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March 29, 2013

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

RECEIVED
APR 02 2013
PUBLIC SERVICE
COMMISSION

RE: Hardin County Water District No. 2
Case No. 2012-00388
Bond Refunding

Dear Mr. Derouen:

Attached is the Official Statement for the 2012A Water System Refunding Revenue Bonds (2012A Refunding Bonds) issued by Hardin County Water District No. 2 (District) and delivered on October 2, 2012. The actual terms and conditions of the 2012A Refunding Bonds were identical to the terms and conditions set forth in the District's Application and in the Official Statement.

All documents referenced in the Official Statement and in the 2012A Bond Resolution have already been filed with the Commission.

This information is being provided pursuant to ordering paragraph 2 of the Commission's September 24, 2012 Order.

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

Yours truly,
DAMON R. TALLEY, P.S.C.
Damon R. Talley
DAMON R. TALLEY, ATTORNEY FOR
HARDIN COUNTY WATER DISTRICT NO. 2

DRT:ms
Enclosure

13/HCWD2/Derouen Letter – 3-29-13

Case # 2012-00388
Post Case

OFFICIAL STATEMENT

Dated August 28, 2012

NEW ISSUE
(Bank Qualified)

RATING: Moody's "Aa3"
(See "Rating" herein)

In the opinion of Bond Counsel, subject to the conditions set forth in "TAX MATTERS" herein, interest on the 2012A Bonds is excluded from gross income for federal and Kentucky income tax purposes and is not an item of tax preference for purposes of computing the federal alternative minimum tax. Bond Counsel is further of the opinion that the 2012A Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and its political subdivisions.

$6,070,000
HARDIN COUNTY (KENTUCKY) WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2012A

Dated: Date of Issuance **Due: January 1, as shown herein**

Interest on the Series 2012A Bonds (the "2012A Bonds") is payable semiannually on each January 1 and July 1, commencing January 1, 2013. The 2012A Bonds will be issued initially in book-entry form registered by the Paying Agent and Bond Registrar (First Citizens Bank, Elizabethtown, Kentucky) in the name of Cede & Co. as a nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the 2012A Bonds. Individual purchases of 2012A Bonds may be made in book-entry form only, in the principal amount of $5,000 or any multiple of $5,000. Principal of and interest on the 2012A Bonds will be payable to DTC, which in turn will remit such principal and interest to the beneficial owners of the 2012A Bonds through DTC's participants as described herein. The 2012A Bonds will mature on January 1 of the respective years as shown on the following page.

The 2012A Bonds maturing on and after January 1, 2024, are subject to optional redemption on and after January 1, 2023, as described herein.

The issuance of the 2012A Bonds and certain legal matters incident thereto are subject to the approving opinion of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Certain legal matters will be passed upon for the District by its counsel, Damon R. Talley, Esq., Hodgenville, Kentucky. The 2012A Bonds are expected to be available for delivery, through the facilities of DTC, on or about October 2, 2012.

RAYMOND JAMES & ASSOCIATES, INC.

$6,070,000
HARDIN COUNTY (KENTUCKY) WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2012A

(First interest payment due January 1, 2013)

The 2012A Bonds will mature on January 1 of the following years:

$3,955,000 Serial Bonds

Year	Amount	Rate	Price	Yield	CUSIP # 411890
2013	$215,000	1.000%	100.110%	0.550%	KT2
2014	180,000	2.000	101.673	0.650	KU9
2015	185,000	2.000	102.666	0.800	KV7
2016	190,000	2.000	103.511	0.900	KW5
2017	195,000	2.000	103.512	1.150	KX3
2018	195,000	2.000	103.024	1.400	KY1
2019	200,000	2.000	102.068	1.650	KZ8
2020	205,000	2.125	101.855	1.850	LA2
2021	210,000	2.250	101.890	2.000	LB0
2022	215,000	2.375	102.723	2.050	LC8
2023	220,000	2.375	102.522	2.100	LD6
2024	230,000	2.500	102.737	2.200	LE4
2025	235,000	2.500	102.274	2.250	LF1
2026	245,000	2.750	104.085	2.300	LG9
2027	245,000	2.750	103.621	2.350	LH7
2028	255,000	2.750	102.702	2.450	LJ3
2029	265,000	2.750	101.339	2.600	LK0
2030	270,000	3.000	102.667	2.700	LL8

$2,115,000 Term Bonds

Year	Amount	Rate	Price	Yield	CUSIP # 411890
2032	$575,000	3.250%	103.080%	2.900%	LM6
2035	730,000	3.500	101.288	3.350	LN4
2040	810,000	3.750	101.701	3.550	LP9

This Official Statement does not constitute an offer to sell the 2012A Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the 2012A Bonds, and if given or made, such information or representation must not be relied upon. Neither the delivery of this Official Statement nor the sale of any 2012A Bonds implies that there has been no change in the matters described herein since the date hereof.

