pikeville, Kentucky, representing the Mountain Water District of Pike County, Kentucky (the "District"), certify:

1. That we have investigated and ascertained the location of the various sites of major structures and installations to be constructed in connection with certain proposed extensions, additions and improvements (the "Project") to the existing waterworks system of the District (the "System"), together with all rights-of-way and easements necessary in connection with the construction of the Project and in connection with the continued ownership and operation of the System.

2. That we have examined the records of the ownership of said sites and we are of the opinion that said District now owns fee simple title to all of said sites and that said title is free and clear of all liens and encumbrances which might adversely affect the right of the District to the use of the same in operation of the System, subject to the encumbrances referred to in Paragraph 12 hereof.

3. That we have further examined the right-of-way instruments, permits and/or licenses obtained from landowners, public bodies and public utilities.

4. That we have taken cognizance of the fact that the District possesses the power of eminent domain which would enable it to perfect title to any pertinent easements and/or rights-of-way as to which its title might be defective, and that the cost of perfecting any such title is considered to be negligible in view of the fact that in virtually every instance the easement or right-of-way improves, rather than damages, the value of the property, by reason of bringing the System to such property; and accordingly, if and to any possible extent that the District does not have adequate title to such easements and/or rights-of-way for the purpose desired, the District can, in our opinion, obtain such easements and/or rights-of-way, either through negotiation or through the exercise of the power of eminent domain, without exceeding the funds available.

5. That we have examined the instruments creating the aforesaid easements and/or rights-of-way and that it is our opinion that said instruments are valid as to form and substance for the purpose intended, although we have not examined the title records as to each of such easements and/or rights-of-way and express only a limited opinion as to the title thereto, based on such limited examination as set out herein.

6. That based on and subject to the foregoing, we are of the opinion that the District now owns the necessary permanent rights-of-way and easements for ingress to and egress from the aforesaid sites and the necessary permanent rights-of-way and/or easements for water lines to and

from said sites, connecting with the water mains and lines extending throughout the System, and that the District has sufficient legal title and interest in said sites, rights-of-way and easements to permit the construction of the necessary waterworks facilities thereon as heretofore completed and/or as now contemplated and to permit the operation and maintenance of such facilities thereon during the estimated life of such facility or facilities by the District after the completion of construction.

7. That the District has acquired the necessary permits, franchises and authorizations or other instruments by whatsoever name designated, from public utilities and public bodies, commissions or agencies, authorizing the construction, operation and maintenance of the facilities upon or across streets, roads, highways, railroads and public utilities, whenever and wherever the same are affected.

8. That a right-of-way map, as furnished by the District, shows the location and distribution of all land and rights-of-way acquired by the District and/or necessary to be acquired by the District in connection with the Project. Attention is called to certified copies of all deeds for said rights-of-way and easements over adjacent properties, for the purpose of ingress to and egress from said site locations; also the necessary permits from the Department of Highways of the Commonwealth of Kentucky and from Pike County, Kentucky, insofar as the same affect the roads, streets, highways and other properties belonging to them. These exhibits were furnished with a preliminary certificate and opinion (RD Form 442-22) in connection with the financing of the Project.

9. That in that connection, we have conferred with Summit Engineering, Inc., the Engineers employed by the District in connection with the Project, concerning the lines set out in said map and concerning the sites necessary, according to said Engineers, for the construction of the Project; that we have satisfied ourselves that we are thoroughly familiar with the lines and sites required by said map and by the Engineers for the construction of said Project, and that subject to possible exceptions as to title, referred to in Paragraph 2 hereof, we are satisfied that the District has obtained deeds of easements and/or rights-of-way and/or sites required by the District, as set out in said map, and according to information furnished to us by the Engineers, as being necessary for the construction of said Project. We have also discussed with the Engineers the need for being furnished prompt and accurate information as to the legal descriptions of any and all easements, rights-of-way and/or sites, as may be required in connection with any approved change-orders with reference to the Project which may be issued during the course of construction.

10. That the estate and interest of the District in such sites, easements and rights-of-way are legal and valid, and that all deeds, conveyances and documents pertaining to or evidencing ownership or other rights in any interests in land which will or may be utilized by or for the Project or which may be required in connection therewith have been duly recorded as required by law in the office of the Pike County Clerk in Pikeville, Kentucky.

11. That we have examined the various records of Pike County, and other pertinent proceedings, documents and showings and have consulted with officials of the District concerning the title of the District to its existing waterworks System; and that it is a matter of common

knowledge and in no way controverted by such records that the District is the owner of its existing waterworks System.

12. That the title of the District to all of the sites, rights-of-way and/or easements referred to herein and to the existing System is encumbered by a lien on and an exclusive pledge of the revenues of the System, for the benefit of the owners of the outstanding bonds of an authorized issue of \$800,000 of Mountain Water District Waterworks Revenue Bonds, Series 2001 (the "Current Bonds"), which lien and pledge were created in the Bond Resolution of the District as security for the issuance of said Current Bonds. Said Current Bonds rank on a parity as to security and source of payment with certain outstanding Bonds of the District, as follows:

- (a) Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994 (the "Bonds of 1993");
- (b) Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995 (the "Bonds of 1995");
- (c) Mountain Water District Waterworks Revenue Bonds, Series 1997, dated October 2, 1997 (the "Bonds of 1997"); and
- (d) Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999 (the "Bonds of 1998");

but are subject to the vested rights and priorities of the owners of the outstanding:

- (a) Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988 (the "Bonds of 1988");
- (b) Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990 (the "Bonds of 1989");
- (c) Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992 (the "Bonds of 1990"); and
- (d) Kentucky Infrastructure Authority Loans issued in February, 1992, June, 1994 and June, 1998 (the "KIA Loans");

and said title of the District is subject to no other encumbrances of record.

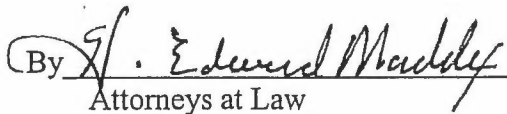
13. That there are no taxes or assessments now delinquent or becoming delinquent relative to or affecting any sites, easements and/or rights-of-way pertaining to the System.

14. That the Project has been and is being constructed in a manner which is consistent with the comprehensive area water and sewer plan, is in compliance with all applicable zoning laws, and is not inconsistent with any development plans of the Commonwealth of Kentucky, Pike County, or any multi-jurisdictional area in which the District is located.

15. That no controversy or litigation is pending, prayed or threatened, involving the creation, organization, existence or boundaries of the District, or the title of any of its officers to their respective positions, or the validity of the Current Bonds, as issued, or the power and authority of the District to construct the Project, to own and operate the System as a revenue-producing undertaking, and to provide and apply adequate revenues therefrom for the full and prompt payment of the principal of and interest on the Bonds of 1988, Bonds of 1989, Bonds of 1990, KIA Loans, Bonds of 1993, Bonds of 1995, Bonds of 1997, Bonds of 1998 and the Current Bonds and that none of the proceedings or authority for the issuance of the Current Bonds has been repealed, revoked, rescinded, modified, changed or altered in any manner.

IN TESTIMONY WHEREOF, witness our signatures this July 26, 2002.

STRATTON, HOGG & MADDOX, P.S.C.

By  _____
Attorneys at Law
Pikeville, Kentucky

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT REGARDING THE SERVICE OF FUTURE CUSTOMERS BUILDING STRUCTURES IN A DESIGNATED FLOODPLAIN.

WHEREAS, the Board of Commissioners (the "Commission") of the Mountain Water District (the "District"), is in the process of arranging to finance the construction of extensions, additions and improvements to the existing waterworks system (the "System") of the District; and

WHEREAS, the Rural Development of the Department of Agriculture of the United States of America (the "RD") has agreed to purchase a bond issue of the District designated as "Mountain Water District Waterworks Revenue Bonds, Series 2001" (the "Bonds") in the principal amount of \$800,000; and

WHEREAS, the RD has issued a Letter of Conditions to the District dated December 20, 1999 (the "Letter of Conditions") which sets forth the requirements the District must meet in order for the RD to purchase the Bonds; and

WHEREAS, said Letter of Conditions requires the District to adopt a Resolution specifying that the District will deny water service to a future customer who builds a structure in a designated floodplain, or in the alternative, the customer must provide evidence and a justification for approval by the District and RD officials that there are no other alternatives to construction or development within the designated floodplain.

NOW, THEREFORE, THE BOARD OF COMMISSIONERS OF THE MOUNTAIN WATER DISTRICT DOES RESOLVE AS FOLLOWS:

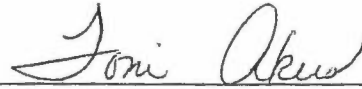
Section 1. Floodplain Restriction. That pursuant to the Letter of Conditions, the District hereby agrees that it will deny water service to any future customer who builds a structure in a designated floodplain, or in the alternative, such customer must provide evidence and a justification for approval by the District and RD officials that there are no other alternatives to construction or development within the designated floodplain. The District must be a participant in the National Flood Insurance Program and the customer or developer must obtain the required permits prior to the tap-on restrictions being waived.

Section 2. Severability. That if any clause, provision, paragraph or section of this Resolution be ruled void or unenforceable by any court of competent jurisdiction, the remainder thereof is intended to be adopted and shall be in full force and effect notwithstanding.

Section 3. All Former Provisions in Conflict Repealed; Effective Date of Resolution. That all resolutions, motions or parts thereof, insofar as same may be in conflict herewith, are repealed, and this Resolution shall take effect from and after its passage and approval as provided by law.

Adopted and approved on this October 31, 2001.

MOUNTAIN WATER DISTRICT



Chairperson

Attest:

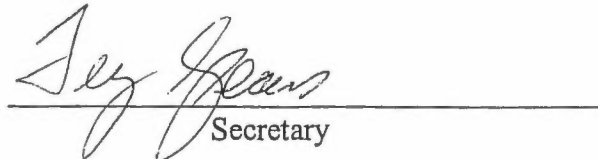

Secretary

CERTIFICATE OF SECRETARY

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Mountain Water District, that the foregoing Resolution is a true copy of a Resolution duly adopted by the District at a meeting held on October 31, 2001 and that said Resolution appears as a matter of public record in the official records of said District.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN WITNESS WHEREOF, I have hereto set my hand as Secretary of the District and the official Seal of the District on this October 31, 2001.


Secretary

(Seal of District).



KIRKPATRICK PETTIS

A Mutual of Omaha Company

Investments Since 1925

July 19, 2002

Mr. Brad Hall
VIA FACSIMILE (606) 631-3087

Mountain Water District
P.O. Box 3157
Pikeville, KY 41502

RE: *Mountain Water District, Kentucky Rural Water Finance Corporation Loan*

Dear Mr. Hall:

This letter is regarding the loan payoff for the above referenced loan. Based on a payoff date of July 26, 2002, the amount due to the Kentucky Rural Water Finance Corporation is \$799,421.70.

	<u>Loan Payoff</u>
Principal	\$791,264.58
Accrued Interest (1)	<u>8,157.12</u>
Total	<u>\$799,421.70</u>

(1) Accrued Interest is calculated from November 16, 2001 through July 26, 2002. Daily accrued interest equals \$98.92. If payment is not received on the above referenced payoff date, please add daily accrued interest to the total until the date the payoff is received by Fifth Third Bank. If payment will not be made on the above referenced payoff date, please notify me as soon as possible.

When USDA-RD Automatic Clearing House funds have been received by the District's Bank, the payoff amount should be wired to Fifth Third Bank at the following address no later than the established closing date:

Wire Payoff:
Fifth Third Bank
ABA # 042000314
Account #73180137
Attn: Tammie Champion, Ext. 4161
Re: Kentucky Rural Water Finance

Should you have any questions, please give me a call at (859) 224-2206. Thank you.

Sincerely,


Nick Roederer

Enclosure

cc: Mr. Ronnie Brooks - USDA - Rural Development - via facsimile (606) 784-2076
Mr. Randy Jones - Rubin & Hays - via facsimile (502) 569-7555
Mr. Gary Larimore - KRWFC - via facsimile (270) 796-8623

Mountain Water District		2000 Note Issue		
Loan #157				
Start Date				11/16/01
End Date				12/18/01
Total Loan Amount				800,000.00
Month	Draws	Interest	Transfer +/-	Balance
				800,000.00
11/16/01	16,289.83	0.00		783,710.17
12/01/01	0.00	35.63		783,674.54
12/18/01	0.00	40.39	0.00	783,634.15
	16,289.83	76.02		
Original Rate	5.25%		Loan Payoff	16,365.85

Loan Payoff 16,365.85

Mountain Water District		2001 Note Issue		
Loan #157				
Start Date				12/18/01
End Date				07/26/02
Total Loan Amount				800,000.00
Month	Draws	Interest	Transfer +/-	Balance
				800,000.00
12/18/01	16,365.85	0.00		783,634.15
01/01/02	0.00	26.59		783,607.56
02/01/02	0.00	61.37		783,546.18
03/05/02	108,880.77	69.55		674,595.86
04/08/02	116,373.03	516.64		557,706.19
05/08/02	321,965.03	906.07		234,835.08
06/06/02	129,505.92	1,972.55		103,356.62
07/10/02	98,250.00	2,945.64		2,160.98
07/25/02	0.00	1,483.76		677.22
07/26/02	0.00	98.92	0.00	578.30
	791,340.60	8,081.10		
Original Rate	4.50%		Loan Payoff	799,421.70

Loan Payoff 799,421.70

WILMOTT CONSTRUCTION, INC.
1686 Paradise Camp Road
Harrodsburg, Kentucky 40330

July 26, 2002

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001
(Feds Creek/Mouthcard Project).

Dear Mr. Brooks:

The undersigned certifies that we have this date been paid by the Mountain Water District (the "District"), for all work performed by us in connection with a project (the "Project") consisting of extensions, additions and improvements to the existing waterworks system of the District, in accordance with our Contract with the District and in accordance with statements submitted by us to the District.

We further certify that all suppliers and subcontractors to whom payment was due from us in connection with such Project have been paid to date in full, in accordance with our contracts with them and in accordance with statements submitted to us by them.

Dated this July 26, 2002.

WILMOTT CONSTRUCTION, INC.

By Curtis Wilmott

Pres

Title

LAW OFFICES OF
STRATTON, HOGG & MADDOX, P.S.C.

P.O. BOX 1530
111 PIKE STREET
PIKEVILLE, KY 41502
PHONE: (606) 437-7800
FAX: (606) 437-7569
E-MAIL: shmlaw@setel.com

DAVID C. STRATTON
STEPHEN L. HOGG
H. EDWARD MADDOX
DANIEL P. STRATTON

HENRY D. STRATTON (1925-1989)
F. BYRD HOGG (1922-1999)

July 2~~6~~, 2002

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, KY 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of
\$800,000 Fedscreek/Mouthcard Project).

Dear Mr Brooks:

I have this date been paid by Mountain Water District (the "District"), the sum of \$3,178.08, which, when added to the \$5,296.82 paid to me by said District on November 8, 2001, represents payment to me of 80% of all Basic Legal Fees and 90% of all Additional Legal Fees to which I am entitled for legal services rendered by me in connection with the financing and construction of extensions, additions and improvements to its existing waterworks system, in accordance with my Legal Service Agreement with the District and according to the amounts stipulated therein, leaving a balance of \$2,118.73 to be paid to me when such construction is completed.

Respectfully,

STRATTON, HOGG & MADDOX, P.S.C.



H. Edward Maddox

HEM/la

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 Email: rh@rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

PARALEGAL
MARY M. EMBRY

July 26, 2002

Mr. Ronnie Brooks
Rural Development
220 West First Street
Morehead, Kentucky 40351

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds Creek/Mouthcard Project).

Dear Mr. Brooks:

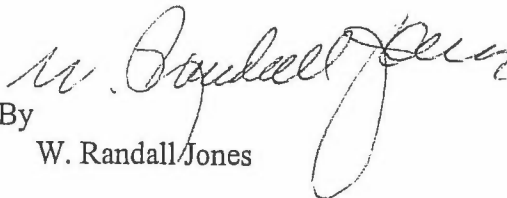
We have this date been paid by the Mountain Water District (the "District") the sum of \$10,706.16, which, when added to the \$10,993.01 paid to us on November 8, 2001, represents payment to us of all sums to which we are entitled for legal services rendered by us in connection with the financing and construction of extensions, additions and improvements to the existing waterworks system of the District, in accordance with our Legal Services Agreement with the District, and according to the amounts stipulated therein.

Sincerely,

Rubin & Hays

By

W. Randall Jones



WRJ:jkm

CERTIFICATE OF RD AS TO INSURANCE AND BONDING

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds Creek/Mouthcard Project).

I hereby certify that I have examined the various insurance policies of the Mountain Water District (the "District") with reference to its waterworks system (the "System") and the fidelity bonds with respect to funds maintained by the District in connection with such System, and I further certify that the District is in compliance with the Letter of Conditions of the Rural Development (the "RD"), dated December 20, 1999, as to liability and property damage insurance, worker's compensation, real property insurance and the respective fidelity bonds required by said Letter of Conditions.

Dated this July 26, 2002.

RURAL DEVELOPMENT

By 
RD Representative

CERTIFICATE OF ENGINEERS

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds creek/Mouthcard Project).

We, Summit Engineering, Inc., Lexington, Kentucky, hereby state that we are Engineers experienced in the field of waterworks engineering and of recognized reputation in said field, and that we have been duly employed by the Mountain Water District of Pike County, Kentucky (the "District"), in connection with the preparation of plans, designs and specifications for the construction of extensions, additions and improvements (the "Project") to the existing waterworks system (the "System") of the District, which Project is being financed by the issuance of \$800,000 of Mountain Water District Waterworks Revenue Bonds, Series 2001 (the "Current Bonds"), supplemented by (a) an approved Rural Development (the "RD") grant in the approximate amount of \$400,000; (b) an approved Appalachian Regional Commission (the "ARC") grant in the approximate amount of \$500,000; (c) a Coal Severance Tax (LGEDG) Grant in the approximate amount of \$2,000,000; (d) an AML Grant in the approximate amount of \$642,200; (e) a Coal Severance Tax (Mountain Water District Dedicated Fund) Grant in the approximate amount of \$535,000; (e) the proceeds of a KIA 2001 Loan in the approximate amount of \$1,197,000; and (e) by a contribution from the District in the amount of at least \$48,100.

We state that we have consulted with Stratton, Hogg & Maddox, P.S.C., Pikeville, Kentucky (the "Local Counsel"), who has been employed by the District in connection with the Project, that we have examined (a) the attached "Final Title Opinion for waterworks Project" (the "Title Opinion"), signed by said Local Counsel, and the attached printed "Preliminary Title Opinion" (RD Form 1927-9), signed by said Local Counsel; (b) the separate "Opinion of Counsel Relative to Rights-of-way" (RD Form 442-22), signed by said Local Counsel; (c) the descriptions of the sites and easements referred to in said Title Opinion and in said RD Forms and (d) the right-of-way map specifically referred to in said Title Opinion, and we state further as follows:

1. That all of the sites of major structures and installations of the Project lie or will lie within the boundaries of the properties as to which the title of the District is certified in said Title Opinion and in said RD Forms, copies of which have been forwarded to us, and/or on the public rights-of-way for which a permit from the appropriate agency has been obtained.

2. That all of the remaining parts of the Project, including the proposed new water distribution lines and all other appurtenant facilities incident to the Project, have been, can and/or will be constructed, to the extent that such construction requires our approval (a) within the boundaries of the easements and rights-of-way established in said right-of-way map and/or (b) within the boundaries of the easements and rights-of-way which, according to the documents referred to above, have heretofore been obtained or contracted for by the District or can be obtained by the District by purchase or condemnation; or in the beds of highways, streets and alleys, or in other public ways duly dedicated to public use, and with respect to which the District has obtained the necessary permits and/or has the power and right to order said construction therein.

3. That the District has entered into contracts for the construction of the Project; that construction of the Project was initiated in the month of November, 2001; that construction of the Project has proceeded with due diligence, and will continue to proceed hereafter to completion with due diligence; that construction of the Project will be completed within less than three years from said date of commencement of construction; and that it is reasonably anticipated that at least 95% of the funds available, i.e., spendable proceeds of the Current Bonds, together with proceeds of the aforesaid grants and the aforesaid connection charges, will be expended on the costs of construction of the Project within less than three years from the date of delivery of the Current Bonds.

4. That we have conferred with said Local Counsel concerning the lines set out in said map and concerning the sites necessary for the Project and have satisfied ourselves that said Local Counsel has been informed by us and is aware of the need for obtaining (a) deeds of easement and/or rights-of-way as to all such easements and/or rights-of-way; and (b) deeds as to any and all sites deemed by us to be necessary in order to assure completion of the Project, as planned.

5. That we have also discussed with said Local Counsel our awareness of the need, if authorized by the District, to furnish said Local Counsel prompt and accurate information as to the legal descriptions of any and all easements, rights-of-way and/or sites, as may be necessary or required in connection with approved change-orders or other relocations which may be issued during the course of construction. We state that we will not knowingly approve construction of facilities of the Project on sites or in rights-of-way without first being assured by said Local Counsel that the appropriate legal title and/or legal right-of-way has been obtained.

6. That to the best of our knowledge, the Project has been and/or can be completed in accordance with the plans and specifications prepared and approved by us within the boundaries of the aforesaid sites, easements and/or rights-of-way, and, to the best of our knowledge, has been and/or can be completed in accordance with the construction contracts duly awarded by the District, at a cost which is within the funds made available to the District and by the District as set out above, based on the information available at this time and the projected final costs for the Project.

7. That we have examined (a) a copy of the Amended Water Rate Resolution adopted by the Board of Commissioners (the "Commission") of the District; (b) a schedule of the principal and interest requirements of the aforesaid Current Bonds; (c) a schedule of the principal and interest requirements of the outstanding Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988 (the "Series 1988 Bonds"); (d) a schedule of the principal and interest requirements of the outstanding Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990 (the "Series 1989 Bonds"); (e) a schedule of the principal and interest requirements of the outstanding Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992 (the "Series 1990 Bonds"); (f) a schedule of the principal and interest requirements of the outstanding Kentucky Infrastructure Authority Loans issued in February, 1992, June, 1994 and June, 1998 (the "KIA Loans"); (g) a schedule of the principal and interest requirements of the outstanding Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994 (the "Series 1993 Bonds"); (h) a schedule of the principal and interest requirements of the outstanding Mountain Water

District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995 (the "Bonds of 1995"); (i) a schedule of the principal and interest requirements of the outstanding Mountain Water District Waterworks Revenue Bonds, Series 1997, dated October 2, 1997 (the "Bonds of 1997"); and (j) a schedule of the principal and interest requirements of the outstanding Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999 (the "Bonds of 1998").

8. That in our opinion, based on current cost factors and other existing conditions, the rates established by the aforesaid Amended Water Rate Resolution, will generate sufficient revenues to the District to enable the District to meet (1) all principal and interest requirements falling due on the respective bond issues and on the respective dates, as follows:

- (a) The outstanding Series 1988 Bonds, falling due on January 1 in each of the respective years, 2003 through 2027;
- (b) The outstanding Series 1989 Bonds, falling due on January 1 in each of the respective years, 2003 through 2029;
- (c) The outstanding Series 1990 Bonds, falling due on January 1 in each of the respective years, 2003 through 2030;
- (d) The outstanding KIA Loans;
- (e) The outstanding Series 1993 Bonds, falling due on January 1 in each of the respective years, 2003 through 2032;
- (f) The outstanding Series 1995 Bonds, falling due on January 1 in each of the respective years, 2003 through 2034;
- (g) The outstanding Series 1997 Bonds, falling due on January 1 in each of the respective years, 2003 through 2036;
- (e) The outstanding Series 1998 Bonds, falling due on January 1 in each of the respective years, 2003 through 2038;
- (f) The Current Bonds, falling due on January 1, in each of the respective years, 2005 through 2042, plus all interest requirements falling due prior to January 1, 2005, other than such interest requirements as will be capitalized out of the proceeds of said Current Bonds; plus

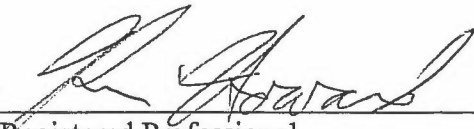
(2) all of the estimated operating and maintenance expenses of the System, plus (3) reasonable amounts for a reserve for depreciation and sinking fund purposes.

9. We certify that the prime Contractor from whom the District should obtain a statement as to all work performed by such Contractor being paid for in full according to its contract, at the time of delivery of the Current Bonds issued to finance the cost (not otherwise provided) of such Construction Project, is Wilmott Construction, Inc., 1686 Paradise Camp Road, Harrodsburg, Kentucky 40330

10. That in our opinion the first floor elevation of all structures is one (1) foot above the 100 year flood level and that a Permit to Construct Along or Across a Stream Course has been obtained.

IN TESTIMONY WHEREOF, witness our signature to the foregoing this July 26, 2002.

SUMMIT ENGINEERING, INC.
Consulting Engineers

By 
Registered Professional
Engineer, State of Kentucky
No. 13,575

CERTIFICATE OF RECEIPT OF RD GRANT PROCEEDS
AS OF DATE OF BOND CLOSING

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds Creek/Mouthcard Project).

The undersigned Chairperson and Secretary of the Mountain Water District (the "District") of Pike County, Kentucky, for and on behalf of said District, do hereby acknowledge that the District has received to date the total sum of \$31,568.30 of an approved grant in the amount of \$400,000 from the Rural Development, leaving a balance of approximately \$368,431.70 to be received by the District in the future, pursuant to the aforesaid grant award.

We certify that the proceeds of said grant are to be applied or are scheduled to be applied for the payment of the costs of construction of extensions, additions and improvements to the existing waterworks system of the District.

IN TESTIMONY WHEREOF, witness our official signatures on this July 26, 2002.

MOUNTAIN WATER DISTRICT

By Joni Akers
Chairperson

Attest:

Michael K. Ritzfeld
Secretary

CERTIFICATE OF RECEIPT OF BOND PROCEEDS
AND BOND DELIVERY

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds creek/Mouthcard Project).

The undersigned Chairperson and Secretary of the Mountain Water District (the "District") of Pike County, Kentucky, for and on behalf of said District, do hereby acknowledge receipt of a wire transfer from the Rural Development of the Department of Agriculture of the United States of America (the "RD"), in payment for the purchase and delivery of a certain single, fully registered Bond of said District, entitled "Mountain Water District Waterworks Revenue Bonds, Series 2001" (the "Current Bonds"), in the face amount of \$800,000, numbered R-1, dated the same date as the date of this Certificate.

We certify that said wire transfer represents the purchase price of the Current Bonds (\$800,000), less the amount heretofore advanced by the RD to the District as interim financing in anticipation of the issuance of the Current Bonds, to pay the costs of a construction project consisting of extensions, additions and improvements to the existing waterworks system (the "System") of the District, and to pay expenses and charges incident to the issuance and sale of the Current Bonds, and that the balance has been or will be deposited in the Mountain Water District Waterworks Construction Account at the Community Trust Bank, N.A., Pikeville, Kentucky.

We certify that the proceeds of said wire transfer have been or will be applied to the extent necessary to liquidate interim financing borrowed in anticipation of the issuance of the Current Bonds, to pay the costs of a construction project consisting of extensions, additions and improvements to the existing waterworks system (the "System") of the District and to pay expenses and charges incident to the issuance and sale of the Current Bonds, and that the balance has been or will be deposited in the Mountain Water District Waterworks Construction Account at the Community Trust Bank, N.A., Pikeville, Kentucky.

We further certify that the Current Bonds have been lawfully issued and sold by the District and delivered to the purchaser on the date hereof.

IN TESTIMONY WHEREOF, witness our official signatures and the corporate seal of said District on this July 26, 2002.

MOUNTAIN WATER DISTRICT

By Joni Akus
Chairperson

(Seal of District)

Attest:

Michael R. Stoffer
Secretary

ARBITRAGE CERTIFICATE

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds Creek/Mouthcard Project).

1. General. (a) The undersigned is the Chairperson of the Mountain Water District (the "Issuer") of Pike County, Kentucky.

(b) This Certificate is executed for the purpose of establishing the reasonable expectations of the Issuer as to future events regarding the Mountain Water District Waterworks Revenue Bonds, Series 2001 (the "Bonds") in the aggregate principal amount of \$800,000 authorized pursuant to a Resolution (the "Bond Resolution") adopted by the Board of Commissioners of the Issuer on October 31, 2001, in order that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

(c) The Issuer has not been notified of any listing or proposed listing of the Issuer by the Internal Revenue Service as an issuer that may not certify its bonds.

(d) The undersigned is one of the officers of the Issuer delegated with the responsibility of issuing and delivering the Bonds.

(e) To the best of the knowledge, information and belief of the undersigned, the expectations contained in this Certificate are reasonable.

(f) The facts and estimates in this Certificate are based on representations made by Summit Engineering, Inc. (the "Engineers") employed by the Issuer to prepare the plans and specifications and to supervise the construction of the Project defined in Section 2 hereof. The Issuer is not aware of any facts or circumstances that would cause it to question the accuracy of the representations made by the Engineers.

2. Purpose of the Bonds. (a) The Bonds are being issued for the purpose of providing funds (not otherwise provided) (i) for the permanent financing of the costs of extensions, additions and improvements (the "Project") to the existing waterworks system (the "System") of the Issuer, and (ii) for the costs of issuance of the Bonds.

(b) Upon the completion of the acquisition, renovation, construction and equipping of the Project, the Project will be owned and operated by the Issuer.

3. Sources and Disbursement of Funds. (a) The Bonds have been sold to the Rural Development (the "RD") at par (\$800,000). The Bonds will be delivered to the RD on the date of this Certificate upon payment by the RD of such purchase price with no accrued interest. Accordingly, the net amount received by the Issuer from the sale of the Bonds will be \$800,000 (the "Net Proceeds").

(b) The total funds available for the Project are derived from the following sources:

Bond Proceeds	\$800,000
RD Grant	400,000
ARC Grant	500,000
Coal Severance Tax (LGEDG) Grant	2,000,000
AML Grant	642,200
Coal Severance Tax (Mountain Water District Dedicated Fund) Grant	535,000
KIA 2001 Loan	1,197,700
Connection Charges	<u>48,100</u>
Total	\$6,123,000

(c) The Net Proceeds of the Bonds along with the other available moneys described above for the Project will be expended on the acquisition, construction, renovation, improvement and equipping of the Project and said moneys will be deposited in the Construction Fund (as defined in the Bond Resolution) for construction of the Project and for the payment of the costs of issuance of the Bonds.

(d) The Issuer has entered into a contract with a third party for the construction, renovation, improvements and equipping of the Project obligating an expenditure equal to or in excess of \$100,000.

(e) Such construction, renovation, improvement and equipping of the Project will proceed with due diligence to completion, presently expected to be December 31, 2003 and all of the approximately \$6,123,000 referred to above is expected to be expended prior to December 31, 2003.

4. The Bonds. The receipts and disbursements with respect to the Bonds, including issuance costs and accrued interest, are or will be detailed in Requisition Certificates signed by the Issuer and the Engineers.

5. Construction Fund. Amounts deposited in the Construction Fund and earnings with respect to such amounts will be expended for the payment of the balance of costs of the Project prior to the date of completion of the Project. Pending such expenditure, such monies will be invested without restriction as to yield.

6. Sinking Fund. Money deposited in the Sinking Fund will be used to pay the principal of and interest on the Bonds, and the Issuer reasonably expects that there will be no other funds that will be so used. The Sinking Fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Money deposited in the Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the outstanding Bonds and, except for an amount equal to not more than the greater of (a) one-twelfth

(1/12) of debt service requirements of the Bonds for the then ensuing year; or (b) one year's earnings on the Sinking Fund, the Sinking Fund will be depleted annually through such application for current debt service requirements of the Bonds. Amounts held in the Sinking Fund will be invested without being limited as to the maximum permissible rate of investment return.

7. Operation and Maintenance Fund. The Bond Resolution ratifies and confirms the creation of an Operation and Maintenance Fund. The moneys in the Operation and Maintenance Fund may be used to pay certain expenses related to the operation and maintenance of the System. Amounts deposited in the Operation and Maintenance Fund will not be reasonably expected to pay the principal of and interest on the Bonds. Amounts held in the Operation and Maintenance Fund will be invested without being limited as to the maximum permissible rate of investment return.

8. Depreciation Fund. (a) The Bond Resolution ratifies and confirms the creation of a Depreciation Fund. The moneys in the Depreciation Fund may be used to pay the costs of unusual or extraordinary maintenance, repairs, renewals and replacements to the System or of paying the cost of constructing future extensions, additions and/or improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service.

(b) Moneys on deposit in the Depreciation Fund may be used, when necessary, for the purpose of making payments of principal and interest on the Bonds, but such amounts will not be reasonably expected to pay the principal and interest on the Bonds. There will be no assurance that such amounts will be available to meet debt service on the Bonds if the Issuer encounters financial difficulty. Amounts held in the Depreciation Fund will be invested without being limited as to the maximum permissible rate of investment return.

9. No Replacement. No portion of the amounts received from the sale of the Bonds will be used as a substitute for other funds which were otherwise to be used to finance the Project, and which have been or will be used to acquire, directly or indirectly, obligations producing a yield in excess of the yield on the Bonds.

10. No Overissuance. Taking into account other available funds, the amount necessary to provide, or reimburse the Issuer, for payment of expenses of issuing and carrying the Bonds and financing the Project, equals or exceeds the Net Proceeds of the Bonds and income thereon.

11. No Other Obligations. No other governmental obligations have been or will be issued by the Issuer or any other entity (a) at substantially the same time as the Bonds (b) pursuant to a plan of financing common with that of the Bonds and (c) which either will be paid from substantially the same source of funds as the Bonds or will have substantially the same claim to be paid from substantially the same source of funds as the Bonds.

To the best of my knowledge and belief, there are no facts, estimates or circumstances other than those expressed herein that would materially affect the expectations herein expressed, and, to the best of my knowledge and belief, the Issuer's expectations are reasonable.

Dated July 26, 2002.

MOUNTAIN WATER DISTRICT

By Joni Akers
Chairperson

CERTIFICATE OF EXECUTION, NO LITIGATION
AND OF OUTSTANDING BOND ISSUES

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds Creek/Mouthcard Project).

We, Toni Akers, Chairperson, and Mike Litafik, Secretary, do hereby certify that we are the officers of the Board of Commissioners (the "Commission") of the Mountain Water District (the "District"), constituting the governing body of said District, in Pike County, Kentucky.

1. That pursuant to all legal requirements, including the Bond Resolution duly adopted by said Commission on October 31, 2001, there have been heretofore lawfully authorized the negotiable "Mountain Water District Waterworks Revenue Bonds, Series 2001" (the "Current Bonds"), in the aggregate principal amount of \$800,000, in the form of fully registered bonds, as such purchaser(s) may determine, bearing interest from the date thereof, which is the same date as the date of this Certificate.

2. That pursuant to the provisions of said Bond Resolution, the purchaser thereof, the Rural Development of the Department of Agriculture of the United States of America (the "RD"), duly elected to take delivery of said Current Bonds in the form of a single fully registered bond, representing the total authorized issue of Current Bonds, in the principal amount of \$800,000, dated as of the date of this Certificate, which is the date of delivery of and payment for said Current Bonds, payable to the registered owner (initially the RD), numbered R-1, bearing interest at the rate of 3.25% per annum. Interest on the Current Bonds is payable semiannually on January 1 and July 1, with principal installments being payable on January 1 in each of the respective years, 2005 through 2042, inclusive, as set out in the maturity schedule contained in said Bond Resolution.

3. That said Current Bond has been executed with the genuine signatures of the undersigned Chairperson and Secretary, with the corporate seal (the "Seal") of the District duly affixed to said Current Bond by one of us who was then and is now duly authorized to affix said Seal to said Current Bond, and that at that time, a true impression of said Seal was duly affixed to this Certificate at the place indicated below.

4. That on the date of execution of this Certificate we were, and now are, the duly appointed, qualified and acting officials indicated in this Certificate, and that we were and now are duly authorized to execute the same.

5. That said Current Bonds rank on a parity with certain outstanding bonds of the District listed as follows:

- (a) Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994 (the "Series 1993 Bonds");

- (b) Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995 (the "Bonds of 1995");
- (c) Mountain Water District Waterworks Revenue Bonds, Series 1997, dated October 2, 1997 (the "Bonds of 1997");
- (d) Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999 (the "Bonds of 1998")

but are subject to the vested rights and priorities in favor of owners of certain outstanding bonds of the District listed as follows:

- (a) the outstanding Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988 (the "Bonds of 1988");
- (b) the outstanding Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990 (the "Bonds of 1989");
- (c) the outstanding Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992 (the "Bonds of 1990");
- (d) Kentucky Infrastructure Authority Loans issued in February, 1992, June, 1994 and June, 1998 (the "KIA Loans");

and the Bonds of 1988, the Bonds of 1989, the Bonds of 1990 Bonds, the KIA Loan, the Bonds of 1993, the Bonds of 1995, the Bonds of 1997, the Bonds of 1998 and the Current Bonds represent the only issues of bonds (the "Outstanding Bonds") or obligations of said District outstanding which by their terms are in any manner secured by or payable from the revenues of the District's waterworks system (the "System") as of the date hereof.

6. That no controversy or litigation is pending, prayed or threatened involving the creation, organization, existence or boundaries of said District, or the title of any of its officers to their respective positions, or the validity of the Current Bonds, or the power and authority of the District (1) to construct extensions, additions and improvements to its existing System; (2) to own and operate the System, including said extensions, additions and improvements as a revenue-producing undertaking; and (3) to provide and apply adequate revenues from the System for the full and prompt payment of the principal of and interest on the aforesaid Outstanding Bonds, on a parity, and for the cost of operation and maintenance of the System, and that none of the proceedings or authority for the issuance of said Current Bonds has been repealed, revoked, rescinded, modified, changed or altered in any manner.

IN TESTIMONY WHEREOF, we have hereunto affixed our respective official signatures and the Seal of said District, this July 26, 2002.

MOUNTAIN WATER DISTRICT

By *Joni Akers*
Chairperson

By *Michael K. Ristapp*
Secretary

(Seal of District)

CERTIFICATION OF ATTORNEY FOR DISTRICT

We, Stratton, Hogg & Maddox, P.S.C., hereby certify that we are Local Counsel for the Mountain Water District, that we have read the foregoing Certificate of Execution, No Litigation and of Outstanding Bond Issues, and that all of the facts stated therein are true to the best of our knowledge and belief.

Dated this July 26, 2002.

STRATTON, HOGG & MADDOX, P.S.C.
Pikeville, Kentucky

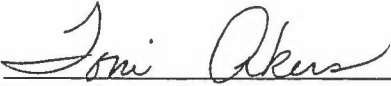

By *J. Edward Moadley*

CERTIFICATE AS TO OFFICIAL SEAL, INCUMBENCY
AND SIGNATURE IDENTIFICATION

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount
of \$800,000 (Feds Creek/Mouthcard Project).

We, the undersigned Chairperson and Secretary of the Mountain Water District (the
"District") of Pike County, Kentucky, do hereby certify that the Seal affixed below is the Official
Seal of said District.

We further certify that we are the duly elected, qualified and acting officers of said District,
as indicated by our signatures set out below; that the following signatures are our true and genuine
signatures; and that our terms of office are as hereinafter set out:

<u>Signatures</u>	<u>Beginning of Term Date</u>	<u>Expiration of Term Date</u>
 _____ Toni Akers, Chairperson	08-01-1998	08-01-2002
 _____ Mike Litafik, Secretary	08-01-2001	08-01-2005

We further certify that the other members of the Commission and their terms are as follows:

<u>Commissioner</u>	<u>Beginning of Term Date</u>	<u>Expiration of Term Date</u>
Terry Spears	08-01-1998	08-01-2002
Randal Good	08-01-1999	08-01-2003
Earl Sullivan	08-01-2001	08-01-2005

(Seal of District)

PRE-CLOSING - NOVEMBER 8, 2001

RE: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000 (Feds Creek/Mouthcard Water Supply Project)

SIGNATURE

FIRM/COMPANY

RUBIN & HAYS
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

W. O'Connell Jones

H. Edward Mastley

AH4
Pikeville, KY 41501

Ronnie Brooks

USDA / Rural Development

Pier Brown

MWD

Michael Spears

MICHAEL R SPEARS, CPA, PSC

R. Howard

SUMMIT ENGINEERING

Scott Thomson

DOW / DWSB, Frankfort

Kimberly R. Hunt

MWD

Earl Sutton

MWD

Joni Akers

MWD

Jerry Spears by KH via telephone

MWD

MEMO AS TO PRE-CLOSING

Re: Mountain Water District Waterworks Revenue Bonds, Series 2001, in the amount of \$800,000.

1. The pre-closing conference took place on November 8, 2001, at 1:00 P.M., E.S.T., at the District's office in Pikeville, Kentucky, and each person present signed the List of Signatures.
2. The requirements of the Rural Development (the "RD") Letter of Conditions, dated December 20, 1999, and the Closing Instructions, dated June 20, 2001, were discussed.
3. Matters pertaining to railroad crossings, County road easements, U.S. Highway easements and Kentucky Department of Transportation Utility Access Permits were resolved.
4. The procedure for the payment of funds out of interim financing proceeds was double-checked with the Mountain Water District (the "District") and the RD, and it was ascertained that the District had established the "Mountain Water District Waterworks Construction Account" (the "Construction Account"), at Community Trust Bank, N.A., Pikeville, Kentucky (the "Depository Bank"), pursuant to Section 301 of the Bond Resolution..

Written approval of the Engineers will not be required for payment of items not under the jurisdiction of the Engineers, consisting of administrative costs such as legal fees, land acquisition and related items, in which instances such amounts shall be disbursed upon the issuance of a Requisition Certificate signed by the Chairperson with written approval of the RD.

To the extent that such amounts on deposit in the Construction Account exceed \$100,000 at any time, such Construction Account will be collateralized by a valid pledge of U.S. obligations.

The approving legal opinion of Bond Counsel as to interim financing was handed to the RD and Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky (the "Interim Financing Bank"), and a copy of same was placed in the Transcript.

5. An Operating and Management Plan had been prepared and approved by the District and approved by the RD, and a copy was obtained to be placed in the Transcript.
6. Evidence of the following had been or was obtained and placed in the Transcript:
 - (a) Execution of Fidelity Bond of Treasurer (\$452,000).
 - (b) Insurance, including real property insurance on above-ground structures, liability insurance, builders' risk insurance and Worker's Compensation.
 - (c) Signing of color-coded map.

- (d) Costs and expenses of the project to date, including amounts owed to Local Counsel, Bond Counsel, Contractors, Engineers and any other persons (if any) entitled to such payments, plus reimbursement to the District for publication and other necessary costs (established in Statement prepared by the Engineers).

7. RD Forms were obtained and placed in the Transcript, as follows:

- (a) 400-1, Equal Opportunity Agreement.
- (b) 400-3, Notice to Contractors and Applicants.
- (c) 400-4, Assurance Agreement.
- (d) 400-8, Compliance Review.
- (e) 427-9, Preliminary Title Opinion as to each site.
- (f) 442-7, Operating Budget.
- (g) 442-21, Right of Way Certificate.
- (h) 442-22, Opinion of Counsel Relative to Rights-of-Way.
- (i) 1910-11, Applicant Certification Federal Collection Policies or Commercial Debts.
- (j) 1940-1, Request for Obligation of Funds.
- (k) 1942-31, Grant Agreement.
- (l) 1942-47, Loan Resolution.
- (m) AD-1047, Certification Regarding Debarment, Suspension and Other Responsibility Matters.
- (n) AD-1049, Certification Regarding Drug-Free Workplace Requirement.

8. The following pre-closing documents and certificates, prepared by Bond Counsel, were properly executed and placed in the Transcript:

- (a) Opinion as to Due Incorporation and Continued Existence of Water District.
- (b) Opinion as to Legal Sufficiency of Engineers' Contract.
- (c) Opinion of Counsel Relative to Advertisement for Construction Bids, Award of Contracts and the Execution Thereof.
- (d) Certificate as to Distribution System Operator.
- (e) Certificate as to Number of waterworks Users.
- (f) Certificate as to Official Seal, Incumbency and Signature Identification.
- (g) Certificate as to No Litigation and Outstanding Bond Issues.
- (h) Certificate of Engineers (For Purpose of Pre-Closing).
- (i) Certificate of RD Manager.
- (j) Certificate of RD as to Insurance and Bonding.
- (k) Title Opinion as to waterworks Project (For Purpose of Pre-Closing).
- (l) Legal Opinion of Bond Counsel as to interim financing.
- (m) Form of Bond Anticipation Note to Kentucky Rural Water Finance Corporation.

(n) Signature Sheet.

9. It was determined that construction should proceed, and checks were issued in payment of all items of expense contained in the Statement prepared by the Engineers.

LAW OFFICES OF
STRATTON, HOGG & MADDOX, P.S.C.

P.O. BOX 1530
111 PIKE STREET
PIKEVILLE, KY 41502
PHONE: (606) 437-7800
FAX: (606) 437-7569
E-MAIL: shmlaw@setel.com

DAVID C. STRATTON
STEPHEN L. HOGG
II. EDWARD MADDOX
DANIEL P. STRATTON

HENRY D. STRATTON (1925-1989)
F. BYRD HOGG (1922-1999)

November 8, 2001

TITLE OPINION
AS TO WATERWORKS PROJECT

We, Stratton, Hogg & Maddox, P.S.C., Attorneys at Law, Pikeville, Kentucky, representing the Mountain Water District of Pike County, Kentucky (the "District"), certify:

(1) That we have investigated and ascertained the location of the various sites of major structures and installations to be constructed in connection with certain proposed extensions, additions and improvements (the "Project") to the existing waterworks system of the District (the "System"), together with all rights-of-way and easements necessary in connection with the construction of the Project and in connection with the continued ownership and operation of the System.

(2) That we have examined the records of the ownership of said sites and we are of the opinion that said District now owns fee simple title to all of said sites and that said title is free and clear of all liens and encumbrances which might adversely affect the right of the District to the use of the same in operation of the System, subject to the encumbrances referred to in Paragraph 12 hereof.

(3) That we have further examined the right-of-way instruments, permits and/or licenses obtained from landowners, public bodies and public utilities.

(4) That we have taken cognizance of the fact that the District possesses the power of eminent domain which would enable it to perfect title to any pertinent easements and/or right-of-way as to which its title might be defective, and that the cost of perfecting any such title is considered to be negligible in view of the fact that in virtually every instance the easement or right-of-way improves, rather than damages, the value of the property, by reason of bringing the System to such property; and accordingly, if and to any possible extent that the District does not have adequate title to such easements and/or rights-of-way for the purpose desired, the District can, in our opinion, obtain such easements and/or rights-of-way, either through negotiation or through the exercise of the power of eminent domain, without exceeding the funds available.

STRATTON, HOGG & MADDOX, P.S.C.

November 8, 2001

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(5) That we have examined the instruments creating the aforesaid easements and/or rights-of-way and that it is our opinion that said instruments are valid as to form and substance for the purpose intended, although we have not examined the title records as to each of such easements and/or rights-of-way and express only a limited opinion as to the title thereto, based on such limited examination as set out herein.

(6) That based on the subject to the foregoing, we are of the opinion that the District now owns the necessary permanent rights-of-way and easements for ingress to and egress from the aforesaid sites and the necessary permanent rights-of-way and/or easements for water lines to and from said sites, connecting with the water mains and lines extending throughout the System, and that the District has sufficient legal title and interest in said sites, rights-of-way and easements to permit the construction of the necessary waterworks facilities thereon as contemplated and to permit the operation and maintenance of such facilities thereon during the estimated life of such facility or facilities by the District after completion of construction.

(7) That the District has acquired the necessary permits, franchises and authorizations or other instruments by whatsoever name designated, from public utilities and public bodies commissions or agencies, authorizing the construction, operation and maintenance of the facilities upon or across streets, roads, highways, railroads and public utilities, whenever and wherever the same are affected.

(8) That a right-of-way map, as furnished by the District, shows the location and distribution of all land and rights-of-way acquired by the District and/or necessary to be acquired by the District in connection with the Project. Attention is called to certified copies of all deeds for said rights-of-way and easements over adjacent properties, for the purpose of ingress to and egress from said site locations; also the necessary permits from the Department of Highways of the Commonwealth of Kentucky and from Pike County, Kentucky, insofar as the same affect the roads, streets, highways, and other properties belonging to them. These exhibits were furnished with a preliminary certificate and opinion (RD Form 442-22) in connection with the financing of the Project.

(9) That in that connection, we have conferred with Summit Engineering, Inc., the engineers employed by the District in connection with the Project, concerning the lines set out in said map and concerning the sites necessary, according to said Engineers, for the construction of the Project; that we have satisfied ourselves that we are thoroughly familiar with the lines and sites required by said map and by the Engineers for the construction of said Project, and that subject to possible exceptions as to title, referred to in Paragraph 4 hereof, we are satisfied that the District has obtained deeds of easements and/or rights-of-way and/or sites required by the District, as set out in said map, and according to information furnished to us by the Engineers, as being necessary for the construction of said Project. We have also discussed with the Engineers the

STRATTON, HOGG & MADDOX, P.S.C.

November 8, 2001

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need for being furnished prompt and accurate information as to the legal descriptions of any and all easements, rights-of-way and/or sites, as may be required in connection with any approved change-orders with reference to the Project which may be issued during the course of construction.

(10) That the estate and interest of the District in such sites, easements and rights-of-way are legal and valid, and that all Deeds, conveyances and documents pertaining to or evidencing ownership or other rights in any interest in land which will or may be utilized by or for the Project or which may be required in connection therewith have been duly recorded, except for three (3) easements which are in hand and will be recorded when signed by Mountain Water District, as required by law in the office of the Pike County Clerk in Pikeville, Kentucky.

(11) That we have examined the various records of Pike County, and other pertinent proceedings, documents and showings and have consulted with officials of the District concerning the title of the District to its existing waterworks System; and that it is a matter of common knowledge and in no way controverted by such records that the District is the owner of its existing waterworks System.

(12) That the title of the District to all of the sites, rights-of-way and/or easements referred to herein and to the existing System is encumbered by a lien on and an exclusive pledge of the revenues of the System, for the benefit of the owners of the outstanding bonds of an authorized issue of \$800,000 of Mountain Water District Waterworks Revenue Bonds, Series 2001 (the "Current Bonds"), which lien and pledge were created or made by the District as security for the issuance of said Current Bonds. Said Current Bonds rank on a parity as to security and source of payment with certain outstanding Bonds of the District, as follows:

- (a) Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994 (the "Bonds of 1993");
- (b) Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995 (the "Bonds of 1995");
- (c) Mountain Water District Waterworks Revenue Bonds, Series 1997, dated October 2, 1997 (the "Bonds of 1997"); and,
- (d) Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999 (the "Bonds of 1998");

but are subject to the vested rights and priorities of the owners of the outstanding:

STRATTON, HOGG & MADDOX, P.S.C.

November 8, 2001

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- (a) Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988 (the "Bonds of 1988");
- (b) Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990 (the "bonds of 1989");
- (c) Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992 (the "Bonds of 1990"); and,
- (d) Kentucky Infrastructure Authority Loans issued in February, 1992, June, 1994 and June, 1998 (the "KIA Loans");

and said title of the District is subject to no other encumbrances of record.

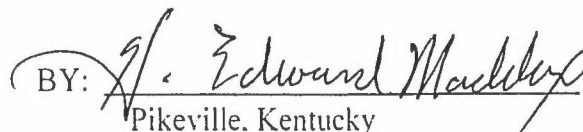
(13) That there are no taxes or assessments now delinquent or becoming delinquent relative to or affecting any sites, easements and/or rights-of-way pertaining to the System.

(14) That the Project shall be constructed in a manner which is consistent with the comprehensive area water and sewer plan, is in compliance with all applicable zoning laws, and is not inconsistent with any development plans of the Commonwealth of Kentucky, Pike County, or any multi-jurisdictional area in which the District is located.

~~(15) That no controversy or litigation is pending, prayed or threatened, involving the creation, organization, existence or boundaries of the District, or the title of any of its officers to their respective positions, or the validity of the Current Bonds, as and when issued, or the power and authority of the District to construct the Project, to own and operate the System as a revenue-producing undertaking, and to provide and apply adequate revenues therefrom for the full and prompt payment of the principal of and interest on the aforesaid Bonds of 1988, Bonds of 1989, Bonds of 1990, KIA Loans, Bonds of 1993, Bonds of 1995, Bonds of 1997, Bonds of 1998 and the Current Bonds, as and when issued, and that none of the proceedings or authority for the issuance of the Current Bonds has been repealed, revoked, rescinded, modified, changed or altered in any manner.~~

IN TESTIMONY WHEREOF, witness our signatures this November 8, 2001.

STRATTON, HOGG & MADDOX, P.S.C.

BY: 
Pikeville, Kentucky



11/08/2001

**Mr. Gary Larimore, Secretary/Treasurer
Kentucky Rural Water Finance Corporation
P.O. Box 1424
Bowling Green, Ky. 42102-1424**

**Re: Mountain Water District
RD Commitment of Permanent Financing**

Dar Mr. Larimore:

Reference is made to a request from the Mountain Water District, Toni Akers, Chairperson, for interim financing from the Kentucky Rural Water Finance Corporation to expand the District's water system at the interest rate and terms and conditions agreed upon, as reflected in the attached copy of your loan agreement.

This letter is to confirm certain understandings on behalf of Rural Development.

Final plans and specifications have been prepared and approved, bids have been taken, and the Water District has awarded the construction contracts to the qualified low bidder(s). It has been determined by the Water District and Rural Development that the conditions of the loan closing can be met.

Funds in the amount of \$800,000.00 have been obligated for the project, as evidenced by the attached documentation.

It is proposed by the Water District with the approval of Rural Development that the Corporation advance funds in accordance with the agreed terms and conditions stated in your attached agreement, as needed to pay for construction and other authorized and legally eligible expenses incurred by the Water District. It must be understood that advances of the interim loan funds will be made only upon presentation of proper statements and partial payment estimates prepared by the contractors, approved for payment by the Water District's engineer, the Water District's authorized representative, and the authorized official of Rural Development.

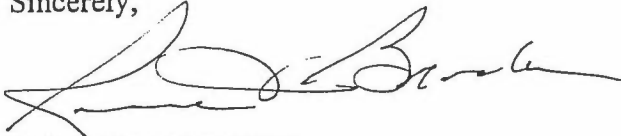
The loan will be scheduled for closing by Rural Development when construction to be financed by the RD loan funds is substantially complete in accordance with the RD approved contract documents, drawings, and specifications. At that time, funds not exceeding the RD loan amount will be available to pay off the amount of loan advances your lending institution has made for authorized approved purposes, including accrued interest to the date of closing.

Prior to loan closing, the Water District will also be required to provide Rural Development with statements from the contractors, engineer and attorneys, that they have been paid to date in accordance with their contracts or other agreements and subcontractors have been paid. The Water District must be able to execute the Certificate of No-Litigation in order for Rural Development to close the loan.

Rural Development appreciates your assistance to the Water District and the community and looks forward to working with you on this project.

If there are any questions, please call Ronnie Brooks of this office at (606)784-6447, Ext. 116.

Sincerely,



JOSEPH C. FRAZIER
Rural Development Manager

Enclosures

cc: RD, State Director, Att: RUS
RD, Area Office File
Mountain Water District
Randy Jones, Rubin & Hays ✓
H. Edward Maddox, Local Counsel
Kevin Howard, Summit Engineering, Inc.
Bob Pennington, Kirkpatrick Pettis

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 Email: rh@rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

PARALEGAL
MARY M. EMBRY

OPINION OF BOND COUNSEL

November 8, 2001

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and Mountain Water District dated as of November 8, 2001

We hereby certify that we have reviewed and are familiar with the proceedings of the Board of Commissioners (the "Governing Authority") of the Mountain Water District (the "Governmental Agency"), in connection with the authorization, execution and delivery of a Loan Agreement between the Kentucky Rural Water Finance Corporation, (the "Corporation") and the Governmental Agency, dated November 8, 2001 (the "Loan Agreement") and the form of the Loan Notes from the Governmental Agency to the Corporation (the "Loan Note") evidencing the loan in the amount not to exceed \$800,000 being issued by the Corporation to the Governmental Agency pursuant to the Loan Agreement and the Loan Note to provide interim financing (the "Loan") for the construction of a project (the "Project") consisting of improvements to the waterworks system of the Governmental Agency (the "System"); and the proposed issuance of bonds by the Governmental Agency in the amount of \$800,000, to be dated the date of the issuance thereof (the "Bonds") to repay the Loan and provide permanent financing for the Project.

Our examination of such proceedings included (a) the proceedings of the Governing Authority held on October 31, 2001, adopting a resolution authorizing the Loan Agreement (the "Resolution") (b) the proceedings of the Governing Authority held on October 31, 2001, adopting legislation authorizing the Bonds (the "Bond Legislation"); and (c) the proceedings of the Governing Authority held on November 8, 2001, accepting the successful bid of the United States Department of Agriculture, Rural Development (the "RD") for the purchase of the Bond.

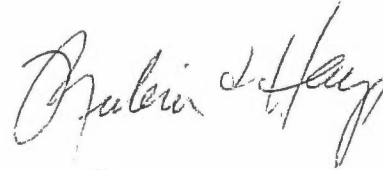
Based upon our examination of the aforesaid proceedings, we are of the opinion that the Governmental Agency has a valid contract with the RD, in which the Governmental Agency has agreed to sell and RD has agreed to purchase Bonds at par, and that the Bonds, when issued in accordance with the aforesaid proceedings, will be valid and legally binding upon the Governmental Agency and will be secured by and payable from a pledge of the gross revenues of the System.

Based upon our review of such proceedings and applicable laws, it is our opinion that the Loan Agreement has been validly authorized, executed and delivered by and on behalf of the Governmental Agency.

The rights and remedies of the Corporation under the Loan Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, or similar laws, or judicial decisions affecting the rights of creditors generally, and by the application of equitable principles where equitable remedies are sought.

This opinion letter is issued to, and solely for the benefit and reliance of, the Corporation and may not be relied upon by any persons other than the Corporation.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Pauline J. Hays". The signature is written in dark ink and is positioned below the typed name "Pauline J. Hays".