The price and other terms respecting the offering and sale of the 2012A Bonds may be changed from time to time by the underwriters after such 2012A Bonds are released for sale, and such 2012A Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the 2012A Bonds into investment accounts.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. The information in this Official Statement has been obtained from sources which are considered reliable and which are customarily relied upon in preparation of similar official statements, but such information is not guaranteed as to accuracy or completeness.

The 2012A Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities laws and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.

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TABLE OF CONTENTS

HARDIN COUNTY (KENTUCKY) WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2012A

INTRODUCTORY STATEMENT

This Official Statement of the Hardin County Water District No. 2 (the "District"), Hardin and Larue Counties, Kentucky, sets forth certain information with respect to the District's Water System Refunding Revenue Bonds, Series 2012A, dated October 2, 2012, to be issued in the principal amount of $6,070,000 (the "2012A Bonds"). The proceeds from the sale of the 2012A Bonds will be used to currently refund the District's outstanding Water System Refunding Revenue Bonds, Series 2003 and Water System Revenue Bonds, Series 2005A and to pay costs of issuance of the 2012A Bonds, as hereinafter described under the heading "PURPOSE." The District is a statutory water district providing water service to parts of Hardin and Larue Counties, Kentucky. The 2012A Bonds will be issued under authority of Chapters 74 and 106 of the Kentucky Revised Statutes and a Resolution adopted by the Commission of the District on August 21, 2012 (the "2012A Resolution") and will, together with outstanding parity bonds, be payable from the revenues of the District's municipal water system (the "System").

Before the issuance of the 2012A Bonds, the District will enter into a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") regarding its obligation to make continuing annual disclosure of certain financial and operating information and disclosure of certain events which might occur, all as described hereinafter under the heading "CONTINUING DISCLOSURE UNDERTAKING."

The 2012A Bonds will be issued initially only in book-entry form in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), as securities depository. No physical delivery of the 2012A Bonds will be made to purchasers. SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER, REFERENCES TO "BONDHOLDERS" OR "REGISTERED HOLDERS" OR "OWNERS" SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2012A BONDS. SEE "THE 2012A BONDS - Book-Entry-Only System."

There follows a brief description of the 2012A Bonds, the current refunding plan, the District, the System, the 2012A Resolution and the Continuing Disclosure Certificate, together with the Appendices, containing financial and other information with respect to the District. All descriptions contained herein of the 2012A Bonds, the 2012A Resolution and the Continuing Disclosure Certificate do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, all of which are available for inspection at the office of the District in Elizabethtown, Kentucky.

THE 2012A BONDS

General

The 2012A Bonds will be dated the date of issuance, will be issued initially in book-entry form in the principal amount (in denominations of $5,000 or any integral multiples thereof), will mature as to principal on each January 1 and will bear interest, all as set forth on the inside cover page of this Official Statement, subject to mandatory sinking fund redemption as herein provided. The 2012A Bonds are subject to optional redemption as hereinafter described. Interest will be computed on the basis of a year of 360 days consisting of twelve 30-day months.

Interest accruing on the 2012A Bonds will be payable semiannually on January 1 and July 1 of each year (commencing January 1, 2013) from the later of the date of issuance, or the most recent interest payment date to which interest has been paid or duly provided for. The interest installment on each 2012A Bond will be paid to the person who is the registered holder thereof as of the close of business on the Record Date for such interest installment, which Record Date shall be the 15th day (whether or not a business day) of the calendar month next preceding such interest payment date. Payment of interest shall be made by check or draft mailed to the person who is the registered holder on the applicable Record Date at the address of such holder as it appears on the books of the Paying Agent and Bond Registrar, First Citizens Bank, Elizabethtown, Kentucky. Principal shall be paid when due upon delivery of the 2012A Bond for payment at the office of the Paying Agent and Bond Registrar in Elizabethtown, Kentucky. If the date for making any payment in respect of the 2012A Bonds is not a business day for the Paying Agent and Bond Registrar, such payment may be made on the next succeeding business day with the same force and effect as if done on the date stipulated in the 2012A Bonds and no interest will accrue for the period after such stipulated date.

See "THE 2012A BONDS - Book-Entry-Only System" regarding payment of principal and interest to the Beneficial Owners (as defined herein) while the 2012A Bonds are in the Book-Entry-Only System (as defined herein).

Optional Redemption

The 2012A Bonds maturing on and after January 1, 2024, are subject to redemption before maturity at the option of the District on January 1, 2023, and on any date thereafter in whole, or from time to time in part (less than all of the maturity to be selected by lot by the Paying Agent and Bond Registrar), at the redemption price of par plus accrued interest to the redemption date.