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT APPROVING AND AUTHORIZING A LOAN AGREEMENT WITH THE KENTUCKY RURAL WATER FINANCE CORPORATION

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

WHEREAS, the Governmental Agency desires the Kentucky Rural Water Finance Corporation (the "Corporation") to act as its agency and instrumentality for the purpose of providing monies to construct the Project and has made an application to the Corporation therefore; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into a Loan Agreement with the Corporation;

NOW, THEREFORE, BE IT RESOLVED by the Governing Authority of the Mountain Water District, as follows:

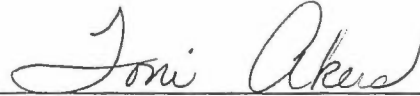
SECTION 1. That the Governing Authority hereby requests to the Corporation to act as its agency and instrumentality in obtaining interim financing and hereby approves and authorizes the Loan Agreement between the Governmental Agency and the Corporation substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the Project and the Loan Note from the Governmental Agency to the Corporation in the amount not to exceed \$800,000.

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

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

Adopted on October 31, 2001.

MOUNTAIN WATER DISTRICT



Chairperson

Attest:

By



Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Mountain Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Governing Authority of said District at a meeting duly held on October 31, 2001; that said official action appears as a matter of public record in the official records or Journal of the Governing Authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.823; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 31st day of October, 2001.



Secretary

ASSISTANCE AGREEMENT

BETWEEN

KENTUCKY RURAL WATER FINANCE CORPORATION

AND

MOUNTAIN WATER DISTRICT

DATED

AUGUST 29, 2012

IN THE AMOUNT OF \$6,270,000

This document was prepared by:

RUBIN & HAYS
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
(502) 569-7525

By

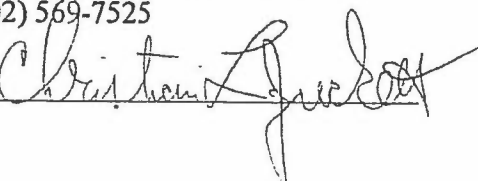


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EXHIBIT A..... Debt Service Schedule

ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of August 29, 2012 (the "Assistance Agreement") by and between the Kentucky Rural Water Finance Corporation, a non-profit agency and instrumentality of various political subdivisions of the Commonwealth of Kentucky duly organized and existing under the laws of the Commonwealth of Kentucky (the "Issuer") and the Mountain Water District, P.O. Box 3157, Pikeville, Kentucky 41502 (the "Governmental Agency"):

WITNESSETH

WHEREAS, the Issuer has established its Public Projects Flexible Term Program (the "Program") designed to provide financing for the expansion, addition and improvements of public projects for governmental entities under which the Issuer issued its Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001, dated April 4, 2001, in the aggregate principal amount of \$46,000,000 (the "Series 2001 Bonds") pursuant to a Trust Indenture dated as of April 4, 2001 (the "Indenture") between the Issuer and Regions Bank, Nashville, Tennessee (as successor in interest to Fifth Third Bank and The Bank of New York Trust Company, N.A.), as trustee (the "Trustee"), the net proceeds of which will be applied for the benefit of such governmental entities by making loans, pursuant to Assistance Agreements; and

WHEREAS, pursuant to the Indenture, the Issuer has authorized the issuance of the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E (the "Series 2012E Bonds") in the aggregate principal amount of \$14,550,000, pursuant to a Supplemental Trust Indenture No. 47, dated as of August 29, 2012 by and between the Issuer and the Trustee, which Series 2012E Bonds will rank on a parity with the Series 2001 Bonds and the proceeds of which will be used by certain Governmental Agencies to acquire, construct and equip public projects described in various Assistance Agreements by and between the Governmental Agencies and the Issuer; and

WHEREAS, the Governmental Agency has outstanding its:

1. Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000,
2. Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000,
3. Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992, in the original authorized principal amount of \$1,488,000,
4. Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000,
5. Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$1,334,000,

6. Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000, and
7. Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000

(collectively the "Refunded Bonds"), which bonds were issued by the Governmental Agency to make improvements and extensions to the Governmental Agency's waterworks and sewer system (the "System"); and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable and in the public interest to currently refund the Refunded Bonds, in order to effect substantial debt service savings (the "Project"), and the Issuer has determined that the Project is a project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Issuer; and

WHEREAS, the Governmental Agency has designated the Issuer as its instrumentality and agency; and

WHEREAS, pursuant to this Assistance Agreement the Governmental Agency will proceed with the Project; and

WHEREAS, in and by the Prior Bond Legislation (as hereinafter defined), the right and privilege was reserved by the Governmental Agency under conditions and restrictions set out in said Prior Bond Legislation, of issuing additional bonds from time to time, payable from the income and revenues of the System and ranking on a parity with the Governmental Agency's outstanding Prior Bonds (as hereinafter defined), for the purpose, among other things, of financing the costs of extensions, additions and improvements to the System and refinancing certain outstanding indebtedness, which conditions and restrictions are found to currently exist and prevail so as to permit the issuance of certain proposed additional bonds so as to rank, when issued, on a parity with the outstanding Prior Bonds; and

WHEREAS, it is deemed necessary and advisable for the best interests of the Governmental Agency that it enter into this Assistance Agreement with the Issuer in order to borrow funds (the "Loan") in the amount of \$6,270,000 [the "Obligations"], for the purpose of providing funds for the Project, and to reaffirm the conditions and restrictions under which similar bonds or obligations may be subsequently issued ranking on a parity therewith; and

WHEREAS, under the provisions of Sections 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes, and under the provisions of the Prior Bond Legislation, the Governmental Agency is authorized to enter into this Assistance Agreement and to borrow the Obligations to provide such funds for the purpose aforesaid; and

WHEREAS, the Issuer is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the

conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained; and

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

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

Section 1. Definitions. As used in this Assistance Agreement, unless the context requires otherwise:

"Act" refers to Chapters 58 and 74 of the Kentucky Revised Statutes.

"Assistance Agreement" refers to this Assistance Agreement authorizing the Loan and the Obligations.

"Bond Counsel" refers to Rubin & Hays, Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202, or any other nationally recognized individual or firm in the field of municipal bond law.

"Bond Legislation of 1988" or *"1988 Bond Legislation"* refer to the Resolution authorizing the Series 1988 Bonds, duly adopted by the Governing Body of the Governmental Agency on February 25, 1988.

"Bond Legislation of 1989" or *"1989 Bond Legislation"* refer to the Resolution authorizing the Series 1989B Bonds, duly adopted by the Governing Body of the Governmental Agency on July 20, 1989.

"Bond Legislation of 1990" or *"1990 Bond Legislation"* refer to the Resolution authorizing the Series 1990 Bonds, duly adopted by the Governing Body of the Governmental Agency on January 10, 1991.

"Bond Legislation of 1993" or *"1993 Bond Legislation"* refer to the Resolution authorizing the Series 1993 Bonds, duly adopted by the Governing Body of the Governmental Agency on March 18, 1993.

"Bond Legislation of 1995" or *"1995 Bond Legislation"* refer to the Resolution authorizing the Series 1995 Bonds, duly adopted by the Governing Body of the Governmental Agency on July 19, 1995.

"Bond Legislation of 1997 (Water and Sewer)" or *"1997 Water and Sewer Bond Legislation"* refer to the Resolution authorizing the Series 1997 Water and Sewer Bonds, duly adopted by the Governing Body of the Governmental Agency on September 24, 1997.

"Bond Legislation of 1998 (Water and Sewer)" or *"1998 Water and Sewer Bond Legislation"* refer to the Resolution authorizing the Water and Series 1998 Water and Sewer Bonds, duly adopted by the Governing Body of the Governmental Agency on October 28, 1998.

"Bond Legislation of 2001" or *"2001 Bond Legislation"* refer to the Resolution authorizing the Series 2001 Bonds, duly adopted by the Governing Body of the Governmental Agency on October 31, 2001.

"Bond Legislation of 2003 (Sewer)" or *"2003 Sewer Bond Legislation"* refer to the Resolution authorizing the Series 2003 Sewer Bonds, duly adopted by the Governing Body of the Governmental Agency on July 30, 2003.

"Bond Legislation of 2004" or *"2004 Bond Legislation"* refer to the Resolution authorizing the Series 2004 Bonds, duly adopted by the Governing Body of the Governmental Agency on April 28, 2004.

"Bond Legislation of 2004 (Sewer)" or *"2004 Sewer Bond Legislation"* refer to the Resolution authorizing the Series 2004 Sewer Bonds, duly adopted by the Governing Body of the Governmental Agency on August 25, 2004.

"Bond Legislation of 2005" or *"2005 Bond Legislation"* refer to the Resolution authorizing the Series 2005 Bonds, duly adopted by the Governing Body of the Governmental Agency on October 26, 2005.

"Bond Legislation of 2006 (Sewer)" or *"2006 Sewer Bond Legislation"* refer to the Resolution authorizing the Series 2006 Sewer Bonds, duly adopted by the Governing Body of the Governmental Agency on November 21, 2006.

"Bond Legislation of 2008" or *"2008 Bond Legislation"* refer to the Resolution authorizing the Series 2008 Bonds, duly adopted by the Governing Body of the Governmental Agency on February 27, 2008.

"Bondowner", "Owner", "Bondholder" means and contemplates, unless the context otherwise indicates, the registered owner of one or more of the Bonds at the time issued and outstanding hereunder.

"Bonds" refers to the Obligations, the Prior Bonds and any additional Parity Bonds.

"Certified Public Accountants" refers to an independent Certified Public Accountant or firm of Certified Public Accountants, duly licensed in Kentucky and knowledgeable about the affairs of the System and/or of other Governmental Agency financial matters.

"Code" refers to the United States Internal Revenue Code of 1986, as amended, and any regulations issued thereunder.

"Compliance Group" refers to the Compliance Group identified and defined in the Indenture.

"Depreciation Fund" refers to the Mountain Water District Water System Depreciation Fund, created in the Prior Bond Legislation and which Depreciation Fund will continue to be maintained for the benefit of all of the Bonds.

"Engineer" or "Independent Consulting Engineer" refers to an Independent Consulting Engineer or firm of Engineers of excellent national reputation or of recognized excellent reputation in Kentucky in the fields of waterworks and sewer engineering.

"Fiscal Year" refers to the annual accounting period of the Governmental Agency, beginning on January 1, and ending on December 31, of each year.

"Funds" refers to the Revenue Fund, the Sinking Fund, the Operation and Maintenance Fund, the Depreciation Fund and the Governmental Agency Account.

"Governing Body" means the Board of Commissioners of the Governmental Agency or such other body as shall be the governing body of said Governmental Agency under the laws of Kentucky at any given time.

"Governmental Agency" refers to the Mountain Water District, P.O. Box 3157, 6332 Zebulon Hwy, Pikeville, Kentucky 41502.

"Governmental Agency Chief Executive" refers to the Chairman of the Governing Body of the Governmental Agency.

"Governmental Agency Clerk" refers to the Secretary of the Governing Body.

"Indenture" means the Trust Indenture, dated as of April 4, 2001, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental indenture, including the Supplemental Trust Indenture No. 47, dated August 29, 2012, by and between the Issuer and the Trustee.

"Interest Payment Date" shall mean the 1st day of each month, commencing October 1, 2012 and continuing through and including July 1, 2039 or until the Loan has been paid in full.

"Issuer" refers to the Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky.

"KIA Loans" refers to the outstanding Kentucky Infrastructure Authority loans to the Governmental Agency, including notes: dated February 1992 in the original amount of \$186,711, dated June 1994, in the original amount of \$5,165,093, dated June 1994, in the original amount

of \$337,760, dated January 2002, in the original amount of \$1,197,072, dated June 2004 in the original amount of \$226,776.

"*Obligations*" refers to the Loan authorized by this Assistance Agreement in the principal amount of \$6,270,000, maturing July 1, 2039.

"*Operation and Maintenance Fund*" refers to the Mountain Water District Water System Operation and Maintenance Fund created and confirmed in the Prior Bond Legislation, which Fund will continue to be maintained for the benefit of the System.

"*Outstanding Bonds*" refers collectively to all outstanding Prior Bonds, the outstanding Obligations and any outstanding Parity Bonds, and does not refer to any bonds that have been defeased.

"*Parity Bonds*" means bonds issued in the future, which will, pursuant to the provisions of this Assistance Agreement, rank on a basis of parity with the Obligations and shall not be deemed to include, nor to prohibit the issuance of, bonds ranking inferior in security to the Obligations.

"*Permitted Investments*" refers to the following:

(a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including but not limited to national or state banks chartered in the Commonwealth of Kentucky;

(b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:

- i. United States Treasury;
- ii. Export-Import Bank of the United States;
- iii. Farmers Home Administration;
- iv. Government National Mortgage Corporation; and
- v. Merchant Marine bonds;

(c) Obligations of any corporation of the United States government, including but not limited to:

- i. Federal Home Loan Mortgage Corporation;
- ii. Federal Farm Credit Banks;
- iii. Bank for Cooperatives;
- iv. Federal Intermediate Credit Banks;
- v. Federal Land Banks;
- vi. Federal Home Loan Banks;

- vii. Federal National Mortgage Association; and
- viii. Tennessee Valley Authority;

(d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institutions which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS Section 41.240(4);

(e) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated on one (1) of the three (3) highest categories by a nationally recognized rating agency;

(f) Banker's acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;

(g) Commercial paper rated in the highest category by a nationally recognized rating agency;

(h) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities;

(i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and

(j) Shares of mutual funds, each of which shall have the following characteristics:

- i. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
- ii. The management company of the investment company shall have been in operation for at least five (5) years; and
- iii. All of the securities in the mutual fund shall be eligible investments under this section.

Investments in the above instruments are subject to the following conditions and limitations:

(a) The amount of money invested at any time by a local government or political subdivision in one (1) or more of the categories of investments authorized by subsection (e), (f), (g), and (i) of this definition shall not exceed twenty percent (20%) of the total amount of money invested by the local government; and

(b) No local government or political subdivision shall purchase any investment authorized herein on a margin basis or through the use of any similar leveraging technique.

"*Prior Bond Legislation*" refers to the 1997 Water and Sewer Bond Legislation, 2001 Bond Legislation, 2003 Sewer Bond Legislation, 2004 Sewer Bond Legislation, 2005 Bond Legislation, 2006 Sewer Bond Legislation, and 2008 Bond Legislation.

"*Prior Bonds*" refers collectively to the Series 1997 Water and Sewer Bonds, Series 2001 Bonds, Series 2003 Sewer Bonds, Series 2004 Sewer Bonds, Series 2005 Bonds, Series 2006 Sewer Bonds, Series 2008 Bonds, and KIA Loans.

"*Program*" refers to the Issuer's Public Projects Flexible Term Program designed to provide financing for the expansion, addition and improvement of public projects for governmental entities.

"*Program Administrator*" refers to the Kentucky Rural Water Association, Inc., Bowling Green, Kentucky.

"*Program Reserve Fund*" refers to the Program Reserve Fund created and established pursuant to Section 4.2 of the Indenture.

"*Project*" refers to financing the cost to currently refund the outstanding Refunded Bonds, with the proceeds of the Obligations.

"*Refunded Bonds*" refers to the Series 1988 Bonds, Series 1989B Bonds, Series 1990 Bonds, Series 1993 Bonds, Series 1995 Bonds, Series 1998 Water and Sewer Bonds, and Series 2004 Bonds.

"*Revenue Fund*" refers to the Mountain Water District Water System Revenue Fund created in the Prior Bond Legislation and which Revenue Fund will continue to be maintained for the benefit of all of the Bonds.

"*Series 1988 Bonds*" refers to the outstanding Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000.

"*Series 1989B Bonds*" refers to the outstanding Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000.

"*Series 1990 Bonds*" refers to the outstanding Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992, in the original authorized principal amount of \$1,488,000.

"*Series 1993 Bonds*" refers to the outstanding Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000.

"Series 1995 Bonds" refers to the outstanding Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$ 1,334,000.

"Series 1997 Water and Sewer Bonds" refers to the outstanding Mountain Water District Waterworks and Sewer Revenue Bonds, Series 1997, dated October 2, 1997, in the original authorized principal amount of \$176,000.

"Series 1998 Water and Sewer Bonds" refers to the outstanding Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000.

"Series 2001 Bonds" refers to the outstanding Mountain Water District Waterworks Revenue Bonds, Series 2001, dated July 26, 2002, in the original authorized principal amount of \$800,000.

"Series 2003 Sewer Bonds" refers to the outstanding Mountain Water District Sewer System Revenue Bonds, Series 2003, dated October 23, 2003, in the original principal amount of \$426,000.

"Series 2004 Bonds" refers to the outstanding Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000.

"Series 2004 Sewer Bonds" refers to the outstanding Mountain Water District Sewer System Revenue Bonds, Series 2004, dated July 22, 2005, in the original principal amount of \$740,000

"Series 2005 Bonds" refers to the outstanding Mountain Water District Waterworks Revenue Bonds (Lower John's Creek Water Project), Series 2005, dated June 22, 2007, in the original authorized principal amount of \$1,650,000.

"Series 2006 Sewer Bonds" refers to the outstanding Mountain Water District Sewer System Revenue Bonds (Cowpen Sewer Project), Series 2006, dated June 22, 2007, in the original authorized principal amount of \$650,000.

"Series 2008 Bonds" refers to the outstanding Mountain Water District Waterworks Revenue Bonds (Water Treatment Plant Project), Series 2008, dated April 30, 2009, in the original principal amount of \$650,000.

"Sinking Fund" refers to the Mountain Water District Water System Sinking Fund created in the Prior Bond Legislation and which Sinking Fund will continue to be maintained for the benefit of all of the Bonds.

"System" refers to the Governmental Agency's waterworks and sewer systems, together with all future extensions, additions and improvements to said System.

Adopted on _____, 2012.

MOUNTAIN WATER DISTRICT

By _____
Chairman

Attest:

By _____
Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Commissioners of the District at a meeting duly held on _____, 2012; that said official action appears as a matter of public record in the official records or Journal of the Board of Commissioners; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.823; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this _____, 2012.

Secretary

Legislation, and prior to the issuance of any of the Obligations hereby authorized, there will be procured and filed with the Governmental Agency Clerk of said Governmental Agency any and all statements or certifications for the purpose of having both principal and interest on the Prior Bonds and the Obligations hereby authorized payable on a parity from the income and revenues of said System with said outstanding Prior Bonds.

Section 8. Flow of Funds. All proceedings preliminary to and in connection with the issuance of the Outstanding Bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the Outstanding Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of the Outstanding Bonds and (v) the depreciation of the System; and all other covenants for the benefit of Bondowners set out in the Prior Bond Legislation, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Outstanding Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the Obligations, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

A. Revenue Fund. The Governmental Agency covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the Governmental Agency only for the purpose and in the manner and order of priorities specified in the Prior Bond Legislation, as hereinafter modified by this Assistance Agreement, all as permitted by the Act, and in accordance with previous contractual commitments.

B. Sinking Fund. There shall be transferred from the Revenue Fund and deposited into the Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Outstanding Bonds, a sum equal to the total of the following:

- (1) A sum equal to one-sixth (1/6) of the next succeeding interest payment to become due on the Outstanding Bonds, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of all of the Outstanding Bonds maturing on the next succeeding payment date.

Said Sinking Fund shall be used solely and only and is hereby pledged for the purpose of paying the principal of and interest on the Obligations and Prior Bonds.

If the Governmental Agency for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due,

such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

C. Depreciation Fund. Pursuant to the provisions of the Prior Bond Legislation, there shall next be transferred from the Revenue Fund a sum sufficient, each month, to maintain a balance in said Depreciation Fund of at least the sum required by the Prior Bond Legislation, which shall be deposited into the Depreciation Fund.

Moneys in the Depreciation Fund may be withdrawn and used by the Governmental Agency, upon appropriate certification of the Governing Body, in accordance with the provisions of the Prior Bond Legislation, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

D. Operation and Maintenance Fund. There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the Governmental Agency's annual budget.

E. Surplus Funds. Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Fund for application in accordance with the terms of this Assistance Agreement or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

Provided, however, notwithstanding anything to the contrary in any Prior Bond Legislation, the Governmental Agency shall be allowed a credit to the extent of moneys on deposit in the Program Reserve Fund for the purpose of meeting any parity requirements in any Prior Bond Legislation; subject however, to the limitation that moneys in the Program Reserve Fund may only be used to make payments of the Government Agency due under this Assistance Agreement, if necessary, and; provided further, that the Trustee may not seek payment for any reserve funds held by the Governmental Agency under any Prior Bond Legislation for payment of any amounts due from the Governmental Agency under this Assistance Agreement.

Section 9. Disposition of Proceeds of the Obligations; Governmental Agency Account. Upon (i) the execution of this Assistance Agreement, (ii) the delivery of this Assistance Agreement to the Trustee, (iii) certification of the Compliance Group that the Loan is

to be accepted in the Program, and (iv) upon receipt by the Governmental Agency of the proceeds of the Obligations, the proceeds shall be applied as follows:

(a) *Disposition of the Proceeds.* There shall first be deducted and paid from the proceeds of the Obligations the fees and costs incurred by the Governmental Agency and any other pertinent expenses incident to the issuance, sale and delivery of the Obligations and such other appropriate expenses as may be approved by the Governmental Agency Chief Executive, including but not limited to the Governmental Agency's pro rata share of the Program's fees and expenses.

The balance shall be deposited to the Governmental Agency Account to be used for the Project.

(b) *Governmental Agency Account.* It is hereby acknowledged that a fund entitled "Mountain Water District Governmental Agency Account" (the "Governmental Agency Account") has been created and maintained by the Trustee pursuant to the Indenture; and such amount on deposit in said Governmental Agency Account shall be transferred to the Rural Development (the "RD") of the Department of Agriculture of the United States of America, the holder of the Refunded Bonds, as may be required:

(1) To pay the interest on the Refunded Bonds to and including August 31, 2012; and

(2) To redeem on August 31, 2012 at a price equal to 100% of principal amount the Refunded Bonds that as of that date have not been redeemed, retired or otherwise paid, thereby defeasing the pledge of revenues and the property securing the Refunded Bonds.

Investment income derived from investment of the Governmental Agency Account, which shall be invested in Permitted Investments in accordance with this Assistance Agreement, shall, as received, be deposited in the Governmental Agency Account.

The Trustee shall be obligated to send written notice to the Governmental Agency of the need for investment directions if and whenever funds in excess of \$50,000 shall remain uninvested for a period of more than five days. In the absence of written direction from the Governmental Agency with respect to investment of moneys held in the Governmental Agency Account, the Trustee is hereby directed to invest funds in money market mutual funds of the Trustee or its affiliates that qualify as Permitted Investments under this Assistance Agreement.

No expenditure shall be made from the Governmental Agency Account except for proper and authorized expenses relating to the Project as approved by the Governmental Agency.

After completion of the Project, any balance then remaining on deposit in the Governmental Agency Account shall, subject to any and all applicable legal provisions and applicable arbitrage regulations necessary to assure the exemption of interest on the Obligations

from Federal income taxation, upon orders of the Governing Body, be transferred to the Sinking Fund, to be used for the purposes thereof.

Section 10. Arbitrage Limitations.

(a) The Governmental Agency covenants that neither the proceeds of the Obligations, nor "Non-Exempt Revenues" of the System, as defined below, will be invested in investments which will produce a net adjusted yield in excess of the net interest cost (effective yield) of the Obligations, if such investment would cause such Obligations to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code, as amended, and the applicable regulations thereunder; provided, however, that such proceeds and/or revenues may be invested to whatever extent and whenever the Code and/or applicable regulations permit same to be invested without causing the Obligations to be treated as "arbitrage bonds."

(b) "Non-Exempt Revenues" within the meaning of the foregoing shall be deemed to refer to revenues of the System deposited in any of the funds earmarked for or reasonably expected to be used for the payment of debt service on the Obligations, in excess of "Exempt Revenues," which Exempt Revenues are:

(1) amounts deposited in the Sinking Fund for the purpose of paying debt service on any Obligations against the System within thirteen (13) months from the date of deposit; and

(2) amounts deposited in the Depreciation Fund or any similar reserve for replacements, reasonably expected to be used for extensions, additions, improvements or replacements to the System, and not reasonably expected to be used to pay debt service (even if pledged to be used to pay debt service in the event of the unexpected inadequacy of other funds pledged for that purpose).

(c) If, and to the extent that any Non-Exempt Revenues are on deposit and are available for investment by reason of the foregoing, such funds shall be subject to the investment limitations set out in Subsection (a) above.

(d) On the basis of information furnished to the Governmental Agency, on known facts, circumstances and reasonable expectations on the date of enactment of this Assistance Agreement, the Governmental Agency certifies as follows:

(1) That it is not expected or contemplated that the proceeds of the Obligations will be used or invested in any manner which will cause any of the Obligations to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code and the applicable regulations thereunder.

(2) That it is not expected or contemplated that the Governmental Agency will make any use of the proceeds of the Obligations, which, if such use had been reasonably anticipated on the date of issuance of the Obligations, would have caused the Obligations to be arbitrage bonds.

(3) That it is expected and contemplated that the Governmental Agency will comply with (i) all of the requirements of Section 148 of the Code; and (ii) all of the requirements of the applicable regulations thereunder, to whatever extent is necessary to assure that the Obligations will not be treated as arbitrage bonds.

(4) That it is anticipated that amounts on deposit in the Sinking Fund will be used within 13 months from the date of deposit for the payment of debt service on the outstanding Obligations and all Prior Bonds payable from said Sinking Fund.

(5) That amounts accumulated in the Sinking Fund shall not exceed the limitations set forth in this Assistance Agreement.

(6) That it is not reasonably anticipated that amounts accumulated in the Depreciation Fund will be used for payment of debt service on any bonds payable from the revenues of the System, even though such Depreciation Fund will be so available if necessary to prevent a default in the payment of principal and interest on such bonds.

Prior to or at the time of delivery of the Obligations, the Governmental Agency Chief Executive and/or the Governmental Agency Treasurer are authorized to execute the appropriate certification with reference to the matters referred to above, setting out all known and contemplated facts concerning such anticipated investment of the proceeds of the Obligations, including the execution of necessary and/or desirable certifications of the type contemplated by the Code and applicable regulations, as amended, in order to assure that interest on the Obligations will be exempt from all federal income taxes and that the Obligations will not constitute or be treated as arbitrage bonds.

Section 11. Parity Bonds. The Obligations shall not be entitled to priority one over the other in the application of the income and revenues of the System, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Obligations, regardless of the fact they may be actually issued and delivered at different times, and provided further that the lien and security of and for any bonds or obligations hereafter issued that are payable from the income and revenues of the System, shall, except as set out herein, be subject to the priority of the Prior Bonds and the Obligations as may from time to time be outstanding; provided the Governmental Agency has in said Prior Bond Legislation reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the Prior Bonds and with the Obligations, but only under the conditions specified in the Prior Bond Legislation, which conditions are hereinafter repeated, taking into account the issuance of the Obligations.

The Governmental Agency reserves the right to finance future extensions, additions, and/or improvements to the System 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 of the System pledged to the Prior Bonds and the Obligations, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.

(b) The Governmental Agency is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Reference is made to the necessity of obtaining the written consent of the United States Department of Agriculture Rural Development or its successor [the "RD"] for the issuance of future bonds encumbering the System while the RD holds any bonds payable from the revenues of the System.

(f) The Governmental Agency hereby covenants and agrees that in the event any additional Parity Bonds are issued, the Governmental Agency shall:

(1) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the annual debt service requirements of the additional Parity Bonds; and

(2) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing

such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System.

(g) The Governmental Agency reserves the right to issue Parity Bonds to refund or refinance any part or all of the Prior Bonds and the Obligations, provided that prior to the issuance of such Parity Bonds for that purpose, there shall have been procured and filed with the Governmental Agency Clerk of the Governmental Agency a statement by a Certified Public Accountant, as defined herein, reciting the opinion based upon necessary investigation that:

(1) after the issuance of the Parity Bonds, the annual net revenues, as adjusted and defined above, of the then existing system for the fiscal year preceding the date of issuance of the Parity Bonds, after taking into account the revised debt service requirements resulting from the issuance of the Parity Bonds and from the elimination of the Outstanding Bonds being refunded or refinanced thereby, are equal to not less than 120% of the average annual debt service requirements then scheduled to fall due in any fiscal year thereafter for principal of and interest on all of the Outstanding Bonds payable from the revenues of the System, calculated in the manner specified above; or

(2) in the alternative, that the average annual debt service requirements for the Prior Bonds, the Obligations, any previously issued Parity Bonds and the proposed Parity Bonds, in any year of maturities thereof after the redemption of the Outstanding Bonds scheduled to be refunded through the issuance of the proposed Parity Bonds, shall not exceed the average annual debt service requirements applicable to the then outstanding Prior Bonds, the Obligations and any previously issued Parity Bonds for any year prior to the issuance of the proposed Parity Bonds and the redemption of the Outstanding Bonds to be refunded.

Section 12. Rates and Charges for Services of the System. While the Obligations remain outstanding and unpaid, the rates for all services of the System rendered by the Governmental Agency to its citizens, corporations, or others requiring the same, shall be reasonable and just, taking into account and consideration the cost and value of said System, the cost of maintaining and operating the same, the proper and necessary allowances for depreciation thereof, and the amounts necessary for the retirement of the Outstanding Bonds and the accruing interest on all Outstanding Bonds as may be outstanding under the provisions of this Assistance Agreement and the Prior Bond Legislation, and there shall be charged such rates and amounts as shall be adequate to meet all requirements of the provisions of this Assistance Agreement. Prior to the issuance of the Obligations a schedule of rates and charges for the services rendered by the System to all users adequate to meet all requirements of this Assistance Agreement has been established and adopted.

The Governmental Agency covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Governmental Agency Clerk a certification of an Independent Consulting Engineer or a Certified Public Accountant that the annual net revenues (as defined in Section 11 hereof) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to

result from any such proposed rate decrease, are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then outstanding bonds payable from the revenues of the System, calculated in the manner specified in Section 11 hereof.

The Governmental Agency also covenants to cause a report to be filed with the Governing Body within four months after the end of each fiscal year by a Certified Public Accountant, setting forth the precise debt service coverage percentage of the average annual debt service requirements falling due in any fiscal year thereafter for principal of and interest on all of the then Outstanding Bonds payable from the revenues of the System, produced or provided by the net revenues of the System in that fiscal year, calculated in the manner specified in Section 11 hereof; and the Governmental Agency covenants that if and whenever such report so filed shall establish that such coverage of net revenues for such year was less than 120% of the average annual debt service requirements, the Governmental Agency shall increase the rates by an amount sufficient, in the opinion of such Certified Public Accountant, to establish the existence of or immediate projection of, such minimum 120% coverage.

Section 13. All Obligations of this Issue Are Equal. The Obligations authorized and permitted 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 income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Obligations, the Prior Bonds and any Parity Bonds authorized or permitted to be issued under the provisions of this Assistance Agreement, regardless of the fact that they may be actually issued and delivered at different times.

Section 14. Defeasance and/or Refunding of Obligations. The Governmental Agency reserves the right, at any time, to cause the pledge of the revenues securing the outstanding Obligations to be defeased and released by paying an amount into an escrow fund sufficient, when invested (or sufficient without such investment, as the case may be) in cash and/or U.S. Obligations, to assure the availability in such escrow fund of an adequate amount (a) to call for redemption and to redeem and retire all of such outstanding Obligations, both as to principal and as to interest, on the next or any optional redemption date, including all costs and expenses in connection therewith, and to pay all principal and interest falling due on the outstanding Obligations to and on said date, or (b) to pay all principal and interest requirements on the outstanding Obligations as same mature, without redemption in advance of maturity, the determination of whether to defease under (a) or (b) or both to be made by the Governing Body. Such U.S. Obligations shall have such maturities as to assure that there will be sufficient funds for such purpose. If such defeasance is to be accomplished pursuant to (a), the Governmental Agency shall take all steps necessary to publish the required notice of the redemption of the outstanding Obligations and the applicable redemption date. Upon the proper amount of such investments being placed in escrow and so secured, such revenue pledge shall be automatically fully defeased and released without any further action being necessary.

Section 15. Contractual Nature of Assistance Agreement. The provisions of this Assistance Agreement shall constitute a contract between the Governmental Agency and the Issuer; and after the issuance of any of such Obligations, no change, variation or alteration of any

kind in the provisions of this Assistance Agreement, nor of the Prior Bond Legislation, shall be made in any manner except as herein or therein provided until such time as all of the Bonds authorized thereby and the interest thereon have been paid or provided for in full, or as otherwise provided herein; provided that the Governing Body may enact legislation for any other purpose not inconsistent with the terms of this Assistance Agreement, and which shall not impair the security of the Issuer and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any ordinance or other proceedings pertaining hereto.

Section 16. Appointment and Duties of Trustee. The Trustee is hereby designated as the bond registrar and paying agent with respect to the Obligations.

Its duties as Trustee shall be as follows:

- (a) To register all of the Obligations in the names of the Issuer;
- (b) To cancel and destroy (or remit to the Governmental Agency for destruction, if so requested by the Governmental Agency) all exchanged, matured, retired and redeemed Obligations, and to maintain adequate records relevant thereto;
- (c) To remit, but only to the extent that all required funds are made available to the Trustee by the Governmental Agency, semiannual interest payments directly to the Issuer's accounts for the Program;
- (d) To notify the Issuer of any Obligations to be redeemed and to redeem Obligations prior to their stated maturity upon receiving sufficient funds; and
- (e) To supply the Governmental Agency with a written accounting evidencing the payment of interest on and principal of the Obligations within thirty (30) days following each respective due date.

The Trustee shall be entitled to the advice of counsel and shall be protected for any acts taken by it in good faith in reliance upon such advice. The Trustee shall not be liable for any actions taken in good faith and believed by it to be within its discretion or the power conferred upon it by this Assistance Agreement, or the responsibility for the consequences of any oversight or error in judgment.

The Trustee may at any time resign from its duties set forth in this Assistance Agreement by filing its resignation with the Governmental Agency Clerk and notifying the Issuer. Thereupon, the Issuer shall notify the Governmental Agency of a successor Trustee which shall be an incorporated bank or trust company authorized to transact business in the United States of America. Notwithstanding the foregoing, in the event of the resignation of the Trustee, provision shall be made for the orderly transition of the books, records and accounts relating to the Obligations to the successor Trustee in order that there will be no delinquencies in the payment of interest or principal due on the Obligations.

Section 17. Provisions in Conflict Repealed. All ordinances, resolutions and orders, or parts thereof, in conflict herewith are, to the extent of such conflict, hereby repealed; and it is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds payable or secured in any manner by all or any part of the income and revenues of the System, or any part thereof, and which have not heretofore been issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered.

Section 18. Covenant of Governmental Agency to Take All Action Necessary to Assure Compliance with the Internal Revenue Code of 1986. In order to assure purchasers of the Obligations that interest thereon will continue to be exempt from federal and Kentucky income taxation (subject to certain exceptions set out below), the Governmental Agency covenants to and with the Issuer that (1) the Governmental Agency will take all actions necessary to comply with the provisions of the Code, (2) the Governmental Agency will take no actions which will violate any of the provisions of the Code, or would cause the Obligations to become "private activity bonds" within the meaning of the Code, (3) none of the proceeds of the Obligations will be used for any purpose which would cause the interest on the Obligations to become subject to federal income taxation, and the Governmental Agency will comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America of certain investment earnings on the proceeds of the Obligations.

The Governmental Agency reserves the right to amend this Assistance Agreement but only with the consent of the Issuer (i) to whatever extent shall, in the opinion of Bond Counsel, be deemed necessary to assure that interest on the Obligations shall be exempt from federal income taxation, and (ii) to whatever extent shall be permissible (without jeopardizing such tax exemption or the security of such owners) to eliminate or reduce any restrictions concerning the investment of the proceeds of these Obligations, or the application of such proceeds or of the revenues of the System. The purchasers of these Obligations are deemed to have relied fully upon these covenants and undertakings on the part of the Governmental Agency as part of the consideration for the purchase of the Obligations. To the extent that the Governmental Agency obtains an opinion of nationally recognized bond counsel to the effect that non-compliance with any of the covenants contained in this Assistance Agreement or referred to in this Assistance Agreement would not subject interest on the Obligations to federal income taxes or Kentucky income taxes, the Governmental Agency shall not be required to comply with such covenants or requirements.

This Assistance Agreement is executed in contemplation that Bond Counsel will render an opinion as to exemption of principal of the Obligations from Kentucky ad valorem taxation and as to exemption of interest on the Obligations from federal and Kentucky income taxation, based on the assumption by Bond Counsel that the Governmental Agency complies with covenants made by the Governmental Agency with respect to compliance with the provisions of the Code, and based on the assumption of compliance by the Governmental Agency with requirements as to any required rebate (and reports with reference thereto) to the United States of America of certain investment earnings on the proceeds of the Obligations. The Governmental Agency has been advised that based on the foregoing assumptions of compliance, Bond Counsel is of the opinion that the Obligations are not "arbitrage bonds" within the meaning of Section 148 of the Code.

Section 19. Insurance.

(a) *Fire and Extended Coverage.* If and to the extent that the System includes structures above ground level, the Governmental Agency shall, upon receipt of the proceeds of the sale of the Obligations, if such insurance is not already in force, procure fire and extended coverage insurance on the insurable portion of all of the facilities of the System, of a kind and in such amounts as would ordinarily be carried by private companies or public bodies engaged in operating a similar utility.

The foregoing fire and extended coverage insurance shall be maintained so long as any of the Obligations are outstanding and shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percent (80%) of the full insurable value of the damaged facility.

In the event of any damage to or destruction of any part of the System the Governmental Agency shall promptly arrange for the application of the insurance proceeds for the repair or reconstruction of the damaged or destroyed portion thereof.

(b) *Liability Insurance on Facilities.* So long as any of the Obligations are outstanding, the Governmental Agency shall, procure and maintain, public liability insurance relating to the operation of the facilities of the System, with limits of not less than \$200,000 for one person and \$1,000,000 for more than one person involved in one accident, to protect the Governmental Agency from claims for bodily injury and/or death; and not less than \$200,000 from claims for damage to property of others which may arise from the Governmental Agency's operations of the System and any other facilities constituting a portion of the System.

(c) *Vehicle Liability Insurance.* If and to the extent that the Governmental Agency owns or operates vehicles in the operation of the System, upon receipt of the proceeds of the Obligations, the Governmental Agency shall, if such insurance is not already in force, procure and maintain, so long as any of the Obligations are outstanding, vehicular public liability insurance with limits of not less than \$200,000 for one person and \$1,000,000 for more than one person involved in one accident, to protect the Governmental Agency from claims for bodily injury and/or death, and not less than \$200,000 against claims for damage to property of others which may arise from the operation of such vehicles by the Governmental Agency.

Section 20. Event of Default; Remedies. The following items shall constitute an "Event of Default" on the part of the Governmental Agency:

(a) The failure to pay principal on the Obligations when due and payable, either at maturity or by proceedings for redemption;

(b) The failure to pay any installment of interest on the Obligations when the same shall become due and payable;

(c) The failure of the Governmental Agency to fulfill any of its obligations pursuant to this Assistance Agreement and to cure any such failure within 30 days after receipt of written notice of such failure; and/or

(d) The failure to promptly repair, replace or reconstruct essential facilities of the System after any major damage and/or destruction thereof.

Upon the occurrence of an Event of Default, the Issuer or the Trustee on its behalf, as owner of the Obligations, may enforce and compel the performance of all duties and obligations of the Governmental Agency as set forth herein. Upon the occurrence of an Event of Default, then, upon the filing of suit by the Trustee or the Issuer, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the Governmental Agency, with power to charge and collect rates sufficient to provide for the payment of the principal of and interest on the Obligations, and for the payment of operation and maintenance expenses of the System, and to provide and apply the income and revenues in conformity with this Assistance Agreement and with the laws of the Commonwealth of Kentucky.

In addition to and apart from the foregoing, upon the occurrence of an Event of Default, the owner of any of the Obligations may require the Governmental Agency by demand, court order, injunction, or otherwise, to raise all applicable rates charged for services of the System a reasonable amount, consistent with the requirements of this Assistance Agreement.

Section 21. Annual Reports. The Governmental Agency hereby agrees to provide or cause to be provided to the Issuer and the Compliance Group audited financial statements prepared in accordance with generally accepted accounting principles (commencing with the fiscal year ended December 31, 2011) and such other financial information and/or operating data as requested by the Issuer or the Compliance Group.

The annual financial information and operating data, including audited financial statements, will be made available on or before 120 days after the end of each fiscal year.

Section 22. Supplemental Assistance Agreement. The Governmental Agency may, but only with the consent of the Issuer, execute one or more supplemental Assistance Agreements as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in this Assistance Agreement;

(b) to subject to the lien and pledge of this Assistance Agreement additional revenues, properties, or collateral which may legally be subjected;

(c) to add to the conditions, limitations and restrictions on the issuance of bonds, other conditions, limitations and restrictions thereafter to be observed;

(d) to add to the covenants and agreements of the Governmental Agency in this Assistance Agreement, other covenants and agreements thereafter to be incurred by the

Governmental Agency or to surrender any right or power herein reserved to or conferred upon the Governmental Agency;

(e) to effect the issuance of additional Parity Bonds; and/or

(f) to modify the terms and conditions of this Assistance Agreement at the request of the Issuer in order to assist the Issuer in operating the Program or to maintain any rating the Issuer may have on its Program obligations.

Section 23. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 24. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 25. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto shall become in default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefore to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

Section 26. Signatures of Officers. If any of the officers whose signatures or facsimile signatures appear on this Assistance Agreement or any other document evidencing the Obligations cease to be such officers before delivery of the Obligations, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery, as provided by KRS 58.040 and KRS 61.390.

Section 27. Severability Clause. If any section, paragraph, clause or provision of this Assistance Agreement shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Assistance Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the Kentucky Rural Water Finance Corporation has caused this Assistance Agreement to be signed in its name by its President and attested by its Secretary/Treasurer and the Mountain Water District has caused this Assistance Agreement to be signed in corporate name and by its officer thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By James L. Smith
President

Attest:

By [Signature]
Secretary/Treasurer

MOUNTAIN WATER DISTRICT

By _____
Chairman

Attest:

By _____
Secretary

IN WITNESS WHEREOF, the Kentucky Rural Water Finance Corporation has caused this Assistance Agreement to be signed in its name by its President and attested by its Secretary/Treasurer and the Mountain Water District has caused this Assistance Agreement to be signed in corporate name and by its officer thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By _____
President

Attest:

By _____
Secretary/Treasurer

MOUNTAIN WATER DISTRICT

By *Rhonda James*
Chairman

Attest:

By *Arcie Casey*
Secretary

EXHIBIT A

Debt Service Schedule

Issuance of Bonds – The District Representatives will:

(a) Confirm the filing of the Form 8038-G (or applicable successor form) with Internal Revenue Service ("IRS"). Filing of the applicable Form 8038-G is usually overseen by bond counsel at or soon after the closing of a bond issue.

(b) Obtain and store the Transcript of Proceedings prepared by bond counsel (which typically includes the applicable Form 8038-G and the Federal Tax Certificate containing the District's expectations as of the date of issuance of the bond issue).

Recordkeeping – The District Representatives will:

(a) Establish a plan for keeping relevant books and records as to the investment and the expenditure of bond proceeds.

(b) Keep accurate records including:

- Basic records relating to the bond transactions (including the bond resolutions, loan agreements, and bond counsel opinion, which should be found in the Transcript of Proceeding, above);
- Documentation evidencing the expenditure of bond proceeds (e.g., construction contracts, purchase orders, invoices, trustee requisitions and payment records);
- Documentation evidencing use of bond-financed property by public and private sources (e.g., copies of management contracts, and leases);
- Documentation evidencing all sources of payment or security for the bonds; and
- Documentation pertaining to any investment of bond proceeds (including the purchase and sale of securities, SLGS subscriptions, investments, investment agreements, guaranteed investment contracts, yield calculations for each class of investments, actual investment income received from the investment of proceeds, and rebate calculations).

(c) Keep all records in a manner that ensures their complete access to the IRS so long as they are material. While this is typically accomplished through the maintenance of hard copies, records may be kept in an electronic format if certain requirements are satisfied, in accordance with the guidelines in Revenue Procedure 97-22, 1997-1 C.B. 652.

(d) Keep the relevant records for each issue of bonds for as long as such issue of bonds is outstanding (including any bonds issued to refund such issue of bonds) plus three years after the final redemption date of the bonds.

Arbitrage Rebate and Arbitrage Yield Restriction – The District Representatives will:

(a) Engage the services of an arbitrage/rebate consultant for assistance in compliance with arbitrage related issues.

(b) Work with the District's bond counsel, financial advisor and/or arbitrage/rebate consultant to monitor compliance with "temporary period exceptions" for expenditure of bond proceeds, typically three years for new money bonds, and provide for yield restriction of investments or "yield reduction payments" if exceptions are not satisfied.

(c) Work with the District's bond counsel and financial advisor to ensure investments acquired with bond proceeds are purchased at fair market value. This may include use of bidding procedures under the regulatory safe harbor of the Regulations.

(d) Consult with the District's bond counsel prior to the creation of funds that would reasonably be expected to be used to pay debt service on tax-exempt bonds to determine in advance whether such funds must be invested at a restricted yield.

(e) Consult with the District's bond counsel and financial advisor before engaging in post-issuance credit enhancement transactions (e.g., bond insurance, letter of credit) or hedging transactions (e.g., interest rate swap, cap).

(f) Consult with the District's bond counsel, financial advisor, and/or arbitrage/rebate consultant to identify situations in which compliance with applicable yield restrictions depends upon subsequent investments and monitor implementation.

(g) Work with the District's arbitrage/rebate consultant to arrange for timely computation of rebate/yield reduction payment liability and, if an amount is payable, for timely filing of Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate (or applicable successor form), and payment of such liability.

(h) Rebate payments are required no later than 60 days after each 5-year anniversary of the issue date of the bonds, and no later than 60 days after the last bond of each issue is redeemed.

Private Use of Bond-Financed Facilities - The District Representatives will:

(a) Create and maintain records of which proceeds of bond issues were used to finance which facilities. These records shall incorporate the refunding or partial refunding of any bond issues.

(b) Record the allocation of bond proceeds to expenditures, including reimbursements. These records will be consistent with the expenditures used for arbitrage purposes.

(c) Record the allocation of bond proceeds, and funds from other sources, in connection with any bond funded project. Review expenditure of bond proceeds with bond counsel and/or consulting engineer to ensure bond proceeds are used for qualifying costs.

(d) Review with bond counsel prior to the sale or lease of a bond-financed facility, or the granting of a license or management contract, or any other arrangement allowing private use of a bond financed facility, the terms of such arrangement.

(e) Keep records of private use, if any, of bond financed facilities to monitor the amount of private use of bond financed facilities. Private use of bond-financed facilities shall be reviewed once a year (in connection with the preparation of the annual financial statements). If a change in private use occurs, bond counsel will be consulted to determine if remedial action is necessary.

Reissuance – The District Representatives will:

(a) Consult with bond counsel to review any post-issuance modification to the terms of bonds which could be treated as a current refunding of "old" bonds by "new" bonds, often referred to as a "reissuance."

(b) Consult with bond counsel to determine whether any "remedial action" (see item (e) under "Private Use of Bond-Financed Facilities" above) in connection with private use must be treated as a "reissuance."

KENTUCKY RURAL WATER FINANCE CORPORATION
FLEXIBLE TERM FINANCE PROGRAM

ACH AUTHORIZATION FORM

Name of System: Mountain Water District
Address of System: P.O. Box 3157
Pikeville, Ky 41501
Name of Contact: Carrie Hatfield
Contact telephone #: 606-631-6349
Email Address: Chatfield@mtwater.org

ACH Debit Information

Name of Bank: Community Trust Bank
Address of Bank or Branch: P.O. Box 2947 Pikeville, Ky 41502
Contact Person at Bank with phone # Teresa Anthony 433-4660
Bank Identification Number (ABA#) 042102694
Checking Account Number: 0109988001

KENTUCKY RURAL WATER FINANCE CORPORATION
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COMMUNITY TRUST BANK, INC - WIRE TRANSFER REQUEST FORM

Telephone 606 433 4660 Fax # 606 433 4630 Cut-off time Domestic 3:30 p.m. International 1:00 p.m.

DATE 8/28/12	BRANCH CC-NAME 1060	TELEPHONE # 432-1414	WIRE DEPT REFERENCE # 247216	REQUESTED BY Lisa Bentley
Bank Officer Approval by: <i>[Signature]</i>		Telephone # 3374		
Choose Customer Request Type: <input checked="" type="checkbox"/> IN PERSON- (must obtain customer's signature)				
<input type="checkbox"/> By Telephone - (list telephone #) <input type="checkbox"/> By Letter- (Fax copy of letter, requires authorized account signer)				
TYPE OF TRANSFER <input checked="" type="checkbox"/> Domestic Transfer <input type="checkbox"/> International Transfer				

Payment Type: Debit Account Number 0109988001 (Send copy of today's deposit and loan application if applicable)

SENDER ORIGINATOR INFORMATION (all information must be completed on the requester & originator and must be authorized by account signer)

"Wire transfer policy requires that the person accepting the wire transfer on behalf of the bank speak to an authorized individual requesting the transfer. Please indicate that you have spoken to the appropriate individual by writing down the name of the individual with whom you spoke."

CUSTOMER NAME Requested BY Rhonda James

REQUESTER DATE OF BIRTH 12-6-68 REQUESTER SSN 406-11-6778

Type of ID DF Issued By KY ID Number J94144869

Complete ID and Address for customer requested by if they do not have an opened account or non-originator

1666 Forest Hills

Customer Requested by Street Address, Must be 911 or physical address- No PO Boxes

City, State, ZIP Forest Hills, Ky 41507

ORIGINATOR ACCOUNT NAME: Mountain Water District - Operating

Account Street Address 6332 Zebulon Hwy.

City, State, Zip Code Pikeville, Ky 41502

(Must be 911 or physical address for the originator account- NO PO Boxes)

BENEFICIARY INFORMATION

TRANSFER AMOUNT \$ 182,289.06 RECEIVER BANK ABA 062005690

RECEIVER BANK NAME Regions Bank Birmingham

SWIFT CODE: _____ IBAN CODE: _____

*for International Wire Only

City and State: _____

Credit Name of Beneficiary: Wealth Management Operations

Address of Beneficiary: _____

Account Number of Beneficiary 0017541387

FFC Beneficiary Bank: _____ FFC Beneficiary Bank ABA: _____

Originator to Beneficiary _____

BANK TO BANK INFORMATION Ky Rural Water Flex Program

Additional Information att: melissa Ragsdale

Customer Signature *[Signature]* Date: 8/28/2012

For Wire Department Use Only: Processed by: _____ Time: _____ Verified by: _____ Time: _____

RAYMOND JAMES®

Morgan Keegan

August 13, 2012

Mr. Roy Sawyers
Mountain Water District
Post Office Box 3157
Pikeville, Kentucky 41502

RE: Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds, Series 2012 E

Dear Mr. Sawyers:

The purpose of this summary letter is to confirm and itemize the proceeds from Mountain Water District's (the "Water District") \$6,270,000 loan through the Kentucky Rural Water Finance Corporation and to outline the procedure on how to make future bond payments.

Project and Loan Sizing

This loan was issued to refund the Water District's Series 1988, Series 1990, Series 1991, Series 1993, Series 1995, Series 1998, and Series 2004 Rural Development Bonds. The component costs funded by the loan are itemized below:

Payoff of the Prior Bonds:	\$6,359,972.89
Underwriting Expenses:	105,119.87
Cost of Issuance Expenses:	84,010.00
Reoffering Premium	(99,246.40)
Less Sinking Fund Transfer to Regions:	(182,289.06)
Rounding Amount:	<u>2,432.70</u>
Loan Amount:	\$6,270,000.00

The transaction will close on August 29th, and a check will be cut and overnighted to the Morehead Area Rural Development ("RD") office for receipt by August 31st. On that date, the prior bonds will be fully defeased. A listing of the payoffs for each RD bond issue is below:

Series 1988	\$308,851.25
Series 1990	\$1,042,733.56
Series 1991	\$227,126.99
Series 1993	\$490,579.88
Series 1995	\$1,053,673.06
Series 1998	\$2,148,104.27
Series 2004	<u>\$1,088,903.88</u>
Total:	\$6,359,972.89

As of August 31st, I calculate that you will have \$182,289.06 in sinking funds associated with the prior bonds. These proceeds represent the 1/6th of interest and 1/12th of principal deposits required by your existing bond documents.

Following is a breakdown of the how the funds to retire the prior debt are derived:

489 East Main Street
Lexington, Kentucky 40515
859.232.8249

Morgan Keegan & Company, Inc., member FINRA/SIPC, is a subsidiary of Raymond James Financial, Inc.

Series 1988 Bonds

Amount needed to defease Series 1988 bonds:	\$ 308,851.25
Bond Proceeds:	\$ 299,409.58
Sinking funds to be wired to Regions Bank:	\$ <u>9,441.67</u>
Total available to defease the 1988 bonds:	\$ 83,419.90

Series 1990 Bonds

Amount needed to retire the 1990 bonds:	\$ 1,042,733.56
Bond Proceeds:	\$ 1,016,841.90
Sinking funds to be wired to Regions Bank:	\$ <u>25,891.66</u>
Total available to retire the 1990 bonds:	\$ 1,042,733.59

Series 1991 Bonds

Amount needed to retire the 1991 bonds:	\$ 227,126.99
Bond Proceeds:	\$ 1,016,911.93
Sinking funds to be wired to Regions Bank:	\$ <u>25,891.66</u>
Total available to retire the 1991 bonds:	\$ 1,042,733.59

Series 1993 Bonds

Amount needed to retire the 1993 bonds:	\$ 490,579.88
Bond Proceeds:	\$ 480,003.63
Sinking funds to be wired to Regions Bank:	\$ <u>10,576.25</u>
Total available to retire the 1993 bonds:	\$ 490,579.88

Series 1995 Bonds

Amount needed to retire the 1995 bonds:	\$ 1,053,673.06
Bond Proceeds:	\$ 1,034,000.56
Sinking funds to be wired to Regions Bank:	\$ <u>19,672.50</u>
Total available to retire the 1995 bonds:	\$ 1,053,673.06

Series 1998 Bonds

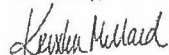
Amount needed to retire the 1998 bonds:	\$ 2,148,104.27
Bond Proceeds:	\$ 2,115,609.27
Sinking funds to be wired to Regions Bank:	\$ <u>32,495.00</u>
Total available to retire the 1998 bonds:	\$ 2,148,104.27

Annual Reports

Under the Assistance Agreement, you have agreed to provide audited financial statements and other financial information as requested within 120 days of the completion of a fiscal year. This is a requirement that Standard and Poor's imposes on the Kentucky Rural Water Finance Corporation's program.

On behalf of the finance team and the Kentucky Rural Water Association, we appreciate your support of the Kentucky Rural Water Finance Corporation. Please feel free to call me with any questions that you have. I can be reached directly at 859-232-8249, and toll-free at 800-937-0160.

Sincerely,



Kristen Millard

Enclosures

cc: Ms. Melissa Ragsdale-Bloom, Regions Bank
Mr. Gary Larimore, Kentucky Rural Water Finance Corporation
Mr. Christian Juckett, Rubin & Hays

WHEREAS, it is necessary for the parties hereto to enter into this Supplemental Tax Certificate to ensure that interest paid on the Bonds and on the Loan shall all be and shall all remain excludable from gross income for Federal income purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and is not and will not become a specific item of tax preference under Section 57(a)(5)(C) of the Code for the federal alternative minimum tax and to comply with the requirements of KRWFC's Tax Certificate (the "Tax Certificate") dated as of April 4, 2001 issued with respect to the Bonds.

NOW, THEREFORE, the parties hereto agree and bind themselves as follows:

ARTICLE I DEFINITIONS

Section 1.01. Definitions. In addition to words and terms defined elsewhere in this Supplemental Tax Certificate, the Code and Regulations (each as herein defined), the Arbitrage Certificate (as hereinafter defined), the Indenture and the Agreement, the following capitalized words and terms used in this Supplemental Tax Certificate shall have the following meanings, unless some other meaning is plainly intended:

"Arbitrage Bond" means any obligation of a Governmental Entity that is treated as an arbitrage bond under Sections 103(b)(2) and 148 of the Code.

"Arbitrage Certificate" means the Tax Certificate under Sections 103(b)(2) and 148 of the Internal Revenue Code of 1986, as amended, for the Bonds given by KRWFC, including certifications given with respect thereto by the Financial Advisor, the Underwriter and KRWFC, and for the Loan given by the District.

"Closing Date" means the date of this Supplemental Tax Certificate.

"Cost of Issuance" means any expenditure incurred in connection with the issuance of the Loan or the District's share of such expenditures relating to the Bonds, including such costs as underwriters' spread, rating agency fees, appraisal costs, attorneys' and accountants' fees and printing costs, but excluding Qualified Guarantee Fees or expenditures incurred in connection with the Project.

"Disposition Proceeds" means the amounts, including property, received from the sale, exchange or other disposition of the Project.

"Federally-Guaranteed" means having the payment of either the principal of or interest on any portion of the Loan or any loan made with the Proceeds of any portion of the Loan guaranteed, in whole or in part, directly or indirectly, by the United States, or acquiring any Investment Property that is, directly or indirectly federally-insured, except as otherwise permitted by Section 149(b) of the Code.

"*Governmental Entity*" means any State and any political subdivision and agency of any State.

"*Gross Proceeds*" means Sale Proceeds and Replacement Proceeds, determined pursuant to Treas. Regs. §1.148-1(b) and -1(c), all until spent.

"*Investment Proceeds*" means any amounts actually or constructively earned or received from investing the Proceeds in Investment Property.

"*Investment Property*" means any security (as defined in Section 165(g)(2)(A) or (B) of the Code), obligation (including any Tax-Exempt Bond), annuity contract or other investment-type property.

"*Non-Governmental Entity*" means any person or entity, other than a Governmental Entity.