Not less than thirty days before the redemption date of any such 2012A Bonds, the Paying Agent and Bond Registrar is required to cause a notice of redemption to be mailed postage prepaid by first class mail to all registered holders of the 2012A Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect in any notice with respect to any 2012A Bonds will not affect the validity of the redemption of any other 2012A Bond. The redemption notice will set forth the details with respect to the redemption.

Mandatory Sinking Fund Redemption

The 2012A Bonds maturing on January 1, 2032 are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Bond Registrar and Paying Agent by lot, as follows:

$575,000 Term Bonds Maturing January 1, 2032

Mandatory Sinking Fund Installment Due January 1	Amount of Installment
2031	$280,000
2032 (maturity)	295,000

The 2012A Bonds maturing on January 1, 2035 are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Bond Registrar and Paying Agent by lot, as follows:

$730,000 Term Bonds Maturing January 1, 2035

Mandatory Sinking Fund Installment Due January 1	Amount of Installment
2033	$300,000
2034	210,000
2035 (maturity)	220,000

The 2012A Bonds maturing on January 1, 2040 are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Bond Registrar and Paying Agent by lot, as follows:

$810,000 Term Bonds Maturing January 1, 2040

Mandatory Sinking Fund Installment Due January 1	Amount of Installment
2036	$230,000
2037	235,000
2038	250,000
2039	85,000
2040 (maturity)	10,000

Book-Entry-Only System

Only beneficial interests will be available to purchasers through a book-entry-only system maintained by DTC (the "Book-Entry-Only System"). The following discussion will not apply to 2012A Bonds if issued in physical form after the discontinuance of the Book-Entry-Only System.

DTC will act as securities depository for the 2012A Bonds upon their initial issuance. The 2012A Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee). The 2012A Bonds will be originally issued as one fully-registered 2012A Bond for each maturity, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds bonds that its participants (the "Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of bond transactions, such as transfers and pledges, in deposited bonds through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of bond certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are collectively referred to as "Participants." The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 2012A Bonds under the Book-Entry-Only System must be made by or through Direct Participants, which will receive a credit for the 2012A Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in 2012A Bonds, except in the event that use of the Book-Entry-Only System for the 2012A Bonds is discontinued.

To facilitate subsequent transfers, all 2012A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2012A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2012A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the 2012A Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 2012A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2012A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2012A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent and Bond Registrar or the Board of Commissioners of the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Paying Agent and Bond Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The foregoing information concerning DTC and DTC's Book-Entry-Only System has been obtained from DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the District takes no responsibility for the accuracy of such statements.

THE DISTRICT AND THE PAYING AGENT AND BOND REGISTRAR WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE PAYING AGENT AND BOND REGISTRAR AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF OR INTEREST ON THE 2012A BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE 2012A RESOLUTION; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2012A BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

The securities depository may discontinue providing its services with respect to the 2012A Bonds at any time by giving thirty days' notice to the District and the Paying Agent and Bond Registrar and discharging its responsibilities with respect thereto under applicable law. If no successor securities depository is appointed in accordance with the 2012A Resolution, or if the District decides to discontinue the Book-Entry-Only System, Bond certificates shall be printed and delivered to and registered in the name of the Beneficial Owners.

In the event that the Book-Entry-Only System is discontinued, a Bondholder may transfer or exchange 2012A Bonds in accordance with the 2012A Resolution. The Paying Agent and Bond Registrar may require a Bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the 2012A Resolution. The Paying Agent and Bond Registrar shall not be required to transfer or exchange any 2012A Bond (a) during any period beginning five days before the selection by the Paying Agent and Bond Registrar of 2012A Bonds to be redeemed before maturity and ending on the date of mailing of notice of any such redemption or (b) if such Bond has been selected or called for redemption in whole or in part.

PURPOSE

The 2012A Bonds are being issued for the purpose of:

(i) currently refunding and redeeming the District's Water System Refunding Revenue Bonds, Series 2003, which are outstanding in the principal amount of $3,290,000 (the "2003 Bonds"), and which were issued pursuant to a Resolution of the District adopted March 11, 2003 (the "2003 Resolution");

(ii) currently refunding and redeeming the District's Water System Revenue Bonds, Series 2005A, which are outstanding in the principal amount of $2,775,500 (the "2005A Bonds"), which were issued pursuant to a Resolution of the District adopted January 11, 2005 (the "2005A Resolution") and are currently held by the United States Department of Agriculture, Rural Development ("USDA"); and

(iii) paying costs of issuance of the 2012A Bonds.