"*Pledged Fund*" means any amount pledged, directly or indirectly, to pay principal of or interest on the Loan and that provides reasonable assurance of such amounts being paid even if the District experiences financial difficulties, including amounts subject to a negative pledge.

"*Private Loan*" means any loan, directly or indirectly, of any of the Proceeds of an obligation of a Governmental Entity to any Non-Governmental Entity.

"*Private Use*" means the use of any Proceeds of the Loan or any facilities financed with such Proceeds by Private Users.

"*Private User*" means any Non-Governmental Entity, other than a natural person not engaged in a trade or business.

"*Rebate Amount*" means the amount determined by KRWFC pursuant to the Tax Certificate.

"*Rebate Payments*" means any payment of the Rebate Amount made to the United States Treasury.

"*Redemption Date*" means the date on which the last of the principal of and interest on the Loan has been paid, whether upon maturity, redemption or acceleration thereof.

"*Replacement Proceeds*" means amounts replaced by Proceeds of the Loan, including any sinking fund, Pledged Fund, restricted gifts (not including qualified endowment funds, pursuant to Treas. Reg. §1.148-6(d)(3)(iii)(C)) or reserve or replacement fund, or other funds that would be available, directly or indirectly, to pay debt service on the Loan, within the meaning of Treas. Reg. §1.148-1(c).

"*Research Agreement*" means an agreement between the District and a Private User under which the District or the Private User uses any portion of the System to carry on research.

"*Sale Proceeds*" means the Loan amount.

"*Service Contract*" means a contract between the District and a Service Provider under which the Service Provider provides services involving any portion or function of a Governmental Facility financed with Governmental Bonds.

"*Service Provider*" means any Private User that provides management or other services.

"*State*" means any state and possession of the United States and the District of Columbia.

"*Treasury Regulation*" and "*Treas. Reg.*" means any Regulation, Proposed Regulation or Temporary Regulation, as may be applicable, issued by the United States Treasury Department pursuant to the Code or the 1954 Code, as appropriate.

"*Yield*" means, pursuant to Treas. Regs. §1.148-4 and -5, that discount rate that, when computing the present value of all payments of principal and interest to be paid on an obligation, produces an amount equal to, in the case of the Loan, the Issue Price and in the case of any Investment Property, the fair market value, as provided in Treas. Reg. §1.148-5(d).

"*Yield Reduction Amount*" means the amount determined by KRWFC pursuant to the Tax Certificate.

"*Yield Reduction Payment*" means any payment of the Yield Reduction Amount made to the United States Treasury.

Section 1.02. Interpretative Rules. For all purposes of this Supplemental Tax Certificate, except as otherwise expressly provided or unless the context otherwise requires (a) "Supplemental Tax Certificate" means this instrument, as originally executed and as it may from time to time be supplemented or amended pursuant to the applicable provisions hereof; (b) all references in this instrument to designated "Articles", "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed; (c) the words "herein", "hereof", "hereunder", "herewith" and other words of similar import refer to this Supplemental Tax Certificate as a whole and not to any particular Article, Section or other subdivision; (d) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular; (e) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles; (f) the terms defined elsewhere in this Supplemental Tax Certificate shall have the meanings therein prescribed for them; (g) words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders; (h) the headings used in this Supplemental Tax Certificate are for convenience of reference only and shall not define or limit the provisions hereof.

ARTICLE II
COVENANTS, REPRESENTATIONS, ACKNOWLEDGMENTS AND DIRECTIONS

Section 2.01. Authority and Organization. (a) The District represents for the benefit of KRWFC that it is a political subdivision of the Commonwealth of Kentucky with the power, among others, to enter into the Agreement in furtherance of its corporate purposes, including financing the cost of the Project.

(b) KRWFC represents for the benefit of the District that (i) KRWFC is duly organized and validly existing under the laws of the Commonwealth of Kentucky; and (ii) KRWFC has full power and authority to establish a program to enter into loans and assistance agreements with political subdivisions and public agencies of the Commonwealth of Kentucky.

Section 2.02. Use of Proceeds. The District represents that:

(a) *Deposit and Use of Proceeds.*

- i. \$6,359,972.89 (Loan proceeds in the amount of \$6,177,683.83, plus transfers from the Refunded Bonds sinking fund in the amount of \$182,289.06) will be used to currently refund the Refunded Bonds;
- ii. \$84,010.00 of the face amount of the Loan will be used on the date hereof to pay costs associated with the making of the Loan; and
- iii. A rounding amount of \$2,432.70 will be deposited to the Sinking Fund (as defined in the Agreement) and used to pay interest on the Loan.

The remaining difference between the face amount of the Loan and the above deposits results from the fact that the Loan is being acquired from the District at a discount from its face amount in the amount of \$5,873.47 (underwriter's discount of \$105,119.87 less an original issue premium of \$99,246.40).

(b) *No Private Use of Proceeds.* No more than 5% of the Proceeds of the Loan will be used for private business use, in accordance with the rules contained in Treas. Reg. 1.141-3. The District expects to use the System for the entire stated term of the Agreement.

(c) *Expectations. Reserved.*

(d) *Use of the System.* The District will own and operate the System during the entire term of the Agreement and will not change the use or ownership of any part of the System during the entire term of the Agreement without the prior written consent of KRWFC.

(e) *Reimbursement Allocations. Reserved.*

(f) *Investment Limitations.* (i) The District will invest the Gross Proceeds of the Loan and any Disposition Proceeds of the Loan under the Investment Agreement unless otherwise authorized in writing by KRWFC.

(ii) If at any time, either the District determines or is informed that the Yield on the investment of moneys held by itself or any other person must be restricted or limited in order to prevent the Bonds from becoming Arbitrage Bonds, the District shall, and shall so instruct any holder of the Sale Proceeds or Investment Proceeds of the Loan, to take such action or actions as may be necessary to restrict or limit the yield on such investments as set forth in, and in accordance with, such instruction.

(g) *Temporary period for amounts in District's Governmental Agency Account.* Reserved.

(h) *Federal Guarantees.* The Gross Proceeds will not be invested in any Investment Property that is Federally-Guaranteed.

(i) *No Transferred Proceeds.* All of the proceeds of the Refunded Bonds have been expended and there are therefore no Transferred Proceeds with respect to the Refunded Bonds.

Section 2.03. Service Contracts. The District represents that it will not enter into any Service Contracts or management contracts with respect to the System without the prior written consent of KRWFC and agrees that any Service Contracts or management contracts relating to bond-financed property will comply with the management contract safe harbors of Rev. Proc. 97-13.

Section 2.04. Research Agreements. The District represents that it will not enter into any Research Agreements with respect to the System without the prior written consent of KRWFC.

Section 2.05. Changes in Use or User of System. The District represents that (a) no part of the System will be sold, or otherwise disposed of without the prior written consent of KRWFC; (b) it will not permit any use of its System by any person or entity other than itself without the prior written consent of KRWFC; (c) any portion of the System consisting of personal property may be sold in the ordinary course of an established governmental program if (i) the weighted average maturity of the portion of the Loan financing the personal property was not greater than one hundred twenty percent (120%) of the reasonably expected actual use of such personal property by the District, (ii) the District expected at the date of the Agreement that the fair market value of the personal property at the time of disposition would not be greater than twenty-five percent (25%) of its cost and (iii) at the time of disposition, the personal property is no longer suitable for the governmental purpose for which it was acquired.

Section 2.06. Investments. The District will expend the proceeds of the Loan on the date hereof and does not contemplate investing the Gross Proceeds of the Loan.

Section 2.07. Loan is a Purpose Obligation of the Bonds. The Bonds were issued to establish a program to make loans to Governmental Agencies pursuant to assistance agreements and therefore constitute a governmental program for the acquisition of purpose investments. At least 95% of the payments made by the District pursuant to the Agreement will be used to pay principal, interest, or redemption prices on the Bonds, or to pay administrative costs of the Bonds. The District covenants not to acquire the Bonds or other bonds of KRWFC related to the Program. The yield on the Loan to the District does not exceed the yield on the Bonds by more than 1.5 percent.

Section 2.08. No Abusive Arbitrage Device. Both KRWFC and the District agree that they will not take any action that will enable KRWFC or the District to take any action that (a) has the effect of enabling KRWFC or the District to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage or (b) overburdens the market for tax-exempt obligations in any manner. The amount of proceeds of the Loan is not reasonably expected to exceed the amount necessary for the District to accomplish the governmental purposes described in the Agreement.

Section 2.09. Records. The District represents that proper records and accounts, containing complete and correct entries of all transactions relating to the Agreement, the use of the Gross Proceeds of the Agreement and the expenditures made in connection with the Project, will be maintained. The information described in this Section will be retained for at least six (6) years after the Redemption Date.

Section 2.10. Payment of Arbitrage Compliance Amounts. The District represents that all actions necessary to comply with the Yield limitations applicable to investments of the Sale Proceeds and Investment Proceeds of the Loan and the rebate requirements contained in Section 148(f) of the Code and the Treasury Regulations thereunder will be taken. Immediately upon the request of KRWFC, the District will assemble copies of records concerning investments of Gross Proceeds of the Loan, including any amounts held by any provider of a letter of credit or guarantor under a reimbursement or other similar agreement. In particular, the District will provide KRWFC with information that will enable KRWFC to determine if any Rebate Amount is payable. The District will pay any Rebate Payment and any Yield Reduction Payment owed with respect to the Gross Proceeds of the Loan, as determined by KRWFC. The information described in this Section will be retained for at least six (6) years after the Redemption Date.

Section 2.11. Election to Apply Rebate Exception Separately to the Loan. The District hereby elects and KRWFC has previously elected to have the spending exceptions of Treas. Reg. 1.148-7 and the small issuer exceptions of Treas. Reg. 1.148-8 applied separately to the Loan.

The applicable beginning date in applying the spending exceptions of Treas. Reg. 1.148-7 is the Closing Date. The spending exceptions include the six month exception described in Treas. Reg. 1.148-7(c), the eighteen month exception described in Treas. Reg. 1.148-7(d), and the two year exception described in Treas. Reg. 1.148-7(e).

Section 2.12. Information Reporting Requirements. The District represents that it will timely execute and file any information reports required under Section 149(e) of the Code (Form 8038-G) or as required by KRWFC.

Section 2.13. Compliance with Supplemental Tax Certificate. (a) The District may, at any time, employ bond counsel, independent certified public accountants, or other qualified experts acceptable to KRWFC to perform any of the requirements imposed upon the District by this Supplemental Tax Certificate.

(b) KRWFC and the District agree, to the extent reasonably possible, to comply with any amendments to the Code or any applicable Regulations, effective retroactively, and KRWFC and the District shall take all actions necessary to amend this Supplemental Tax Certificate to comply therewith.

(c) Whenever any action or direction is required of the District hereunder, such action or direction may, or in the absence of any such action or direction shall, be made by KRWFC.

(d) Any restriction or covenant contained in this Supplemental Tax Certificate need not be observed or may be changed if KRWFC and the District receive an opinion of Tax Counsel to the effect that such nonobservance or change will not adversely effect the exclusion of interest on any of the Bonds from gross income for purposes of Federal income taxation.

IN WITNESS WHEREOF, KRWFC and the District have each caused this Supplemental Tax Certificate to be executed in its own name and on its behalf by its duly authorized officers, all as of the date set forth above.

KENTUCKY RURAL WATER FINANCE
CORPORATION

By _____
Treasurer

MOUNTAIN WATER DISTRICT

By *Rhonda James*
Chairman

**CERTIFICATE OF OFFICERS OF
MOUNTAIN WATER DISTRICT**

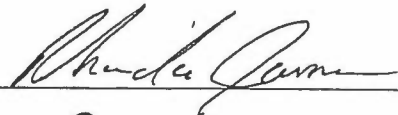
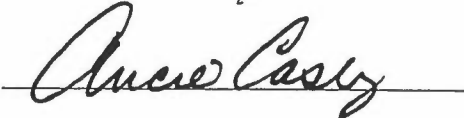
Re: Loan in the amount of \$6,270,000, dated August 29, 2012, to the Mountain Water District from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E.

The undersigned officials of the Mountain Water District (the "District") under the Assistance Agreement (the "Agreement") between the District and the Kentucky Rural Water Finance Corporation ("KRWFC"), dated the date hereof, do hereby certify as follows:

1. That they are the duly elected or appointed, qualified and acting incumbents of their respective offices of the District, as set forth after their signatures hereto, and as such are familiar with the books, records and affairs of the District.

2. That the District is a body politic and corporate, validly organized, existing and in good standing under and by virtue of the laws of the Commonwealth of Kentucky with all requisite power and authority to operate a water and sewer system (the "System") and to carry on its business as now being conducted.

3. That the below-named persons were on the date or dates of the execution of the Agreement and are on the date of this Certificate the duly elected or appointed and qualified incumbents of the respective offices of the District set forth opposite their names and that the signatures set forth opposite their names are their genuine signatures:

<u>Name</u>	<u>Title</u>	<u>Signature</u>
Rhonda James	Chairman	
Ancie Casey John Collins	Secretary	

4. That included in the transcript of which this Certificate forms a part is a true, correct and complete copy of the resolution duly adopted by the Governing Body of the District on April 25, 2012 (the "Resolution"), authorizing the appropriate officials of the District to execute the Agreement. The Resolution was duly adopted in accordance with all applicable laws.

5. The Resolution duly authorized the current refunding of the following outstanding bonds of the District:

- i. Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000,
- ii. Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000,
- iii. Mountain Water District Waterworks Revenue Bonds of 1990, dated

February 11, 1992, in the original authorized principal amount of \$1,488,000,

iv. Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000,

v. Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$1,334,000,

vi. Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000, and

vii. Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000

(collectively, the "Refunded Bonds").

6. The Agreement has been duly authorized, executed and delivered by the District and constitutes a legal, valid and binding obligation of the District, enforceable against the District in accordance with its terms.

7. The representations and warranties of the District made in the Agreement are true and correct in all material respects on and as of the date hereof as if made on and as of the date hereof; the Resolution has not been amended or supplemented and is in full force and effect; and the Agreement has been entered into and is in full force and effect.

8. That we are familiar with the provisions of the Agreement, and we hereby certify that at the time of or immediately after the issuance, sale and delivery of the Loan, the proceeds of the Loan authorized by the Agreement were applied or will be applied as itemized in the Distribution of Loan Proceeds Schedule attached hereto as **Exhibit A**, and this certification constitutes the instruction to and authorization of the Trustee to make such payments and deposits specified in said **Exhibit A**.

9. The District has entered into an agreement with the United States Department of Agriculture, acting through Rural Development ("Rural Development"), for the purpose of increasing the balance maintained in its Mountain Water District Waterworks Depreciation Reserve, which depreciation reserve fund was created pursuant to the District's outstanding bonds held by the Rural Development.

10. The District has entered into an agreement with the Kentucky Infrastructure Authority (the "KIA") for the purpose of increasing the balance maintained in its Repair and Maintenance Fund, which fund was created pursuant to the District's outstanding loans from the KIA.

11. With the exception of the agreements referenced in paragraphs 9 and 10 above, the District is not in default under or in violation of (i) any provisions of applicable law, (ii) the Agreement, or (iii) any indenture, mortgage, lien, agreement, contract, deed, lease, loan agreement, note, bond, order, judgment, decree or other instrument or restriction of any kind or character to which it is a party or by which it or its properties are or may be bound, or to which it or any of its assets is subject, which default would have a material adverse effect on the

condition, financial or otherwise, of the District or on the ability of the District to perform its obligations under the Agreement. Neither the execution and delivery of the Agreement nor compliance by the District with the terms, conditions and provisions of the Agreement will conflict with or result in a breach of, or constitute a default under, any of the foregoing.

12. Since the date of the financial information provided to KRWFC, there have not been any material adverse changes in the business, properties, condition (financial or otherwise) or results of operations of the District, whether or not arising from transactions in the ordinary course of business, and since such date, except in the ordinary course of business, the District has not entered into any transaction or incurred any liability material to the financial position of the District.

13. There is no claim, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, or public board or body, pending or, to the best of our knowledge, threatened against or affecting the District wherein an unfavorable decision, ruling or finding would materially adversely affect the business, properties, condition (financial or otherwise) or the results of operations of the District or the ability of the District to perform its obligations under the Agreement.

14. All authorizations, consents and approvals of, notices to, registrations or filings with, or other actions in respect of or by, any governmental body, agency or other instrumentality or court required in connection with the execution, delivery and performance by the District of the Agreement have been duly obtained, given or taken (and copies thereof have been provided to KRWFC).

15. Any certificate signed by any official of the District and delivered to KRWFC will be deemed to be a representation by the District to KRWFC as to the statements made therein.

WITNESS our hands this August 29, 2012.

MOUNTAIN WATER DISTRICT

By 
Chairman

Attest:

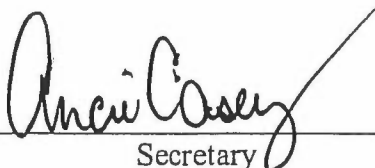
By 
Secretary

EXHIBIT A

DISTRIBUTION OF LOAN PROCEEDS SCHEDULE

Re: Loan in the amount of \$6,270,000, dated August 29, 2012, to the Mountain Water District from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E.

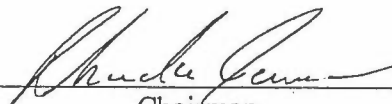
SOURCES OF FUNDS

Par Amount of Loan	\$6,270,000.00
Transfer from Refunded Bonds Sinking Fund	182,289.06
Plus Original Issue Premium	<u>99,246.40</u>
Total Sources	\$6,551,535.46

USES OF FUNDS

Deposit to Mountain Water District Governmental Agency Account to refund the Refunded Bonds	6,359,972.89
Underwriter's Discount	105,119.87
Deposit to Mountain Water District Sinking Fund	2,432.70
Deposit to Costs of Issuance Account	<u>84,010.00</u>
Total Uses	\$6,551,535.46

MOUNTAIN WATER DISTRICT

By: 
Chairman

ARBITRAGE CERTIFICATE

Re: Loan in the amount of \$6,270,000, dated August 29, 2012, to the Mountain Water District from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E.

The undersigned officer of the Mountain Water District (the "District") hereby certifies with respect to the loan in the amount of \$6,270,000 (the "Loan") made pursuant to the Assistance Agreement (the "Agreement") by and between the Kentucky Rural Water Finance Corporation ("KRWFC") and the District, derived from the proceeds of the \$14,555,000 Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E (the "Bonds") issued by KRWFC, which Agreement is entered into for the purpose of currently refunding certain obligations of the District, secured by the District's existing water and sewer system (the "System") and made as of the date hereof (the "Closing Date"), which is the date of delivery of, and payment for, the Loan, that the following facts, estimates and circumstances regarding the amount and use of all of the Proceeds, as defined in Treas. Reg. §1.148-1(b), issued under the Internal Revenue Code of 1986, as amended (the "Code"), of the Loan are, as of the Closing Date and according to the District's best knowledge, information and belief, reasonably expected to exist or to occur:

1. **Proceeds.** The Proceeds of the Loan consist, and will consist, of the Sale Proceeds and Investment Proceeds, each as defined in Treas. Reg. §1.148-1(b), issued under the Code, and equal the Loan amount.

2. **Purpose of Loan.**

a. The Proceeds of the Loan, together with certain other funds, will be used to provide funds to pay the costs of issuance of the Loan and finance the current refunding of the outstanding:

i. Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000,

ii. Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000,

iii. Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992, in the original authorized principal amount of \$1,488,000,

iv. Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000,

v. Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$1,334,000,

vi. Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000, and

vii. Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000

(collectively, the "Refunded Bonds"), which constitutes a valid governmental purpose (the "Governmental Purpose").

b. The total amount of Proceeds received by the District will not exceed the amount necessary to finance the Governmental Purpose. The Agreement is being entered into at this time in such amount because the Borrower expects to redeem the Refunded Bonds on August 31, 2012.

3. Yield on the Loan.

a. The price at which the Loan was sold to the Issuer, which intends to hold the Loan for investment purposes and not for resale to the general public, is equal to the Loan Amount.

b. The Yield on the Loan, as defined in Treas. Reg. §1.148-4, issued under the Code, is 3.1351148%. The term "yield", as used herein, means that yield which, when used in computing the present worth of all payments of principal and interest on an obligation, produces an amount equal to, in the case of the Bonds, the amount actually received by the District as a result of the sale of the Bonds (including any accrued interest).

4. Application of Proceeds. All of the Sale Proceeds will be used to pay the cost of the Governmental Purpose, including issuance expenses and any accrued interest to the Closing Date. No amount received as Proceeds of the Loan will be used in a manner not set forth in this section.

5. Expenditure of Proceeds for the Project. An amount of the "Net Sales Proceeds" (defined in Treas. Reg. §1.148-1(b) as Sales Proceeds less an amount that is the lesser of five percent (5%) of the Sales Proceeds or \$100,000) of the Loan as specified in the Supplemental Tax Certificate executed by the District and dated of even date herewith will be deposited into the Governmental Agency Account with Regions Bank, Nashville, Tennessee, then transferred to the Rural Development (the "RD") of the Department of Agriculture of the United States of America, the holder of the Refunded Bonds, as may be required:

a. To pay the interest on the Refunded Bonds to and including August 31, 2012; and

b. To redeem on August 31, 2012 at a price equal to 100% of principal amount the Refunded Bonds that as of that date have not been redeemed, retired or otherwise paid, thereby defeasing the pledge of revenues and the property securing the Refunded Bonds.

6. Investment of Proceeds.

a. The District has agreed in the Supplemental Tax Certificate executed by the District and dated of even date herewith that it will not invest any of the Proceeds of the Loan without the express consent of KRWFC, and any such investments will be done so that such investment will not cause interest on either the Loan or the Bonds to be includable in the holder's gross income for purposes of federal income taxation or the

debt to be treated as "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code and the Treasury Regulations thereunder.

b. Not more than fifty percent (50%) of the Proceeds of the Loan will be invested in investments that both do not carry out the Governmental Purpose of the Agreement and have a substantially guaranteed yield for at least four (4) years.

c. Amounts deposited in the District's Sinking Fund will be used to pay the principal of and interest on the Loan, and the District reasonably expects that there will be no other funds that will be so used or that will be pledged to payment of the Loan under circumstances such that the holder of the Loan is reasonably assured that such fund will be available for payment of debt service on the Loan. The Sinking Fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Money deposited in the Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the District's outstanding Loan and other parity obligations and, except for an amount equal to not more than the greater of (i) one-twelfth (1/12) of debt service requirements of such Loan and other parity obligations for the then ensuing year or (ii) one year's earnings on the Sinking Fund, the Sinking Fund will be depleted annually through such application for current debt service requirements of the Loan and other parity obligations. Any income earned from the investment of amounts deposited in the Sinking Fund will be retained in the Sinking Fund and expended within one year from the date of receipt.

d. Any unexpended portion of the Proceeds of the Loan, including any amounts in any reasonably required reserve or replacement fund, will be invested in the investment contract described in the Trust Indenture for the Bonds and other than any funds described herein invested during a temporary period permitted under Treas. Regs. §1.148-1 through -11, issued under the Code, if any, or any amounts in any reasonably required reserve or replacement fund, as described in Treas. Reg. §1.148-2(f), no Proceeds of the Loan, or any moneys that may become Replacement Proceeds, as defined in Treas. Reg. §1.148-1(c), of the Loan, in excess of the lesser of (i) five percent (5%) of such Proceeds or (ii) \$100,000, have been invested in "higher yielding investments", as defined in the Code and the Treasury Regulations thereunder.

7. General.

a. The District reasonably expects that neither the project financed with the proceeds of the Refunded Bonds, nor any part thereof, will be sold or otherwise disposed of by the District prior to the final principal maturity date of the Loan.

b. There are no amounts, other than any funds specifically contributed by the District and the Gross Proceeds of the Loan, that are available for the Governmental Purpose and the term of the Loan is not longer than reasonably necessary for the Governmental Purpose.

c. Any Rebate Payments and any Yield Reduction Payments (each as defined in the Supplemental Tax Certificate), owed pursuant to Section 148(f) of the Code, will

be remitted to the United States Treasury as directed by KRWFC, pursuant to the Supplemental Tax Certificate entered into with respect to the Bonds.

d. The District has not employed in connection with the Loan a transaction or series of transactions that attempts to circumvent the provisions of Sections 103(b)(2) and 148 of the Code and the Treasury Regulations thereunder, enabling the District to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage and/or increasing the burden on the market for tax-exempt obligations through actions such as issuing more obligations, issuing obligations sooner or allowing them to remain outstanding longer than would otherwise be necessary for the Governmental Purpose.

e. KRWFC has never been advised of any listing or contemplated listing by the Internal Revenue Service to the effect that the District's certification with respect to its obligations may not be relied upon and no notice to that effect has been published in the Internal Revenue Bulletin.

f. Certain of the facts, estimates and circumstances contained herein are based upon representations made by KRWFC in the attached certificate, or in other letters and reports that accompany the sundry closing documents related to the sale and delivery of the Loan. The District is not aware of any facts, estimates or circumstances that would cause it to question the accuracy of such representations. To the best of the knowledge, information and belief of the undersigned, who is authorized by the District to sign this certificate on behalf of the District, the above expectations of the District as stated herein are reasonable and there are no other facts, estimates or circumstances that would materially change the foregoing conclusion.

This certificate is being executed and delivered pursuant to Treas. Regs. §1.148-1 through -11 issued under the Code, of which the undersigned, with the advice of counsel, is generally familiar. On the basis of the foregoing, it is, not expected that the proceeds of the Loan will be used in a manner that would cause the Loan or the Bonds to be "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code or the Treasury Regulations thereunder.

Dated as of August 29, 2012.

MOUNTAIN WATER DISTRICT

By: 
Chairman

Information Return for Tax-Exempt Governmental Obligations

► Under Internal Revenue Code section 149(e)
► See separate instructions.

Caution: If the issue price is under \$100,000, use Form 8038-GC.

OMB No. 1545-0720

Part I Reporting Authority If Amended Return, check here

1 Issuer's name Mountain Water District		2 Issuer's employer identification number (EIN)	
3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions) Christian L. Juckett		3b Telephone number of other person shown on 3a 502-569-7525	
4 Number and street (or P.O. box if mail is not delivered to street address) 450 South Third Street		Room/suite	5 Report number (For IRS Use Only) 3
6 City, town, or post office, state, and ZIP code Louisville, Kentucky 40202		7 Date of issue August 29, 2012	
8 Name of issue Loan from Public Projects Revenue Refunding Bonds (Flexible Term Program), Series 2012E		9 CUSIP number N/A	
10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions) Mr. Roy Sawyers, administrator		10b Telephone number of officer or other employee shown on 10a 606-631-6156	

Part II Type of Issue (enter the issue price). See the instructions and attach schedule.

11 Education	11		
12 Health and hospital	12		
13 Transportation	13		
14 Public safety	14		
15 Environment (including sewage bonds)	15		
16 Housing	16		
17 Utilities	17	6,369,246	40
18 Other. Describe ►	18		
19 If obligations are TANs or RANs, check only box 19a			<input type="checkbox"/>
If obligations are BANs, check only box 19b			<input type="checkbox"/>
20 If obligations are in the form of a lease or installment sale, check box			<input type="checkbox"/>

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	07/01/2039	\$ 6,369,246.40	\$ 6,270,000.00	11.124 years	3.1351 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

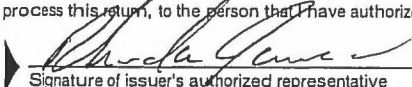
22 Proceeds used for accrued interest	22		0	00
23 Issue price of entire issue (enter amount from line 21, column (b))	23		6,369,246	40
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	189,129	87	
25 Proceeds used for credit enhancement	25	0	00	
26 Proceeds allocated to reasonably required reserve or replacement fund	26	0	00	
27 Proceeds used to currently refund prior issues	27	6,177,683	83	
28 Proceeds used to advance refund prior issues	28	0	00	
29 Total (add lines 24 through 28)	29		6,366,813	70
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30		2,432	70

Part V Description of Refunded Bonds. Complete this part only for refunding bonds.

31 Enter the remaining weighted average maturity of the bonds to be currently refunded	►	See Exhibit A	years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded	►		years
33 Enter the last date on which the refunded bonds will be called (MM/DD/YYYY)	►		08/31/2012
34 Enter the date(s) the refunded bonds were issued ► (MM/DD/YYYY)		See Exhibit A	

Part VI Miscellaneous

35	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35		
36a	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions)	36a		
b	Enter the final maturity date of the GIC ▶ _____			
c	Enter the name of the GIC provider ▶ _____			
37	Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units	37		
38a	If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input checked="" type="checkbox"/> and enter the following information:			
b	Enter the date of the master pool obligation ▶ <u>08/29/2012</u>			
c	Enter the EIN of the issuer of the master pool obligation ▶ <u>61-1286160</u>			
d	Enter the name of the issuer of the master pool obligation ▶ <u>Kentucky Rural Water Finance Corporation</u>			
39	If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box			<input type="checkbox"/>
40	If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box			<input type="checkbox"/>
41a	If the issuer has identified a hedge, check here <input type="checkbox"/> and enter the following information:			
b	Name of hedge provider ▶ _____			
c	Type of hedge ▶ _____			
d	Term of hedge ▶ _____			
42	If the issuer has superintegrated the hedge, check box			<input type="checkbox"/>
43	If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box			<input checked="" type="checkbox"/>
44	If the issuer has established written procedures to monitor the requirements of section 148, check box			<input checked="" type="checkbox"/>
45a	If some portion of the proceeds was used to reimburse expenditures, check here <input type="checkbox"/> and enter the amount of reimbursement ▶ _____			
b	Enter the date the official intent was adopted ▶ _____			

Signature and Consent	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.				
	 Signature of issuer's authorized representative		Date	Rhonda James, Chairman Type or print name and title	
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Christian L. Juckett				P01391045
	Firm's name ▶ Rubin & Hays	Firm's EIN ▶ 31-1488290		Firm's address ▶ 450 South Third Street, Louisville, Ky. 40202	
			Phone no.	502-569-7525	

MOUNTAIN WATER DISTRICT

RESOLUTION 12-04-009

AUTHORIZATION TO PROCEED WITH REFINANCING OF THE DISTRICT'S BONDS

WHEREAS, THE BOARD OF COMMISSIONERS of the Mountain Water District agrees that it would be in the best financial interests of the District to refinance their long term bonds at a lower rate, which see a savings of over six hundred thousand dollars (\$600,000) over the life of the bonds.

NOW, THEREFORE, BE IT RESOLVED THAT the Board of Commissioners of the Mountain Water District votes to authorize Mike Spears, CPA, to proceed with the refinancing of the District's bonds pending review and acceptance of terms by Mr. Spears.

MOTION FOR ADOPTION of this resolution was made the 25th day of April, 2012, by Commissioner Casey and seconded by Commissioner Adkins. Commissioner voting as follows:


Commissioner James	Aye
Commissioner Collins	Aye
Commissioner Friend	Aye
Commissioner Casey	Aye
Commissioner Adkins	Aye

THEREUPON, said motion was declared passed and the resolution adopted.

Dated this the 25th day of April, 2012.



Rhonda James, Chairperson



Ancie Casey, Secretary

Refinancing

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT ADOPTING CERTAIN PROCEDURES IN CONNECTION WITH THE ISSUANCE OF TAX-EXEMPT OBLIGATIONS; AND OTHER MATTERS RELATING THERETO.

WHEREAS, the Board of Commissioners of the Mountain Water District (the "District") has previously issued certain bonds and obligations the interest on which is excluded from the gross income of the holders thereof for federal income tax purposes (the "Bonds"); and

WHEREAS, federal income tax law requires that issuers of tax-exempt bonds comply with certain post-issuance requirements set forth in the Internal Revenue Code; and

WHEREAS, for the purpose of maximizing the likelihood that certain applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt status of the Bonds are met, the District desires to adopt the Written Procedures Related to Tax-Exempt Obligations, attached hereto as Exhibit A;

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Mountain Water District as follows:

Section 1. Approval of Written Procedures. The Written Procedures Related to Tax-Exempt Obligations attached hereto as **Exhibit A** are hereby incorporated into this section as if expressly set forth herein. The District hereby covenants that unless it receives an opinion of bond counsel to the effect that failure to comply with such policies will not adversely affect the exclusion from gross income of interest on the applicable Bonds, it will comply with the Procedures to the extent necessary to maintain the exclusion from gross income of interest on the Bonds for purposes of federal income taxation.

Section 2. Amendment of Written Procedures. The District hereby delegates to the Chairman of the Board of Commissioners, in consultation with bond counsel, the power to amend the Post-Issuance Tax Compliance Procedure for Tax-Exempt Bonds (Exhibit A) on a case by case basis, as deemed necessary.

Section 3. Authorizations. All officials and employees of the District, including the District's treasurer, are authorized and empowered, collectively or individually, to take all other actions and steps as they shall deem necessary or desirable in connection with the adoption and compliance with the Procedures.

Section 4. Effective Date. This Resolution shall take effect immediately upon its adoption.

EXHIBIT A

MOUNTAIN WATER DISTRICT

WRITTEN PROCEDURES Related to Tax-Exempt Obligations

The Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder (the "Regulations") impose certain requirements on tax-exempt obligations, including but not limited to, restrictions on the use of bond proceeds and bond-financed property, arbitrage yield restrictions, and the arbitrage rebate requirement. These requirements are generally applicable throughout the period that the bonds remain outstanding.

The September 2011 revision to the Form 8038-G, Information Return for Tax Exempt Governmental Obligations ("Form 8038-G") requires the issuer to represent whether it has established written procedures to (a) monitor the requirements of Section 148 of the Code, including, but not limited to, the arbitrage rebate and arbitrage yield restriction requirements; and (b) ensure that any nonqualified bonds (within the meaning of Section 1.148-12(j) of the Regulations) are remediated in accordance with the Code and the Regulations.

In addition to the above-described Form 8038-G representations, the Mountain Water District (the "District") has been advised that additional procedures are recommended in order for the District to document compliance with the applicable federal tax requirements. Actions pursuant to these procedures (collectively referred to as post-issuance tax compliance) are intended to assist the District in documenting compliance with the applicable federal tax requirements. Post-issuance tax compliance begins with the process of issuing bonds itself and includes a continuing focus on investment of bond proceeds and use of bond-financed property. Post-issuance tax compliance requires identifying the responsible people and the applicable procedures.

References herein to a "bond" or to "bonds" apply to all forms of tax-exempt obligations including, but not limited to, notes and lease/purchase agreements.

Procedures

The manager and the bookkeeper (hereinafter referred to as the "District Representatives") of the District are designated as being responsible for post-issuance tax compliance. The District Representatives may delegate to their staff or contract with independent contractors (such as an arbitrage/rebate consultant or a consulting engineer) responsibility for different aspects of post-issuance tax compliance. For example, coordinating and documenting the expenditure of bond proceeds on projects may be delegated to the consulting engineer. However, the District Representatives will be ultimately responsible for implementing the procedures described herein.

The District recognizes that it has issued tax-exempt debt prior to the adoption of these procedures. With respect to this prior issued debt, the District Representatives will take reasonable steps to collect and maintain appropriate documentation of compliance with these procedures. However, the District recognizes that such documentation may not exist with respect to some of the items enumerated in these procedures.

"*Treasurer*" refers to the Treasurer of the Governmental Agency.

"*Trustee*" refers to Regions Bank, Nashville, Tennessee.

"*U.S. Obligations*" refers to bonds, notes, or Treasury Bills, which are direct obligations of the United States of America or obligations fully guaranteed by the United States of America, including book-entry obligations of the United States Treasury-State and Local Government Series, and Trust Receipts representing an ownership interest in direct obligations of the United States.

Section 2. Reaffirmation of Declaration of Waterworks and Sewer System. That all proceedings heretofore taken for the establishment of and the supplying of water and sewer service in and to said Governmental Agency as a waterworks and sewer system are hereby in all respects ratified and confirmed; and so long as any of the Obligations hereinafter authorized or permitted to be issued remain outstanding, said System shall be owned, controlled, operated and maintained for the security and source of payment of the Obligations. Said System is hereby declared to constitute a public project within the meaning and application of Sections 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes.

Section 3. Authorization of Obligations; Place of Payment; Manner of Execution. That pursuant to the Constitution and laws of Kentucky, and particularly said Sections 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes, the Governmental Agency hereby authorizes the borrowing of \$6,270,000 from the Program, for the purpose of providing funds for the Project.

Said Obligations shall mature in such principal amounts, and shall bear interest as set forth in Exhibit A attached hereto.

The principal of, redemption price, if any, and interest on the Obligations shall be payable in lawful money of the United States of America on the Interest Payment Date to the Trustee for the Program. Such payment shall be made by the Governmental Agency from funds on deposit in the Sinking Fund pursuant to the ACH Debit Direct Payment Method (the "ACH Debit Direct Payment Method") as described and detailed in the ACH Debit Direct Payment Authorization Form (the "ACH Authorization Form") in a form as provided by the Trustee to the Governmental Agency. The ACH Authorization Form shall be completed, signed and forwarded to the Trustee prior to the Governmental Agency receiving any of the proceeds of the Loan.

Pursuant to the ACH Debit Direct Payment Method, there shall be transferred to the Trustee on or before each Interest Payment Date, from the Sinking Fund, the amounts set forth as sinking fund payments on Exhibit A attached hereto.

In addition, in the event the Issuer is required to withdraw moneys from the Program Reserve Fund established pursuant to the Indenture to pay the principal of and interest on the Obligations and any other payments due under this Assistance Agreement on behalf of the Governmental Agency (the "Reserve Withdrawal"), the Governmental Agency shall pay to the

Trustee, each amount set forth as sinking fund payments on Exhibit A attached hereto, pursuant to the ACH Debit Direct Payment Method an amount equal to at least 1/12 of the Reserve Withdrawal, plus accrued interest thereon at the rate equal to the highest rate of interest paid by the investments making up the Program Reserve Fund until such Reserve Withdrawal has been replenished.

Section 4. Redemption.

(a) *Optional Redemption.* The Obligations maturing prior to July 1, 2022 shall not be subject to optional redemption prior to maturity. Subject to the prior written approval of the Compliance Group, the Obligations maturing on or after July 1, 2022 are subject to optional redemption, in whole or in part, by the Governmental Agency prior to their stated maturity, at any time falling on or after July 1, 2021 at a redemption price equal to 100% of the principal amount of the Obligations called for redemption, plus unpaid interest accrued to the date of redemption.

In the event that the Governmental Agency desires to optionally redeem a portion of its Obligations, such redemption shall be in a denomination equal to \$5,000 or any integral multiple thereof.

(b) *Notice of Redemption.* The Governmental Agency shall give the Issuer and the Trustee notice of any redemption by sending at least one such notice by first class United States mail not less than 45 and not more than 90 days prior to the date fixed for redemption.

All of said Obligations as to which the Governmental Agency reserves and exercises the right of redemption and as to which notice as aforesaid shall have been given, and for the retirement of which, upon the terms aforesaid, funds are duly provided, will cease to bear interest on the redemption date.

Section 5. Recognition of Prior Bonds. The Governmental Agency hereby expressly recognizes and acknowledges that the Governmental Agency has previously created for the benefit and protection of the owners of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Legislation.

Section 6. Obligations Payable Out of Revenues on a Parity with Prior Bonds. All of the Obligations and Prior Bonds, together with the interest thereon and such additional bonds ranking on a parity therewith heretofore issued and outstanding and that may be hereafter issued and outstanding from time to time under the conditions and restrictions hereinafter set forth, shall be payable out of the Sinking Fund, as heretofore created in the Prior Bond Legislation and 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 income and revenues of the System of said Governmental Agency pledged to said fund.

Section 7. Compliance with Parity Coverage Requirements of the Prior Bond Legislation. It is hereby declared that in accordance with the provisions of the Prior Bond

SUPPLEMENTAL TAX CERTIFICATE

Re: Loan in the amount of \$6,270,000, dated August 29, 2012, to the Mountain Water District from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E.

THIS SUPPLEMENTAL TAX CERTIFICATE (the "Supplemental Tax Certificate") is made and entered into as of August 29, 2012 by and between the Kentucky Rural Water Finance Corporation ("KRWFC") and the Mountain Water District (the "District"):

WITNESSETH:

WHEREAS, the District has agreed, in an Assistance Agreement dated the date hereof (the "Agreement") to borrow \$6,270,000 (the "Loan") pursuant to a Program administered by KRWFC and funded with a portion of the proceeds of the \$14,555,000 Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E that were issued on August 29, 2012 (the "Bonds") by KRWFC pursuant to and secured by a Trust Indenture, dated as of April 4, 2001 between the Issuer and Regions Bank, Nashville, Tennessee (as successor in interest to Fifth Third Bank and The Bank of New York Trust Company, N.A.), as supplemented by a Supplemental Trust Indenture No. 46, dated August 29, 2012 (collectively the "Indenture"), between the Issuer and Regions Bank;

WHEREAS, the District has agreed in the Agreement to use the proceeds of the Loan to finance the current refunding of the outstanding:

- i. Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000,
- ii. Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000,
- iii. Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992, in the original authorized principal amount of \$1,488,000,
- iv. Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000,
- v. Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$1,334,000,
- vi. Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000, and
- vii. Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000

(collectively, the "Refunded Bonds") (The refunding of the Refunded Bonds is referred to herein as the "Project") for the District's water and sewer system (the "System"); and

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT WITH THE KENTUCKY RURAL WATER FINANCE CORPORATION FOR THE PURPOSE OF REFINANCING AND CURRENTLY REFUNDING CERTAIN OBLIGATIONS OF THE DISTRICT.

WHEREAS, the Board of Commissioners ("Governing Authority") of the Mountain Water District (the "District") has previously determined that, in order for the District to obtain substantial interest cost savings, it is in the public interest to refinance and currently refund its outstanding:

1. 1. Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000.
2. Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000.
3. Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992, in the original authorized principal amount of \$1,488,000.
4. Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000.
5. Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$1,334,000.
6. Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000.
7. Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000.

(The above-referenced bonds are hereinafter collectively referred to as the "Prior Bonds") which Prior Bonds were issued by the District to make improvements and extensions to the District's water and sewer system (the "System"); and

WHEREAS, the District desires the Kentucky Rural Water Finance Corporation (the "Corporation") to act as its agency and instrumentality for the purpose of providing monies to refinance and currently refund the outstanding Prior Bonds and has made an application to the Corporation therefore; and

WHEREAS, in order to obtain such monies, the District is required to enter into an Assistance Agreement with the Corporation;

NOW, THEREFORE, BE IT RESOLVED by the Governing Authority of the Mountain Water District as follows:

1. **Authorization of Assistance Agreement and the Obligations Thereunder.** For the purpose of paying the costs, not otherwise provided, of the refinancing and current refunding of the Prior Bonds, the District hereby authorizes and approves the issuance of its obligations

pursuant to the Assistance Agreement in the aggregate principal amount of \$6,345,000 (subject to adjustment plus or minus ten percent (10%)) (which aggregate principal amount may be adjusted downward in the event that the Chairman determines it is in the District's best interest to not refund some of the Prior Bonds) [the "Obligations"], which amount as adjusted shall be the maximum amount of such Obligations to be outstanding at any one time under the Assistance Agreement, issued as fully registered Obligations, in said maturities and terms as more fully provided for in the Assistance Agreement. The Obligations shall bear interest at such rates and shall be payable in such amounts and at such times as specified in the Assistance Agreement, all as agreed upon by the District and the Corporation.

2. Approval and Authorization of Execution of Assistance Agreement. The Assistance Agreement by and between the District and the Corporation in such form as may be approved by the Chairman, is hereby approved, subject to such minor changes, changes of dates, insertions or omissions as may be approved by the Chairman, such approval to be conclusively evidenced by the execution of said Assistance Agreement, in order to effectuate the purposes of this Resolution; and the Chairman, or any other officer of the District, is hereby authorized to execute and acknowledge same for and on behalf of the District; and the Secretary is authorized to attest same and to affix thereto the corporate seal of the District. The Assistance Agreement is hereby ordered to be filed in the office of the Secretary with this Resolution in the official records of the District.

3. Disbursement of Proceeds of Obligations. The District's officers, employees and agents are authorized to carry out the procedures specified in the Assistance Agreement for the refinancing and current refunding of the Prior Bonds and for the payment from time to time of the costs and related expenses associated therewith.

4. Revenues of the System. The revenues of the System are determined to be sufficient to pay the principal of and interest on the Obligations, as the same become due and payable; and said revenues, pursuant to the terms of the Assistance Agreement, are hereby pledged to secure all such payments, and in addition, for such other purposes as are more fully specified in the Assistance Agreement.

5. Chairman and Other District Officials to Take Any Other Necessary Action. Pursuant to the Constitution and Laws of the Commonwealth of Kentucky, the Chairman, Treasurer, Secretary and all other appropriate officials of the District are hereby authorized and directed to file any and all applications necessary to obtain approval of the issuance of the Obligations from the Kentucky Public Service Commission and to take any and all further action and to execute and deliver all other documents as may be reasonably necessary to effect the issuance and delivery of the Obligations and the Assistance Agreement.

6. Severability Clause. If any section, paragraph, clause or provision of this Resolution shall be ruled by any court of competent jurisdiction to be invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions hereof.

7. Captions of Clauses. The captions of this Resolution are for convenience only and are not to be construed as part of this Resolution nor as defining or limiting in any way the scope or intent of the provisions hereof.

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

9. **Effective Date of Resolution.** This Resolution shall take effect from and after its adoption and approval.

Adopted on April 25, 2012.

MOUNTAIN WATER DISTRICT

By *Charles James*
Chairman

Attest:

By *Ancie Casey*
Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Governing Authority of the District at a meeting duly held on April 25, 2012; that said official action appears as a matter of public record in the official records or Journal of the Governing Authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.823; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this April 25, 2012.

Ancie Casey
Secretary

**CERTIFICATE OF OFFICERS OF
MOUNTAIN WATER DISTRICT**

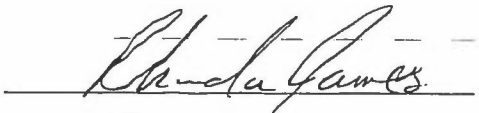
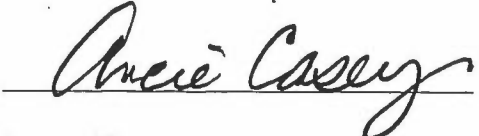
Re: Loan in the amount of \$6,270,000, dated August 29, 2012, to the Mountain Water District from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E.

The undersigned officials of the Mountain Water District (the "District") under the Assistance Agreement (the "Agreement") between the District and the Kentucky Rural Water Finance Corporation ("KRWFC"), dated the date hereof, do hereby certify as follows:

1. That they are the duly elected or appointed, qualified and acting incumbents of their respective offices of the District, as set forth after their signatures hereto, and as such are familiar with the books, records and affairs of the District.

2. That the District is a body politic and corporate, validly organized, existing and in good standing under and by virtue of the laws of the Commonwealth of Kentucky with all requisite power and authority to operate a water and sewer system (the "System") and to carry on its business as now being conducted.

3. That the below-named persons were on the date or dates of the execution of the Agreement and are on the date of this Certificate the duly elected or appointed and qualified incumbents of the respective offices of the District set forth opposite their names and that the signatures set forth opposite their names are their genuine signatures:

<u>Name</u>	<u>Title</u>	<u>Signature</u>
Rhonda James	Chairman	
Angie Casey John Collins	Secretary	

4. That included in the transcript of which this Certificate forms a part is a true, correct and complete copy of the resolution duly adopted by the Governing Body of the District on April 25, 2012 (the "Resolution"), authorizing the appropriate officials of the District to execute the Agreement. The Resolution was duly adopted in accordance with all applicable laws.

5. The Resolution duly authorized the current refunding of the following outstanding bonds of the District:

- i. Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000,
- ii. Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000,
- iii. Mountain Water District Waterworks Revenue Bonds of 1990, dated

February 11, 1992, in the original authorized principal amount of \$1,488,000,

iv. Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000,

v. Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$1,334,000,

vi. Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000, and

vii. Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000

(collectively, the "Refunded Bonds").

6. The Agreement has been duly authorized, executed and delivered by the District and constitutes a legal, valid and binding obligation of the District, enforceable against the District in accordance with its terms.

7. The representations and warranties of the District made in the Agreement are true and correct in all material respects on and as of the date hereof as if made on and as of the date hereof; the Resolution has not been amended or supplemented and is in full force and effect; and the Agreement has been entered into and is in full force and effect.

8. That we are familiar with the provisions of the Agreement, and we hereby certify that at the time of or immediately after the issuance, sale and delivery of the Loan, the proceeds of the Loan authorized by the Agreement were applied or will be applied as itemized in the Distribution of Loan Proceeds Schedule attached hereto as **Exhibit A**, and this certification constitutes the instruction to and authorization of the Trustee to make such payments and deposits specified in said **Exhibit A**.

9. The District has entered into an agreement with the United States Department of Agriculture, acting through Rural Development ("Rural Development"), for the purpose of increasing the balance maintained in its Mountain Water District Waterworks Depreciation Reserve, which depreciation reserve fund was created pursuant to the District's outstanding bonds held by the Rural Development.

10. The District has entered into an agreement with the Kentucky Infrastructure Authority (the "KIA") for the purpose of increasing the balance maintained in its Repair and Maintenance Fund, which fund was created pursuant to the District's outstanding loans from the KIA.

11. With the exception of the agreements referenced in paragraphs 9 and 10 above, the District is not in default under or in violation of (i) any provisions of applicable law, (ii) the Agreement, or (iii) any indenture, mortgage, lien, agreement, contract, deed, lease, loan agreement, note, bond, order, judgment, decree or other instrument or restriction of any kind or character to which it is a party or by which it or its properties are or may be bound, or to which it or any of its assets is subject, which default would have a material adverse effect on the

condition, financial or otherwise, of the District or on the ability of the District to perform its obligations under the Agreement. Neither the execution and delivery of the Agreement nor compliance by the District with the terms, conditions and provisions of the Agreement will conflict with or result in a breach of, or constitute a default under, any of the foregoing.

12. Since the date of the financial information provided to KRWFC, there have not been any material adverse changes in the business, properties, condition (financial or otherwise) or results of operations of the District, whether or not arising from transactions in the ordinary course of business, and since such date, except in the ordinary course of business, the District has not entered into any transaction or incurred any liability material to the financial position of the District.

13. There is no claim, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, or public board or body, pending or, to the best of our knowledge, threatened against or affecting the District wherein an unfavorable decision, ruling or finding would materially adversely affect the business, properties, condition (financial or otherwise) or the results of operations of the District or the ability of the District to perform its obligations under the Agreement.

14. All authorizations, consents and approvals of, notices to, registrations or filings with, or other actions in respect of or by, any governmental body, agency or other instrumentality or court required in connection with the execution, delivery and performance by the District of the Agreement have been duly obtained, given or taken (and copies thereof have been provided to KRWFC).

15. Any certificate signed by any official of the District and delivered to KRWFC will be deemed to be a representation by the District to KRWFC as to the statements made therein.

WITNESS our hands this August 29, 2012.

MOUNTAIN WATER DISTRICT

By *Shada James*
Chairman

Attest:

By *Mered Casey*
Secretary

EXHIBIT A

DISTRIBUTION OF LOAN PROCEEDS SCHEDULE

Re: Loan in the amount of \$6,270,000, dated August 29, 2012, to the Mountain Water District from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E.

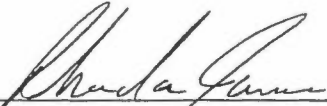
SOURCES OF FUNDS

Par Amount of Loan	\$6,270,000.00
Transfer from Refunded Bonds Sinking Fund	182,289.06
Plus Original Issue Premium	<u>99,246.40</u>
Total Sources	\$6,551,535.46

USES OF FUNDS

Deposit to Mountain Water District Governmental Agency Account to refund the Refunded Bonds	6,359,972.89
Underwriter's Discount	105,119.87
Deposit to Mountain Water District Sinking Fund	2,432.70
Deposit to Costs of Issuance Account	<u>84,010.00</u>
Total Uses	\$6,551,535.46

MOUNTAIN WATER DISTRICT

By: 
Chairman

ARBITRAGE CERTIFICATE

Re: Loan in the amount of \$6,270,000, dated August 29, 2012, to the Mountain Water District from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E.

The undersigned officer of the Mountain Water District (the "District") hereby certifies with respect to the loan in the amount of \$6,270,000 (the "Loan") made pursuant to the Assistance Agreement (the "Agreement") by and between the Kentucky Rural Water Finance Corporation ("KRWFC") and the District, derived from the proceeds of the \$14,555,000 Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012E (the "Bonds") issued by KRWFC, which Agreement is entered into for the purpose of currently refunding certain obligations of the District, secured by the District's existing water and sewer system (the "System") and made as of the date hereof (the "Closing Date"), which is the date of delivery of, and payment for, the Loan, that the following facts, estimates and circumstances regarding the amount and use of all of the Proceeds, as defined in Treas. Reg. §1.148-1(b), issued under the Internal Revenue Code of 1986, as amended (the "Code"), of the Loan are, as of the Closing Date and according to the District's best knowledge, information and belief, reasonably expected to exist or to occur:

1. **Proceeds.** The Proceeds of the Loan consist, and will consist, of the Sale Proceeds and Investment Proceeds, each as defined in Treas. Reg. §1.148-1(b), issued under the Code, and equal the Loan amount.

2. **Purpose of Loan.**

a. The Proceeds of the Loan, together with certain other funds, will be used to provide funds to pay the costs of issuance of the Loan and finance the current refunding of the outstanding:

i. Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000,

ii. Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000,

iii. Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992, in the original authorized principal amount of \$1,488,000,

iv. Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000,

v. Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$1,334,000,

vi. Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000, and

vii. Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000

(collectively, the "Refunded Bonds"), which constitutes a valid governmental purpose (the "Governmental Purpose").

b. The total amount of Proceeds received by the District will not exceed the amount necessary to finance the Governmental Purpose. The Agreement is being entered into at this time in such amount because the Borrower expects to redeem the Refunded Bonds on August 31, 2012.

3. Yield on the Loan.

a. The price at which the Loan was sold to the Issuer, which intends to hold the Loan for investment purposes and not for resale to the general public, is equal to the Loan Amount.

b. The Yield on the Loan, as defined in Treas. Reg. §1.148-4, issued under the Code, is 3.1351148%. The term "yield", as used herein, means that yield which, when used in computing the present worth of all payments of principal and interest on an obligation, produces an amount equal to, in the case of the Bonds, the amount actually received by the District as a result of the sale of the Bonds (including any accrued interest).

4. Application of Proceeds. All of the Sale Proceeds will be used to pay the cost of the Governmental Purpose, including issuance expenses and any accrued interest to the Closing Date. No amount received as Proceeds of the Loan will be used in a manner not set forth in this section.

5. Expenditure of Proceeds for the Project. An amount of the "Net Sales Proceeds" (defined in Treas. Reg. §1.148-1(b) as Sales Proceeds less an amount that is the lesser of five percent (5%) of the Sales Proceeds or \$100,000) of the Loan as specified in the Supplemental Tax Certificate executed by the District and dated of even date herewith will be deposited into the Governmental Agency Account with Regions Bank, Nashville, Tennessee, then transferred to the Rural Development (the "RD") of the Department of Agriculture of the United States of America, the holder of the Refunded Bonds, as may be required:

a. To pay the interest on the Refunded Bonds to and including August 31, 2012; and

b. To redeem on August 31, 2012 at a price equal to 100% of principal amount the Refunded Bonds that as of that date have not been redeemed, retired or otherwise paid, thereby defeasing the pledge of revenues and the property securing the Refunded Bonds.

6. Investment of Proceeds.

a. The District has agreed in the Supplemental Tax Certificate executed by the District and dated of even date herewith that it will not invest any of the Proceeds of the Loan without the express consent of KRWFC, and any such investments will be done so that such investment will not cause interest on either the Loan or the Bonds to be includable in the holder's gross income for purposes of federal income taxation or the

debt to be treated as "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code and the Treasury Regulations thereunder.

b. Not more than fifty percent (50%) of the Proceeds of the Loan will be invested in investments that both do not carry out the Governmental Purpose of the Agreement and have a substantially guaranteed yield for at least four (4) years.

c. Amounts deposited in the District's Sinking Fund will be used to pay the principal of and interest on the Loan, and the District reasonably expects that there will be no other funds that will be so used or that will be pledged to payment of the Loan under circumstances such that the holder of the Loan is reasonably assured that such fund will be available for payment of debt service on the Loan. The Sinking Fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Money deposited in the Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the District's outstanding Loan and other parity obligations and, except for an amount equal to not more than the greater of (i) one-twelfth (1/12) of debt service requirements of such Loan and other parity obligations for the then ensuing year or (ii) one year's earnings on the Sinking Fund, the Sinking Fund will be depleted annually through such application for current debt service requirements of the Loan and other parity obligations. Any income earned from the investment of amounts deposited in the Sinking Fund will be retained in the Sinking Fund and expended within one year from the date of receipt.

d. Any unexpended portion of the Proceeds of the Loan, including any amounts in any reasonably required reserve or replacement fund, will be invested in the investment contract described in the Trust Indenture for the Bonds and other than any funds described herein invested during a temporary period permitted under Treas. Regs. §1.148-1 through -11, issued under the Code, if any, or any amounts in any reasonably required reserve or replacement fund, as described in Treas. Reg. §1.148-2(f), no Proceeds of the Loan, or any moneys that may become Replacement Proceeds, as defined in Treas. Reg. §1.148-1(c), of the Loan, in excess of the lesser of (i) five percent (5%) of such Proceeds or (ii) \$100,000, have been invested in "higher yielding investments", as defined in the Code and the Treasury Regulations thereunder.

7. General.

a. The District reasonably expects that neither the project financed with the proceeds of the Refunded Bonds, nor any part thereof, will be sold or otherwise disposed of by the District prior to the final principal maturity date of the Loan.

b. There are no amounts, other than any funds specifically contributed by the District and the Gross Proceeds of the Loan, that are available for the Governmental Purpose and the term of the Loan is not longer than reasonably necessary for the Governmental Purpose.

c. Any Rebate Payments and any Yield Reduction Payments (each as defined in the Supplemental Tax Certificate), owed pursuant to Section 148(f) of the Code, will

be remitted to the United States Treasury as directed by KRWFC, pursuant to the Supplemental Tax Certificate entered into with respect to the Bonds.

d. The District has not employed in connection with the Loan a transaction or series of transactions that attempts to circumvent the provisions of Sections 103(b)(2) and 148 of the Code and the Treasury Regulations thereunder, enabling the District to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage and/or increasing the burden on the market for tax-exempt obligations through actions such as issuing more obligations, issuing obligations sooner or allowing them to remain outstanding longer than would otherwise be necessary for the Governmental Purpose.

e. KRWFC has never been advised of any listing or contemplated listing by the Internal Revenue Service to the effect that the District's certification with respect to its obligations may not be relied upon and no notice to that effect has been published in the Internal Revenue Bulletin.

f. Certain of the facts, estimates and circumstances contained herein are based upon representations made by KRWFC in the attached certificate, or in other letters and reports that accompany the sundry closing documents related to the sale and delivery of the Loan. The District is not aware of any facts, estimates or circumstances that would cause it to question the accuracy of such representations. To the best of the knowledge, information and belief of the undersigned, who is authorized by the District to sign this certificate on behalf of the District, the above expectations of the District as stated herein are reasonable and there are no other facts, estimates or circumstances that would materially change the foregoing conclusion.

This certificate is being executed and delivered pursuant to Treas. Regs. §1.148-1 through -11 issued under the Code, of which the undersigned, with the advice of counsel, is generally familiar. On the basis of the foregoing, it is, not expected that the proceeds of the Loan will be used in a manner that would cause the Loan or the Bonds to be "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code or the Treasury Regulations thereunder.

Dated as of August 29, 2012.

MOUNTAIN WATER DISTRICT

By: 
Chairman

Balance Information with Financial Institutions

MOUNTAIN WATER DISTRICT

ORIGINAL
To be mailed to

Financial
Institution's
Name and
Address

Att: Melissa Ragsdale
Regions Bank
315 Deaderick St., 4th Floor
Nashville, TN 37238

CUSTOMER NAME

We have provided to our accountants the following information as of the close of business on 12/31/13 regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below.* Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):

ACCOUNT NAME	ACCOUNT NO.	INTEREST RATE	BALANCE*
Mountain Water Revenue	2080035722		

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

ACCOUNT NO./ DESCRIPTION	BALANCE*	DUE DATE	INTEREST RATE	DATE THROUGH WHICH INTEREST IS PAID	DESCRIPTION OF COL- LATERAL
2080035722					

Rhonda James
(Customer's Authorized Signature)

2-22-2014
(Date)

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

(Financial Institution Authorized Signature)

(Date)

(Title)

EXCEPTIONS AND/OR COMMENTS

Please provide information concerning FDIC insurance, any collateral agreement and securities pledged, or repurchase agreement for balances exceeding FDIC limits.

Please return this form directly to our auditor:

Richardpaulmann@twc.com
Richard F. Paulmann CPA, LLC
6005 Park Woods Road
Crestwood KY, 40014

RESOLUTION

RESOLUTION OF THE MOUNTAIN WATER DISTRICT APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT WITH THE KENTUCKY RURAL WATER FINANCE CORPORATION FOR THE PURPOSE OF REFINANCING AND CURRENTLY REFUNDING CERTAIN OBLIGATIONS OF THE DISTRICT.

WHEREAS, the Board of Commissioners ("Governing Authority") of the Mountain Water District (the "District") has previously determined that, in order for the District to obtain substantial interest cost savings, it is in the public interest to refinance and currently refund its outstanding:

1. 1. Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original authorized principal amount of \$500,000.
2. Mountain Water District Waterworks Revenue Bonds of 1989, Series B, dated June 20, 1990, in the original authorized principal amount of \$500,000.
3. Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992, in the original authorized principal amount of \$1,488,000.
4. Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original authorized principal amount of \$662,000.
5. Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original authorized principal amount of \$1,334,000.
6. Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original authorized principal amount of \$2,540,000.
7. Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original authorized principal amount of \$1,760,000.

(The above-referenced bonds are hereinafter collectively referred to as the "Prior Bonds") which Prior Bonds were issued by the District to make improvements and extensions to the District's water and sewer system (the "System"); and

WHEREAS, the District desires the Kentucky Rural Water Finance Corporation (the "Corporation") to act as its agency and instrumentality for the purpose of providing monies to refinance and currently refund the outstanding Prior Bonds and has made an application to the Corporation therefore; and

WHEREAS, in order to obtain such monies, the District is required to enter into an Assistance Agreement with the Corporation;

NOW, THEREFORE, BE IT RESOLVED by the Governing Authority of the Mountain Water District as follows:

1. **Authorization of Assistance Agreement and the Obligations Thereunder.** For the purpose of paying the costs, not otherwise provided, of the refinancing and current refunding of the Prior Bonds, the District hereby authorizes and approves the issuance of its obligations

pursuant to the Assistance Agreement in the aggregate principal amount of \$6,345,000 (subject to adjustment plus or minus ten percent (10%)) (which aggregate principal amount may be adjusted downward in the event that the Chairman determines it is in the District's best interest to not refund some of the Prior Bonds) [the "Obligations"], which amount as adjusted shall be the maximum amount of such Obligations to be outstanding at any one time under the Assistance Agreement, issued as fully registered Obligations, in said maturities and terms as more fully provided for in the Assistance Agreement. The Obligations shall bear interest at such rates and shall be payable in such amounts and at such times as specified in the Assistance Agreement, all as agreed upon by the District and the Corporation.

2. Approval and Authorization of Execution of Assistance Agreement. The Assistance Agreement by and between the District and the Corporation in such form as may be approved by the Chairman, is hereby approved, subject to such minor changes, changes of dates, insertions or omissions as may be approved by the Chairman, such approval to be conclusively evidenced by the execution of said Assistance Agreement, in order to effectuate the purposes of this Resolution; and the Chairman, or any other officer of the District, is hereby authorized to execute and acknowledge same for and on behalf of the District; and the Secretary is authorized to attest same and to affix thereto the corporate seal of the District. The Assistance Agreement is hereby ordered to be filed in the office of the Secretary with this Resolution in the official records of the District.

3. Disbursement of Proceeds of Obligations. The District's officers, employees and agents are authorized to carry out the procedures specified in the Assistance Agreement for the refinancing and current refunding of the Prior Bonds and for the payment from time to time of the costs and related expenses associated therewith.

4. Revenues of the System. The revenues of the System are determined to be sufficient to pay the principal of and interest on the Obligations, as the same become due and payable; and said revenues, pursuant to the terms of the Assistance Agreement, are hereby pledged to secure all such payments, and in addition, for such other purposes as are more fully specified in the Assistance Agreement.

5. Chairman and Other District Officials to Take Any Other Necessary Action. Pursuant to the Constitution and Laws of the Commonwealth of Kentucky, the Chairman, Treasurer, Secretary and all other appropriate officials of the District are hereby authorized and directed to file any and all applications necessary to obtain approval of the issuance of the Obligations from the Kentucky Public Service Commission and to take any and all further action and to execute and deliver all other documents as may be reasonably necessary to effect the issuance and delivery of the Obligations and the Assistance Agreement.

6. Severability Clause. If any section, paragraph, clause or provision of this Resolution shall be ruled by any court of competent jurisdiction to be invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions hereof.

7. Captions of Clauses. The captions of this Resolution are for convenience only and are not to be construed as part of this Resolution nor as defining or limiting in any way the scope or intent of the provisions hereof.

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

9. **Effective Date of Resolution.** This Resolution shall take effect from and after its adoption and approval.

Adopted on April 25, 2012.

MOUNTAIN WATER DISTRICT

By *Rhonda James*
Chairman

Attest:

By *Ancie Casey*
Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Governing Authority of the District at a meeting duly held on April 25, 2012; that said official action appears as a matter of public record in the official records or Journal of the Governing Authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.823; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this April 25, 2012.

Ancie Casey
Secretary

**Mountain Water District
Revenue Bonds
Kentucky Infrastructure Authority**

Indian Creek			Interest Rate 3.00%		Loan Number B291-01		
Due Date	Principal Payment	Interest Payment	Total Principal & Interest	Servicing Fee	Total Payment	Principal Balance to Date	Principal Paid to Date
						\$ 337,760.00	
6/1/1994	\$ 3,510.49	\$ 6,357.29	\$ 9,867.78	\$ 337.76	\$ 10,205.54	\$ 334,249.51	\$ 3,510.49
12/1/1994	\$ 3,563.14	\$ 5,013.74	\$ 8,576.88	\$ 334.25	\$ 8,911.13	\$ 330,686.37	\$ 7,073.63
6/1/1995	\$ 3,616.58	\$ 4,960.30	\$ 8,576.88	\$ 330.69	\$ 8,907.57	\$ 327,069.79	\$ 10,690.21
12/1/1995	\$ 3,670.83	\$ 4,906.05	\$ 8,576.88	\$ 327.07	\$ 8,903.95	\$ 323,398.95	\$ 14,361.05
6/1/1996	\$ 3,725.90	\$ 4,850.98	\$ 8,576.88	\$ 323.40	\$ 8,900.28	\$ 319,673.06	\$ 18,086.94
12/1/1996	\$ 3,781.78	\$ 4,795.10	\$ 8,576.88	\$ 319.67	\$ 8,896.55	\$ 315,891.27	\$ 21,868.73
6/1/1997	\$ 3,838.51	\$ 4,738.37	\$ 8,576.88	\$ 315.89	\$ 8,892.77	\$ 312,052.76	\$ 25,707.24
12/1/1997	\$ 3,896.09	\$ 4,680.79	\$ 8,576.88	\$ 312.05	\$ 8,888.93	\$ 308,156.67	\$ 29,603.33
6/1/1998	\$ 3,954.53	\$ 4,622.35	\$ 8,576.88	\$ 308.16	\$ 8,885.04	\$ 304,202.14	\$ 33,557.86
12/1/1998	\$ 4,013.85	\$ 4,563.03	\$ 8,576.88	\$ 304.20	\$ 8,881.08	\$ 300,188.30	\$ 37,571.70
6/1/1999	\$ 4,074.06	\$ 4,502.82	\$ 8,576.88	\$ 300.19	\$ 8,877.07	\$ 296,114.24	\$ 41,645.76
12/1/1999	\$ 4,135.17	\$ 4,441.71	\$ 8,576.88	\$ 296.11	\$ 8,872.99	\$ 291,979.07	\$ 45,780.93
6/1/2000	\$ 4,197.19	\$ 4,379.69	\$ 8,576.88	\$ 291.98	\$ 8,868.86	\$ 287,781.88	\$ 49,978.12
12/1/2000	\$ 4,260.15	\$ 4,316.73	\$ 8,576.88	\$ 287.78	\$ 8,864.66	\$ 283,521.73	\$ 54,238.27
6/1/2001	\$ 4,324.05	\$ 4,252.83	\$ 8,576.88	\$ 283.52	\$ 8,860.40	\$ 279,197.67	\$ 58,562.33
12/1/2001	\$ 4,388.91	\$ 4,187.97	\$ 8,576.88	\$ 279.20	\$ 8,856.08	\$ 274,808.76	\$ 62,951.24
6/1/2002	\$ 4,454.75	\$ 4,122.13	\$ 8,576.88	\$ 274.81	\$ 8,851.69	\$ 270,354.01	\$ 67,405.99
12/1/2002	\$ 4,521.57	\$ 4,055.31	\$ 8,576.88	\$ 270.35	\$ 8,847.23	\$ 265,832.44	\$ 71,927.56
6/1/2003	\$ 4,589.39	\$ 3,987.49	\$ 8,576.88	\$ 265.83	\$ 8,842.71	\$ 261,243.05	\$ 76,516.95
12/1/2003	\$ 4,658.23	\$ 3,918.65	\$ 8,576.88	\$ 261.24	\$ 8,838.12	\$ 256,584.81	\$ 81,175.19
6/1/2004	\$ 4,728.11	\$ 3,848.77	\$ 8,576.88	\$ 256.58	\$ 8,833.46	\$ 251,856.70	\$ 85,903.30
12/1/2004	\$ 4,799.03	\$ 3,777.85	\$ 8,576.88	\$ 251.86	\$ 8,828.74	\$ 247,051.68	\$ 90,702.32
6/1/2005	\$ 4,871.01	\$ 3,705.87	\$ 8,576.88	\$ 247.06	\$ 8,823.94	\$ 242,186.66	\$ 95,573.34
12/1/2005	\$ 4,944.08	\$ 3,632.80	\$ 8,576.88	\$ 242.19	\$ 8,819.07	\$ 237,242.58	\$ 100,517.42
6/1/2006	\$ 5,018.24	\$ 3,558.64	\$ 8,576.88	\$ 237.24	\$ 8,814.12	\$ 232,224.34	\$ 105,535.66
12/1/2006	\$ 5,093.51	\$ 3,483.37	\$ 8,576.88	\$ 232.22	\$ 8,809.10	\$ 227,130.82	\$ 110,629.18
6/1/2007	\$ 5,169.92	\$ 3,406.96	\$ 8,576.88	\$ 227.13	\$ 8,804.01	\$ 221,960.91	\$ 115,799.09
12/1/2007	\$ 5,247.47	\$ 3,329.41	\$ 8,576.88	\$ 221.96	\$ 8,798.84	\$ 216,713.44	\$ 121,046.56
6/1/2008	\$ 5,326.18	\$ 3,250.70	\$ 8,576.88	\$ 216.71	\$ 8,793.59	\$ 211,387.26	\$ 126,372.74
12/1/2008	\$ 5,406.07	\$ 3,170.81	\$ 8,576.88	\$ 211.39	\$ 8,788.27	\$ 205,981.19	\$ 131,778.81
6/1/2009	\$ 5,487.16	\$ 3,089.72	\$ 8,576.88	\$ 205.98	\$ 8,782.86	\$ 200,494.03	\$ 137,265.97
12/1/2009	\$ 5,569.47	\$ 3,007.41	\$ 8,576.88	\$ 200.49	\$ 8,777.37	\$ 194,924.56	\$ 142,835.44
6/1/2010	\$ 5,653.01	\$ 2,923.87	\$ 8,576.88	\$ 194.92	\$ 8,771.80	\$ 189,271.55	\$ 148,488.45
12/1/2010	\$ 5,737.81	\$ 2,839.07	\$ 8,576.88	\$ 189.27	\$ 8,766.15	\$ 183,533.74	\$ 154,226.26
6/1/2011	\$ 5,823.87	\$ 2,753.01	\$ 8,576.88	\$ 183.53	\$ 8,760.41	\$ 177,709.87	\$ 160,050.13
12/1/2011	\$ 5,911.23	\$ 2,665.65	\$ 8,576.88	\$ 177.71	\$ 8,754.59	\$ 171,798.63	\$ 165,961.37
6/1/2012	\$ 5,999.90	\$ 2,576.98	\$ 8,576.88	\$ 171.80	\$ 8,748.68	\$ 165,798.73	\$ 171,961.27
12/1/2012	\$ 6,089.90	\$ 2,486.98	\$ 8,576.88	\$ 165.80	\$ 8,742.68	\$ 159,708.83	\$ 178,051.17
6/1/2013	\$ 6,181.25	\$ 2,395.63	\$ 8,576.88	\$ 159.71	\$ 8,736.59	\$ 153,527.59	\$ 184,232.41
12/1/2013	\$ 6,273.97	\$ 2,302.91	\$ 8,576.88	\$ 153.53	\$ 8,730.41	\$ 147,253.62	\$ 190,506.38
6/1/2014	\$ 6,368.08	\$ 2,208.80	\$ 8,576.88	\$ 147.25	\$ 8,724.13	\$ 140,885.55	\$ 196,874.45
12/1/2014	\$ 6,463.60	\$ 2,113.28	\$ 8,576.88	\$ 140.89	\$ 8,717.77	\$ 134,421.95	\$ 203,338.05
6/1/2015	\$ 6,560.55	\$ 2,016.33	\$ 8,576.88	\$ 134.42	\$ 8,711.30	\$ 127,861.40	\$ 209,898.60
12/1/2015	\$ 6,658.96	\$ 1,917.92	\$ 8,576.88	\$ 127.86	\$ 8,704.74	\$ 121,202.44	\$ 216,557.56
6/1/2016	\$ 6,758.84	\$ 1,818.04	\$ 8,576.88	\$ 121.20	\$ 8,698.08	\$ 114,443.60	\$ 223,316.40
12/1/2016	\$ 6,860.23	\$ 1,716.65	\$ 8,576.88	\$ 114.44	\$ 8,691.32	\$ 107,583.37	\$ 230,176.63
6/1/2017	\$ 6,963.13	\$ 1,613.75	\$ 8,576.88	\$ 107.58	\$ 8,684.46	\$ 100,620.24	\$ 237,139.76
12/1/2017	\$ 7,067.58	\$ 1,509.30	\$ 8,576.88	\$ 100.62	\$ 8,677.50	\$ 93,552.66	\$ 244,207.34
6/1/2018	\$ 7,173.59	\$ 1,403.29	\$ 8,576.88	\$ 93.55	\$ 8,670.43	\$ 86,379.07	\$ 251,380.93
12/1/2018	\$ 7,281.19	\$ 1,295.69	\$ 8,576.88	\$ 86.38	\$ 8,663.26	\$ 79,097.88	\$ 258,662.12
6/1/2019	\$ 7,390.41	\$ 1,186.47	\$ 8,576.88	\$ 79.10	\$ 8,655.98	\$ 71,707.47	\$ 266,052.53
12/1/2019	\$ 7,501.27	\$ 1,075.61	\$ 8,576.88	\$ 71.71	\$ 8,648.59	\$ 64,206.20	\$ 273,553.80
6/1/2020	\$ 7,613.79	\$ 963.09	\$ 8,576.88	\$ 64.21	\$ 8,641.09	\$ 56,592.41	\$ 281,167.59
12/1/2020	\$ 7,727.99	\$ 848.89	\$ 8,576.88	\$ 56.59	\$ 8,633.47	\$ 48,864.42	\$ 288,895.58
6/1/2021	\$ 7,843.91	\$ 732.97	\$ 8,576.88	\$ 48.86	\$ 8,625.74	\$ 41,020.51	\$ 296,739.49
12/1/2021	\$ 7,961.57	\$ 615.31	\$ 8,576.88	\$ 41.02	\$ 8,617.90	\$ 33,058.93	\$ 304,701.07
6/1/2022	\$ 8,081.00	\$ 495.88	\$ 8,576.88	\$ 33.06	\$ 8,609.94	\$ 24,977.94	\$ 312,782.06
12/1/2022	\$ 8,202.21	\$ 374.67	\$ 8,576.88	\$ 24.98	\$ 8,601.86	\$ 16,775.73	\$ 320,984.27
6/1/2023	\$ 8,325.24	\$ 251.64	\$ 8,576.88	\$ 16.78	\$ 8,593.66	\$ 8,450.48	\$ 329,309.52
12/1/2023	\$ 8,450.48	\$ 126.76	\$ 8,576.88	\$ 8.45	\$ 8,585.33	\$ (0.00)	\$ 337,760.00
Total	\$ 337,760.00	\$ 178,144.06	\$ 515,903.70	\$ 11,790.21	\$ 527,693.91	# Payments	60

**Mountain Water District
Revenue Bonds
Kentucky Infrastructure Authority**

Fedscreek Water Plant

Interest Rate 1.80%

Loan Number F01-07

Due Date	Principal Payment	Interest Payment	Total Principal & Interest	Servicing Fee	Total Payment	Principal Balance to Date	Principal Paid to Date
						\$ 1,197,072.00	
12/1/2004	\$ 24,995.52	\$ 10,713.21	\$ 35,708.73	\$ 1,496.34	\$ 37,205.07	\$ 1,172,076.48	\$ 24,995.52
6/1/2005	\$ 25,220.48	\$ 10,548.69	\$ 35,769.17	\$ 1,465.10	\$ 37,234.27	\$ 1,146,856.00	\$ 50,216.00
12/1/2005	\$ 25,447.47	\$ 10,321.70	\$ 35,769.17	\$ 1,433.57	\$ 37,202.74	\$ 1,121,408.53	\$ 75,663.47
6/1/2006	\$ 25,676.49	\$ 10,092.68	\$ 35,769.17	\$ 1,401.76	\$ 37,170.93	\$ 1,095,732.04	\$ 101,339.96
12/1/2006	\$ 25,907.58	\$ 9,861.59	\$ 35,769.17	\$ 1,369.67	\$ 37,138.84	\$ 1,069,824.46	\$ 127,247.54
6/1/2007	\$ 26,140.75	\$ 9,628.42	\$ 35,769.17	\$ 1,337.28	\$ 37,106.45	\$ 1,043,683.71	\$ 153,388.29
12/1/2007	\$ 26,376.02	\$ 9,393.15	\$ 35,769.17	\$ 1,304.60	\$ 37,073.77	\$ 1,017,307.69	\$ 179,664.31
6/1/2008	\$ 26,613.40	\$ 9,155.77	\$ 35,769.17	\$ 1,271.63	\$ 37,040.80	\$ 990,694.29	\$ 206,377.71
12/1/2008	\$ 26,852.92	\$ 8,916.25	\$ 35,769.17	\$ 1,238.37	\$ 37,007.54	\$ 963,841.37	\$ 233,230.63
6/1/2009	\$ 27,094.60	\$ 8,674.57	\$ 35,769.17	\$ 1,204.80	\$ 36,973.97	\$ 936,746.77	\$ 260,325.23
12/1/2009	\$ 27,338.45	\$ 8,430.72	\$ 35,769.17	\$ 1,170.93	\$ 36,940.10	\$ 909,408.32	\$ 287,663.68
6/1/2010	\$ 27,584.50	\$ 8,184.67	\$ 35,769.17	\$ 1,136.76	\$ 36,905.93	\$ 881,823.83	\$ 315,248.17
12/1/2010	\$ 27,832.76	\$ 7,936.41	\$ 35,769.17	\$ 1,102.28	\$ 36,871.45	\$ 853,991.07	\$ 343,080.93
6/1/2011	\$ 28,083.25	\$ 7,685.92	\$ 35,769.17	\$ 1,067.49	\$ 36,836.66	\$ 825,907.82	\$ 371,164.18
12/1/2011	\$ 28,336.00	\$ 7,433.17	\$ 35,769.17	\$ 1,032.38	\$ 36,801.55	\$ 797,571.82	\$ 399,500.18
6/1/2012	\$ 28,591.02	\$ 7,178.15	\$ 35,769.17	\$ 996.96	\$ 36,766.13	\$ 768,980.80	\$ 428,091.20
12/1/2012	\$ 28,848.34	\$ 6,920.83	\$ 35,769.17	\$ 961.23	\$ 36,730.40	\$ 740,132.45	\$ 456,939.55
6/1/2013	\$ 29,107.98	\$ 6,661.19	\$ 35,769.17	\$ 925.17	\$ 36,694.34	\$ 711,024.48	\$ 486,047.52
12/1/2013	\$ 29,369.95	\$ 6,399.22	\$ 35,769.17	\$ 888.78	\$ 36,657.95	\$ 681,654.53	\$ 515,417.47
6/1/2014	\$ 29,634.28	\$ 6,134.89	\$ 35,769.17	\$ 852.07	\$ 36,621.24	\$ 652,020.25	\$ 545,051.75
12/1/2014	\$ 29,900.99	\$ 5,868.18	\$ 35,769.17	\$ 815.03	\$ 36,584.20	\$ 622,119.26	\$ 574,952.74
6/1/2015	\$ 30,170.10	\$ 5,599.07	\$ 35,769.17	\$ 777.65	\$ 36,546.82	\$ 591,949.16	\$ 605,122.84
12/1/2015	\$ 30,441.63	\$ 5,327.54	\$ 35,769.17	\$ 739.94	\$ 36,509.11	\$ 561,507.54	\$ 635,564.46
6/1/2016	\$ 30,715.60	\$ 5,053.57	\$ 35,769.17	\$ 701.88	\$ 36,471.05	\$ 530,791.93	\$ 666,280.07
12/1/2016	\$ 30,992.04	\$ 4,777.13	\$ 35,769.17	\$ 663.49	\$ 36,432.66	\$ 499,799.89	\$ 697,272.11
6/1/2017	\$ 31,270.97	\$ 4,498.20	\$ 35,769.17	\$ 624.75	\$ 36,393.92	\$ 468,528.92	\$ 728,543.08
12/1/2017	\$ 31,552.41	\$ 4,216.76	\$ 35,769.17	\$ 585.66	\$ 36,354.83	\$ 436,976.51	\$ 760,095.49
6/1/2018	\$ 31,836.38	\$ 3,932.79	\$ 35,769.17	\$ 546.22	\$ 36,315.39	\$ 405,140.13	\$ 791,931.87
12/1/2018	\$ 32,122.91	\$ 3,646.26	\$ 35,769.17	\$ 506.43	\$ 36,275.60	\$ 373,017.22	\$ 824,054.78
6/1/2019	\$ 32,412.02	\$ 3,357.15	\$ 35,769.17	\$ 466.27	\$ 36,235.44	\$ 340,605.21	\$ 856,466.79
12/1/2019	\$ 32,703.72	\$ 3,065.45	\$ 35,769.17	\$ 425.76	\$ 36,194.93	\$ 307,901.48	\$ 889,170.52
6/1/2020	\$ 32,998.06	\$ 2,771.11	\$ 35,769.17	\$ 384.88	\$ 36,154.05	\$ 274,903.43	\$ 922,168.57
12/1/2020	\$ 33,295.04	\$ 2,474.13	\$ 35,769.17	\$ 343.63	\$ 36,112.80	\$ 241,608.39	\$ 955,463.61
6/1/2021	\$ 33,594.69	\$ 2,174.48	\$ 35,769.17	\$ 302.01	\$ 36,071.18	\$ 208,013.69	\$ 989,058.31
12/1/2021	\$ 33,897.05	\$ 1,872.12	\$ 35,769.17	\$ 260.02	\$ 36,029.19	\$ 174,116.65	\$ 1,022,955.35
6/1/2022	\$ 34,202.12	\$ 1,567.05	\$ 35,769.17	\$ 217.65	\$ 35,986.82	\$ 139,914.52	\$ 1,057,157.48
12/1/2022	\$ 34,509.94	\$ 1,259.23	\$ 35,769.17	\$ 174.89	\$ 35,944.06	\$ 105,404.59	\$ 1,091,667.41
6/1/2023	\$ 34,820.53	\$ 948.64	\$ 35,769.17	\$ 131.76	\$ 35,900.93	\$ 70,584.06	\$ 1,126,487.94
12/1/2023	\$ 35,133.91	\$ 635.26	\$ 35,769.17	\$ 88.23	\$ 35,857.40	\$ 35,450.14	\$ 1,161,621.86
6/1/2024	\$ 35,450.14	\$ 319.05	\$ 35,769.19	\$ 44.31	\$ 35,813.50	\$ 0.00	\$ 1,197,072.00
Total	\$ 1,197,072.00	\$ 233,634.38	\$ 1,430,706.38	\$ 32,457.61	\$ 1,463,163.99	# Payments	40

Mountain Water District
Revenue Bonds
Kentucky Infrastructure Authority

Multi-Area		Interest Rate 2.90%		Loan Number B291-07			
Due Date	Principal Payment	Interest Payment	Total Principal & Interest	Servicing Fee	Total Payment	Principal Balance to Date	Principal Paid to Date
6/1/1994	\$ 54,585.53	\$ 68,943.20	\$ 123,528.73	\$ 5,165.09	\$ 128,693.82	\$ 5,165,093.00	\$ 54,585.53
12/1/1994	\$ 55,377.02	\$ 74,102.36	\$ 129,479.38	\$ 5,110.51	\$ 134,589.89	\$ 5,055,130.45	\$ 109,962.55
6/1/1995	\$ 56,179.99	\$ 73,299.39	\$ 129,479.38	\$ 5,055.13	\$ 134,534.51	\$ 4,998,950.46	\$ 166,142.54
12/1/1995	\$ 56,994.60	\$ 72,484.78	\$ 129,479.38	\$ 4,998.95	\$ 134,478.33	\$ 4,941,955.86	\$ 223,137.14
6/1/1996	\$ 57,821.02	\$ 71,658.36	\$ 129,479.38	\$ 4,941.96	\$ 134,421.34	\$ 4,884,134.84	\$ 280,958.16
12/1/1996	\$ 58,659.42	\$ 70,819.96	\$ 129,479.38	\$ 4,884.13	\$ 134,363.51	\$ 4,825,475.42	\$ 339,617.58
6/1/1997	\$ 59,509.99	\$ 69,969.39	\$ 129,479.38	\$ 4,825.48	\$ 134,304.86	\$ 4,765,965.43	\$ 399,127.57
12/1/1997	\$ 60,372.88	\$ 69,106.50	\$ 129,479.38	\$ 4,765.97	\$ 134,245.35	\$ 4,705,592.55	\$ 459,500.45
6/1/1998	\$ 61,248.29	\$ 68,231.09	\$ 129,479.38	\$ 4,705.59	\$ 134,184.97	\$ 4,644,344.26	\$ 520,748.74
12/1/1998	\$ 62,136.39	\$ 67,342.99	\$ 129,479.38	\$ 4,644.34	\$ 134,123.72	\$ 4,582,207.87	\$ 582,885.13
6/1/1999	\$ 63,037.37	\$ 66,442.01	\$ 129,479.38	\$ 4,582.21	\$ 134,061.59	\$ 4,519,170.51	\$ 645,922.49
12/1/1999	\$ 63,951.41	\$ 65,527.97	\$ 129,479.38	\$ 4,519.17	\$ 133,998.55	\$ 4,455,219.10	\$ 709,873.90
6/1/2000	\$ 64,878.70	\$ 64,600.68	\$ 129,479.38	\$ 4,455.22	\$ 133,934.60	\$ 4,390,340.40	\$ 774,752.60
12/1/2000	\$ 65,819.44	\$ 63,659.94	\$ 129,479.38	\$ 4,390.34	\$ 133,869.72	\$ 4,324,520.95	\$ 840,572.05
6/1/2001	\$ 66,773.83	\$ 62,705.55	\$ 129,479.38	\$ 4,324.52	\$ 133,803.90	\$ 4,257,747.13	\$ 907,345.87
12/1/2001	\$ 67,742.05	\$ 61,737.33	\$ 129,479.38	\$ 4,257.75	\$ 133,737.13	\$ 4,190,005.08	\$ 975,087.92
6/1/2002	\$ 68,724.31	\$ 60,755.07	\$ 129,479.38	\$ 4,190.01	\$ 133,669.39	\$ 4,121,280.77	\$ 1,043,812.23
12/1/2002	\$ 69,720.81	\$ 59,758.57	\$ 129,479.38	\$ 4,121.28	\$ 133,600.66	\$ 4,051,559.97	\$ 1,113,533.03
6/1/2003	\$ 70,731.76	\$ 58,747.62	\$ 129,479.38	\$ 4,051.56	\$ 133,530.94	\$ 3,980,828.21	\$ 1,184,264.79
12/1/2003	\$ 71,757.37	\$ 57,722.01	\$ 129,479.38	\$ 3,980.83	\$ 133,460.21	\$ 3,909,070.83	\$ 1,256,022.17
6/1/2004	\$ 72,797.85	\$ 56,681.53	\$ 129,479.38	\$ 3,909.07	\$ 133,388.45	\$ 3,836,272.98	\$ 1,328,820.02
12/1/2004	\$ 73,853.42	\$ 55,625.96	\$ 129,479.38	\$ 3,836.27	\$ 133,315.65	\$ 3,762,419.56	\$ 1,402,673.44
6/1/2005	\$ 74,924.30	\$ 54,555.08	\$ 129,479.38	\$ 3,762.42	\$ 133,241.80	\$ 3,687,495.26	\$ 1,477,597.74
12/1/2005	\$ 76,010.70	\$ 53,468.68	\$ 129,479.38	\$ 3,687.50	\$ 133,166.88	\$ 3,611,484.56	\$ 1,553,608.44
6/1/2006	\$ 77,112.85	\$ 52,366.53	\$ 129,479.38	\$ 3,611.48	\$ 133,090.86	\$ 3,534,371.71	\$ 1,630,721.29
12/1/2006	\$ 78,230.99	\$ 51,248.39	\$ 129,479.38	\$ 3,534.37	\$ 133,013.75	\$ 3,456,140.72	\$ 1,708,952.28
6/1/2007	\$ 79,365.34	\$ 50,114.04	\$ 129,479.38	\$ 3,456.14	\$ 132,935.52	\$ 3,376,775.38	\$ 1,788,317.62
12/1/2007	\$ 80,516.14	\$ 48,963.24	\$ 129,479.38	\$ 3,376.78	\$ 132,856.16	\$ 3,296,259.24	\$ 1,868,833.76
6/1/2008	\$ 81,683.62	\$ 47,795.76	\$ 129,479.38	\$ 3,296.26	\$ 132,775.64	\$ 3,214,575.62	\$ 1,950,517.38
12/1/2008	\$ 82,868.03	\$ 46,611.35	\$ 129,479.38	\$ 3,214.58	\$ 132,693.96	\$ 3,131,707.59	\$ 2,033,385.41
6/1/2009	\$ 84,069.62	\$ 45,409.76	\$ 129,479.38	\$ 3,131.71	\$ 132,611.09	\$ 3,047,637.97	\$ 2,117,455.03
12/1/2009	\$ 85,288.63	\$ 44,190.75	\$ 129,479.38	\$ 3,047.64	\$ 132,527.02	\$ 2,962,349.34	\$ 2,202,743.66
6/1/2010	\$ 86,525.31	\$ 42,954.07	\$ 129,479.38	\$ 2,962.35	\$ 132,441.73	\$ 2,875,824.03	\$ 2,289,268.97
12/1/2010	\$ 87,779.93	\$ 41,699.45	\$ 129,479.38	\$ 2,875.82	\$ 132,355.20	\$ 2,788,044.09	\$ 2,377,048.91
6/1/2011	\$ 89,052.74	\$ 40,426.64	\$ 129,479.38	\$ 2,788.04	\$ 132,267.42	\$ 2,698,991.35	\$ 2,466,101.65
12/1/2011	\$ 90,344.01	\$ 39,135.37	\$ 129,479.38	\$ 2,698.99	\$ 132,178.37	\$ 2,608,647.35	\$ 2,556,445.65
6/1/2012	\$ 91,653.99	\$ 37,825.39	\$ 129,479.38	\$ 2,608.65	\$ 132,088.03	\$ 2,516,993.35	\$ 2,648,099.65
12/1/2012	\$ 92,982.98	\$ 36,496.40	\$ 129,479.38	\$ 2,516.99	\$ 131,996.37	\$ 2,424,010.38	\$ 2,741,082.62
6/1/2013	\$ 94,331.23	\$ 35,148.15	\$ 129,479.38	\$ 2,424.01	\$ 131,903.39	\$ 2,329,679.15	\$ 2,835,413.85
12/1/2013	\$ 95,699.03	\$ 33,780.35	\$ 129,479.38	\$ 2,329.68	\$ 131,809.06	\$ 2,233,980.12	\$ 2,931,112.88
6/1/2014	\$ 97,086.67	\$ 32,392.71	\$ 129,479.38	\$ 2,233.98	\$ 131,713.36	\$ 2,136,893.45	\$ 3,028,199.55
12/1/2014	\$ 98,494.43	\$ 30,984.95	\$ 129,479.38	\$ 2,136.89	\$ 131,616.27	\$ 2,038,399.02	\$ 3,126,693.98
6/1/2015	\$ 99,922.59	\$ 29,556.79	\$ 129,479.38	\$ 2,038.40	\$ 131,517.78	\$ 1,938,476.43	\$ 3,226,616.57
12/1/2015	\$ 101,371.47	\$ 28,107.91	\$ 129,479.38	\$ 1,938.48	\$ 131,417.86	\$ 1,837,104.96	\$ 3,327,988.04
6/1/2016	\$ 102,841.36	\$ 26,638.02	\$ 129,479.38	\$ 1,837.10	\$ 131,316.48	\$ 1,734,263.60	\$ 3,430,829.40
12/1/2016	\$ 104,332.56	\$ 25,146.82	\$ 129,479.38	\$ 1,734.26	\$ 131,213.64	\$ 1,629,931.04	\$ 3,535,161.96
6/1/2017	\$ 105,845.38	\$ 23,634.00	\$ 129,479.38	\$ 1,629.93	\$ 131,109.31	\$ 1,524,085.66	\$ 3,641,007.34
12/1/2017	\$ 107,380.14	\$ 22,099.24	\$ 129,479.38	\$ 1,524.09	\$ 131,003.47	\$ 1,416,705.52	\$ 3,748,387.48
6/1/2018	\$ 108,937.15	\$ 20,542.23	\$ 129,479.38	\$ 1,416.71	\$ 130,896.09	\$ 1,307,768.37	\$ 3,857,324.63
12/1/2018	\$ 110,516.74	\$ 18,962.64	\$ 129,479.38	\$ 1,307.77	\$ 130,787.15	\$ 1,197,251.64	\$ 3,967,841.36
6/1/2019	\$ 112,119.23	\$ 17,360.15	\$ 129,479.38	\$ 1,197.25	\$ 130,676.63	\$ 1,085,132.40	\$ 4,079,960.60
12/1/2019	\$ 113,744.96	\$ 15,734.42	\$ 129,479.38	\$ 1,085.13	\$ 130,564.51	\$ 971,387.44	\$ 4,193,705.56
6/1/2020	\$ 115,394.26	\$ 14,085.12	\$ 129,479.38	\$ 971.39	\$ 130,450.77	\$ 855,993.18	\$ 4,309,099.82
12/1/2020	\$ 117,067.48	\$ 12,411.90	\$ 129,479.38	\$ 855.99	\$ 130,335.37	\$ 738,925.70	\$ 4,426,167.30
6/1/2021	\$ 118,764.96	\$ 10,714.42	\$ 129,479.38	\$ 738.93	\$ 130,218.31	\$ 620,160.75	\$ 4,544,932.25
12/1/2021	\$ 120,487.05	\$ 8,992.33	\$ 129,479.38	\$ 620.16	\$ 130,099.54	\$ 499,673.70	\$ 4,665,419.30
6/1/2022	\$ 122,234.11	\$ 7,245.27	\$ 129,479.38	\$ 499.67	\$ 129,979.05	\$ 377,439.58	\$ 4,787,653.42
12/1/2022	\$ 124,006.51	\$ 5,472.87	\$ 129,479.38	\$ 377.44	\$ 129,856.82	\$ 253,433.08	\$ 4,911,659.92
6/1/2023	\$ 125,804.60	\$ 3,674.78	\$ 129,479.38	\$ 253.43	\$ 129,732.81	\$ 127,628.48	\$ 5,037,464.52
12/1/2023	\$ 127,628.48	\$ 1,850.61	\$ 129,479.38	\$ 127.63	\$ 129,607.01	\$ 0.00	\$ 5,165,093.00
Total	\$ 5,165,093.00	\$ 2,597,718.86	\$ 7,762,812.15	\$ 179,563.41	\$ 7,942,375.56	# Payments	60

44



BOND SCHEDULE, 1/11/2008

Name of Borrower: Mountain Water District			
Amount of Loan	650000	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	1000	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2009	1	1	29250	29250	0	650000
2010	1	2	29250	29250	0	650000
2011	1	3	36250	29250	7000	643000
2012	1	4	35935	28935	7000	636000
2013	1	5	35620	28620	7000	629000
2014	1	6	36305	28305	8000	621000
2015	1	7	35945	27945	8000	613000
2016	1	8	35585	27585	8000	605000
2017	1	9	36225	27225	9000	596000
2018	1	10	35820	26820	9000	587000
2019	1	11	36415	26415	10000	577000
2020	1	12	35965	25965	10000	567000
2021	1	13	36515	25515	11000	556000
2022	1	14	36020	25020	11000	545000
2023	1	15	35525	24525	11000	534000
2024	1	16	36030	24030	12000	522000
2025	1	17	36490	23490	13000	509000
2026	1	18	35905	22905	13000	496000
2027	1	19	36320	22320	14000	482000
2028	1	20	35690	21690	14000	468000
2029	1	21	36060	21060	15000	453000
2030	1	22	36385	20385	16000	437000
2031	1	23	35665	19665	16000	421000
2032	1	24	35945	18945	17000	404000
2033	1	25	36180	18180	18000	386000
2034	1	26	36370	17370	19000	367000
2035	1	27	36515	16515	20000	347000
2036	1	28	35615	15615	20000	327000
2037	1	29	35715	14715	21000	306000
2038	1	30	35770	13770	22000	284000
2039	1	31	35780	12780	23000	261000
2040	1	32	35745	11745	24000	237000
2041	1	33	35665	10665	25000	212000
2042	1	34	35540	9540	26000	186000
2043	1	35	36370	8370	28000	158000
2044	1	36	36110	7110	29000	129000
2045	1	37	35805	5805	30000	99000
2046	1	38	36455	4455	32000	67000
2047	1	39	36015	3015	33000	34000
2048	1	40	35530	1530	34000	0
TOTALS			1426295	776295	650000	

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.



**RURAL UTILITIES SERVICE
BOND SCHEDULE, 9/27/2005**



Name of Borrower: Mountain Water District			
Amount of Loan	1650000	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	1000	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2006	1	1	74250	74250	0	1650000
2007	1	2	74250	74250	0	1650000
2008	1	3	91250	74250	17000	1633000
2009	1	4	91485	73485	18000	1615000
2010	1	5	91675	72675	19000	1596000
2011	1	6	91820	71820	20000	1576000
2012	1	7	91920	70920	21000	1555000
2013	1	8	90975	69975	21000	1534000
2014	1	9	91030	69030	22000	1512000
2015	1	10	91040	68040	23000	1489000
2016	1	11	91005	67005	24000	1465000
2017	1	12	91925	65925	26000	1439000
2018	1	13	91755	64755	27000	1412000
2019	1	14	91540	63540	28000	1384000
2020	1	15	91280	62280	29000	1355000
2021	1	16	90975	60975	30000	1325000
2022	1	17	91625	59625	32000	1293000
2023	1	18	91185	58185	33000	1260000
2024	1	19	91700	56700	35000	1225000
2025	1	20	91125	55125	36000	1189000
2026	1	21	91505	53505	38000	1151000
2027	1	22	91795	51795	40000	1111000
2028	1	23	90995	49995	41000	1070000
2029	1	24	91150	48150	43000	1027000
2030	1	25	91215	46215	45000	982000
2031	1	26	91190	44190	47000	935000
2032	1	27	91075	42075	49000	886000
2033	1	28	91870	39870	52000	834000
2034	1	29	91530	37530	54000	780000
2035	1	30	91100	35100	56000	724000
2036	1	31	91580	32580	59000	665000
2037	1	32	91925	29925	62000	603000
2038	1	33	91135	27135	64000	539000
2039	1	34	91255	24255	67000	472000
2040	1	35	91240	21240	70000	402000
2041	1	36	91090	18090	73000	329000
2042	1	37	91805	14805	77000	252000
2043	1	38	91340	11340	80000	172000
2044	1	39	91740	7740	84000	88000
2045	1	40	91960	3960	88000	0
TOTALS			3622305	1972305	1650000	

Mountain Water District
 Revenue Bonds
 Series 2001

91-24

Russell Fork WTP

Bond Issue Date 7/26/2002

Due Date	Principal Payment	Interest Payment	Total Payment	Principal Balance to Date	Principal Paid to Date
7/1/2003	\$ -	\$ 13,000.00	\$ 13,000.00	\$ 800,000.00	\$ -
7/1/2004	\$ -	\$ 13,000.00	\$ 13,000.00	\$ 800,000.00	\$ -
7/1/2005	\$ -	\$ 12,821.25	\$ 12,821.25	\$ 789,000.00	\$ 11,000.00
7/1/2006	\$ -	\$ 12,642.50	\$ 12,642.50	\$ 778,000.00	\$ 22,000.00
7/1/2007	\$ -	\$ 12,447.50	\$ 12,447.50	\$ 766,000.00	\$ 34,000.00
7/1/2008	\$ -	\$ 12,252.50	\$ 12,252.50	\$ 754,000.00	\$ 46,000.00
7/1/2009	\$ -	\$ 12,057.50	\$ 12,057.50	\$ 742,000.00	\$ 58,000.00
7/1/2010	\$ -	\$ 11,846.25	\$ 11,846.25	\$ 729,000.00	\$ 71,000.00
7/1/2011	\$ -	\$ 11,635.00	\$ 11,635.00	\$ 716,000.00	\$ 84,000.00
7/1/2012	\$ -	\$ 11,407.50	\$ 11,407.50	\$ 702,000.00	\$ 98,000.00
7/1/2013	\$ -	\$ 11,180.00	\$ 11,180.00	\$ 688,000.00	\$ 112,000.00
7/1/2014	\$ -	\$ 10,936.25	\$ 10,936.25	\$ 673,000.00	\$ 127,000.00
7/1/2015	\$ -	\$ 10,692.50	\$ 10,692.50	\$ 658,000.00	\$ 142,000.00
7/1/2016	\$ -	\$ 10,432.50	\$ 10,432.50	\$ 642,000.00	\$ 158,000.00
7/1/2017	\$ -	\$ 10,172.50	\$ 10,172.50	\$ 626,000.00	\$ 174,000.00
7/1/2018	\$ -	\$ 9,896.25	\$ 9,896.25	\$ 609,000.00	\$ 191,000.00
7/1/2019	\$ -	\$ 9,620.00	\$ 9,620.00	\$ 592,000.00	\$ 208,000.00
7/1/2020	\$ -	\$ 9,327.50	\$ 9,327.50	\$ 574,000.00	\$ 226,000.00
7/1/2021	\$ -	\$ 9,035.00	\$ 9,035.00	\$ 556,000.00	\$ 244,000.00
7/1/2022	\$ -	\$ 8,726.25	\$ 8,726.25	\$ 537,000.00	\$ 263,000.00
7/1/2023	\$ -	\$ 8,417.50	\$ 8,417.50	\$ 518,000.00	\$ 282,000.00
7/1/2024	\$ -	\$ 8,092.50	\$ 8,092.50	\$ 498,000.00	\$ 302,000.00
7/1/2025	\$ -	\$ 7,751.25	\$ 7,751.25	\$ 477,000.00	\$ 323,000.00
7/1/2026	\$ -	\$ 7,410.00	\$ 7,410.00	\$ 456,000.00	\$ 344,000.00
7/1/2027	\$ -	\$ 7,052.50	\$ 7,052.50	\$ 434,000.00	\$ 366,000.00
7/1/2028	\$ -	\$ 6,678.75	\$ 6,678.75	\$ 411,000.00	\$ 389,000.00
7/1/2029	\$ -	\$ 6,288.75	\$ 6,288.75	\$ 387,000.00	\$ 413,000.00
7/1/2030	\$ -	\$ 5,898.75	\$ 5,898.75	\$ 363,000.00	\$ 437,000.00
7/1/2031	\$ -	\$ 5,492.50	\$ 5,492.50	\$ 338,000.00	\$ 462,000.00
7/1/2032	\$ -	\$ 5,070.00	\$ 5,070.00	\$ 312,000.00	\$ 488,000.00
7/1/2033	\$ -	\$ 4,631.25	\$ 4,631.25	\$ 285,000.00	\$ 515,000.00

**Mountain Water District
Revenue Bonds
Series 2001**

Due Date	Principal Payment	Interest Payment	Total Payment	Principal Balance to Date	Principal Paid to Date
7/1/2034	\$ -	\$ 4,176.25	\$ 4,176.25	\$ 257,000.00	\$ 543,000.00
7/1/2035	\$ -	\$ 3,721.25	\$ 3,721.25	\$ 229,000.00	\$ 571,000.00
7/1/2036	\$ -	\$ 3,233.75	\$ 3,233.75	\$ 199,000.00	\$ 601,000.00
7/1/2037	\$ -	\$ 2,746.25	\$ 2,746.25	\$ 169,000.00	\$ 631,000.00
7/1/2038	\$ -	\$ 2,226.25	\$ 2,226.25	\$ 137,000.00	\$ 663,000.00
7/1/2039	\$ -	\$ 1,706.25	\$ 1,706.25	\$ 105,000.00	\$ 695,000.00
7/1/2040	\$ -	\$ 1,153.75	\$ 1,153.75	\$ 71,000.00	\$ 729,000.00
7/1/2041	\$ -	\$ 585.00	\$ 585.00	\$ 36,000.00	\$ 764,000.00

Total	\$ 800,000.00	\$ 643,922.50	\$ 1,443,922.50	# Payments 79
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Cons Loan
Refinanced

KRWFC Flexible Term Program Series 2012 E
Sinking Fund Payment Schedule

Borrower: Mountain Water District
Closing Date: 08/29/12

	Monthly Principal	Monthly Interest	Monthly Admin.Fees	Total Monthly Sinking Fund Payments
10/12-1/13	17,000.00	18,516.42	1,640.07	37,156.49
2/13-7/13	17,000.00	14,618.23	1,294.79	32,913.02
8/13-1/14	28,750.00	14,334.90	1,259.38	44,344.27
2/14-8/14	28,750.00	14,334.90	1,259.38	44,344.27
8/14-1/15	29,583.33	13,759.90	1,187.50	44,530.73
2/15-7/15	29,583.33	13,759.90	1,187.50	44,530.73
8/15-1/16	30,000.00	13,168.23	1,113.54	44,281.77
2/16-7/16	30,000.00	13,168.23	1,113.54	44,281.77
8/16-1/17	30,416.67	12,568.23	1,038.54	44,023.44
2/17-7/17	30,416.67	12,568.23	1,038.54	44,023.44
8/17-1/18	31,250.00	11,959.90	962.50	44,172.40
2/18-7/18	31,250.00	11,959.90	962.50	44,172.40
8/18-1/19	31,666.67	11,256.77	884.38	43,807.81
2/19-7/19	31,666.67	11,256.77	884.38	43,807.81
8/19-1-20	32,916.67	10,306.77	805.21	44,028.65
2/20-7/20	32,916.67	10,306.77	805.21	44,028.65
8/20-1/21	20,000.00	9,319.27	722.92	30,042.19
2/21-7/21	20,000.00	9,319.27	722.92	30,042.19
8/21-1/22	18,333.33	8,719.27	672.92	27,725.52
2/22-7/22	18,333.33	8,719.27	672.92	27,725.52
8/22-1/23	18,750.00	8,169.27	627.08	27,546.36
2/23-7/23	18,750.00	8,169.27	627.08	27,546.36
8/23-1/24	19,583.33	7,606.77	580.21	27,770.31
2/24-7/24	19,583.33	7,606.77	580.21	27,770.31
8/24-1/25	20,000.00	7,019.27	531.25	27,550.52
2/25-7/25	20,000.00	7,019.27	531.25	27,550.52
8/25-1/26	20,416.67	6,419.27	481.25	27,317.19
2/26-7/26	20,416.67	6,419.27	481.25	27,317.19
8/26-1/27	21,250.00	5,806.77	430.21	27,486.98
2/27-7/27	21,250.00	5,806.77	430.21	27,486.98
8/27-1/28	19,583.33	5,169.27	377.08	25,129.69
2/28-7/28	19,583.33	5,169.27	377.08	25,129.69
8/28-1/29	20,000.00	4,581.77	328.13	24,909.90
2/29-7/29	20,000.00	4,581.77	328.13	24,909.90
8/29-1/30	20,416.67	3,956.77	278.13	24,651.56
2/30-7/30	20,416.67	3,956.77	278.13	24,651.56
8/30-2/31	14,166.67	3,318.75	227.08	17,712.50
2/31-7/31	14,166.67	3,318.75	227.08	17,712.50
8/31-1/32	14,583.33	2,858.33	191.67	17,633.33
2/32-7/32	14,583.33	2,858.33	191.67	17,633.33
8/32-1/33	12,083.33	2,384.38	155.21	14,622.92
2/33-7/33	12,083.33	2,384.38	155.21	14,622.92
8/33-1/34	12,083.33	1,976.56	125.00	14,184.90
2/34-7/34	12,083.33	1,976.56	125.00	14,184.90
8/34-1/35	12,500.00	1,553.65	94.79	14,148.44
2/35-7/35	12,500.00	1,553.65	94.79	14,148.44
8/35-1/36	7,083.33	1,116.15	63.54	8,263.02
2/36-7/36	7,083.33	1,116.15	63.54	8,263.02
8/36-1/37	7,500.00	859.38	45.83	8,405.21
2/37-7/37	7,500.00	859.38	45.83	8,405.21
8/37-1/38	7,500.00	578.13	30.83	8,108.96
2/38-7/38	7,500.00	578.13	30.83	8,108.96
8/38-1/39	7,916.67	296.88	15.83	8,229.38
2/39-8/39	7,916.67	296.88	15.83	8,229.38
	<u>6,270,000.00</u>	<u>2,190,550.27</u>	<u>173,089.03</u>	<u>8,633,639.30</u>

D
E
F
C

Mountain WD PSC financing cases:

Case No.	loan/bond amount		source	PSC order date
9864	\$500,000	water	fmha	7/27/87
10080	\$5.4M	water	aml	3/9/88
10150	\$2M	water	aml	4/14/88
92-00227	\$10K \$5.1M	water	fmha kia	6/19/92
93-00308	\$662K \$337k	water	fmha kia	3/11/93
95-00280	\$1.3M	water	fmha	7/21/95
97-00112	\$176 bond \$484k	sewer	kia	3/11/97
98-00604	\$2.54M	refinance	bonds	1/11/99
02-00099	\$426k	sewer	rd	4/25/02
03-00282	\$227k	sewer	kia	11/6/03
04-0130	\$1.7M	water	bonds	4/28/04
04-00194	\$740K	sewer	bonds	6/24/04
05-00436	\$1.65	water	bonds	11/14/05
06-00438	\$650k	sewer	bonds	11/1/06
08-00052	\$650k	water	rd	3/12/08
09-00541	\$750k	sewer	kia	1/29/10
12-00317	\$6.3M	water	krwfc	8/7/12

Mountain WD PSC financing cases:

Case No.	loan/bond amount		source	PSC order date
9864	\$500,000	water	fmha	7/27/87
10080	\$5.4M	water	aml	3/9/88
10150	\$2M	water	aml	4/14/88
92-00227	\$10K \$5.1M	water	fmha kia	6/19/92
93-00308	\$662K \$337k	water	fmha kia	3/11/93
95-00280	\$1.3M	water	fmha	7/21/95
97-00112	\$176 bond \$484k	sewer	kia	3/11/97
98-00604	\$2.54M	refinance	bonds	1/11/99
02-00099	\$426k	sewer	rd	4/25/02
03-00282	\$227k	sewer	kia	11/6/03
04-0130	\$1.7M	water	bonds	4/28/04
04-00194	\$740K	sewer	bonds	6/24/04
05-00436	\$1.65	water	bonds	11/14/05
06-00438	\$650k	sewer	bonds	11/1/06
08-00052	\$650k	water	rd	3/12/08
09-00541	\$750k	sewer	kia	1/29/10
12-00317	\$6.3M	water	krwfc	8/7/12

Mountain WD PSC financing cases:

Case No.	loan/bond amount		source	PSC order date
9864	\$500,000	water	fmha	7/27/87
10080	\$5.4M	water	aml	3/9/88
10150	\$2M	water	aml	4/14/88
92-00227	\$10K \$5.1M	water	fmha kia	6/19/92
93-00308	\$662K \$337k	water	fmha kia	3/11/93
95-00280	\$1.3M	water	fmha	7/21/95
97-00112	\$176 bond \$484k	sewer	kia	3/11/97
98-00604	\$2.54M	refinance	bonds	1/11/99
02-00099	\$426k	sewer	rd	4/25/02
03-00282	\$227k	sewer	kia	11/6/03
04-0130	\$1.7M	water	bonds	4/28/04
04-00194	\$740K	sewer	bonds	6/24/04
05-00436	\$1.65	water	bonds	11/14/05
06-00438	\$650k	sewer	bonds	11/1/06
08-00052	\$650k	water	rd	3/12/08
09-00541	\$750k	sewer	kia	1/29/10
12-00317	\$6.3M	water	krwfc	8/7/12

Mountain WD PSC financing cases:

Case No.	loan/bond amount		source	PSC order date
9864	\$500,000	water	fmha	7/27/87
10080	\$5.4M	water	aml	3/9/88
10150	\$2M	water	aml	4/14/88
92-00227	\$10K	water	fmha	6/19/92
	\$5.1M		kia	
93-00308	\$662K	water	fmha	3/11/93
	\$337k		kia	
95-00280	\$1.3M	water	fmha	7/21/95
97-00112	\$176 bond	sewer	kia	3/11/97
	\$484k			
98-00604	\$2.54M	refinance	bonds	1/11/99
02-00099	\$426k	sewer	rd	4/25/02
03-00282	\$227k	sewer	kia	11/6/03
04-0130	\$1.7M	water	bonds	4/28/04
04-00194	\$740K	sewer	bonds	6/24/04
05-00436	\$1.65	water	bonds	11/14/05
06-00438	\$650k	sewer	bonds	11/1/06
08-00052	\$650k	water	rd	3/12/08
09-00541	\$750k	sewer	kia	1/29/10
12-00317	\$6.3M	water	krwfc	8/7/12

Mountain WD PSC financing cases:

Case No.	loan/bond amount		source	PSC order date
9864	\$500,000	water	fmha	7/27/87
10080	\$5.4M	water	aml	3/9/88
10150	\$2M	water	aml	4/14/88
92-00227	\$10K	water	fmha	6/19/92
	\$5.1M		kia	
93-00308	\$662K	water	fmha	3/11/93
	\$337k		kia	
95-00280	\$1.3M	water	fmha	7/21/95
97-00112	\$176 bond	sewer	kia	3/11/97
	\$484k			
98-00604	\$2.54M	refinance	bonds	1/11/99
02-00099	\$426k	sewer	rd	4/25/02
03-00282	\$227k	sewer	kia	11/6/03
04-0130	\$1.7M	water	bonds	4/28/04
04-00194	\$740K	sewer	bonds	6/24/04
05-00436	\$1.65	water	bonds	11/14/05
06-00438	\$650k	sewer	bonds	11/1/06
08-00052	\$650k	water	rd	3/12/08
09-00541	\$750k	sewer	kia	1/29/10
12-00317	\$6.3M	water	krwfc	8/7/12