(continued on the following page)

The estimated sources and uses of funds with respect to this refunding are as follows:

Sources of Funds

Par amount of 2012A Bonds	$6,070,000
Premium	139,955
Transfers from sinking fund for the 2003 Bonds and the 2005A Bonds	97,370
Release from debt service reserve for the 2003 Bonds	116,054
Other available funds of the District	15,333
Total Sources of Funds	$6,438,712

Uses of Funds

Fund redemption of the 2003 Bonds and the 2005A Bonds	$6,168,325
Fund debt service reserve for 2012A Bonds	131,387
Underwriter's discount (at 1.01%)	61,170
Bond Issuance and miscellaneous costs	77,830
Total Use of Funds	$6,438,712

AUTHORITY AND SECURITY

The 2012A Bonds are being issued under authority of the laws of the Commonwealth of Kentucky, particularly Chapters 74 and 106 of the Kentucky Revised Statutes, and pursuant to the 2012A Resolution adopted by the Commission of the District.

Upon the redemption of the 2003 Bonds and the 2005A Bonds effected by the issuance of the 2012A Bonds, the 2012A Bonds will rank on a parity as to security and source of payment with the following revenue bonds of the District:

Water System Refunding Revenue Bonds, Series 2002C, in the outstanding principal amount of $800,000 (the "2002C Bonds"), authorized by Resolution adopted on November 12, 2002 (the "2002C Resolution");

Water System Refunding Revenue Bonds, Series 2004A, in the outstanding principal amount of $2,130,000 (the "2004A Bonds"), authorized by Resolution adopted on March 9, 2004 (the "2004A Resolution");

Water System Refunding Revenue Bonds, Series 2005B, being a single term bond having an outstanding principal amount of $1,775,000 and remaining mandatory sinking fund installments of $1,365,000 (the "2005B Bonds"), and authorized by Resolution adopted on April 12, 2005 (the "2005B Resolution"); and

Water System Revenue Bonds, Series 2007A, in the principal amount of $2,423,000 (the "2007A Bonds"), authorized by Resolution adopted on December 18, 2007 (the "2007A Resolution"); and

Water System Refunding Revenue Bonds, Series 2010A, in the principal amount of $5,280,000 (the "2010A Bonds"), authorized by Resolution adopted on November 17, 2009, as amended and supplemented on June 15, 2010 (as amended, the "2010A Resolution").

In 1990 the District issued its Water System Revenue Bonds, Series of 1989, which have been fully paid and retired (the "1989 Bonds"), pursuant to an authorizing Resolution adopted on February 21, 1989, as amended and supplemented on December 11, 1990 (the "1989 Resolution"). Subsequently, the District issued the 2002C Bonds, the 2003 Bonds, the 2004A Bonds, the 2005A Bonds, the 2005B Bonds, the 2007A Bonds and the 2010A Bonds on a parity with the 1989 Bonds (now retired) and parity bonds under the parity bond conditions of the 1989 Resolution. The 2002C Bonds, the 2003 Bonds, the 2004A Bonds, the 2005A Bonds, the 2005B Bonds, the 2007A Bonds and the 2010A Bonds are herein referred to collectively as the "Prior Parity Bonds." The 1989 Resolution, the 2002C Resolution, the 2003 Resolution, the 2004A Resolution, the 2005A Resolution, the 2005B Resolution, the 2007A Resolution and the 2010A Resolution are herein referred to collectively as the "Prior Parity Resolutions."

The District has determined that the parity bond coverage test set forth in the basic 1989 Resolution, and continued in the other Prior Parity Resolutions, can and will be met with respect to the issuance of the 2012A Bonds on a parity with the Prior Parity Bonds.

The 2012A Bonds, together with the Prior Parity Bonds and any additional parity bonds that may be issued in the future under the conditions set out in the Prior Parity Resolutions, will be payable solely from, and are secured by a pledge of a fixed portion of, the income and revenues to be derived by the District from the operation of the System, which fixed portion is provided to be sufficient to pay the principal of and interest on the Prior Parity Bonds and any additional parity bonds when due and which is to be set aside as a special fund for that purpose created by the 1989 Resolution and identified as the District's "1989 Water System Revenue Bond and Interest Sinking Fund" (the "1989 Sinking Fund").

In and by the 2002C Resolution, the 2003 Resolution, the 2004A Resolution, the 2005B Resolution and the 2010A Resolution, the District has established and funded a Debt Service Reserve Fund (the "Debt Service Reserve Fund") for the further security of the 2002C Bonds, the 2003 Bonds, the 2004A Bonds, the 2005B Bonds and the 2012A Bonds. (The 2005A Bonds and the 2007A Bonds are not secured by the Debt Service Reserve Fund.) For a description of the Debt Service Reserve Fund and the Reserve Amount (as defined below) required to be on deposit therein, see "THE 2012A RESOLUTION - Operation and Revenues of System; Funds and Accounts" herein.

A nonforeclosable statutory mortgage lien on the System is created by Section 106.080 of the Kentucky Revised Statutes and by the 2012A Resolution to and in favor of the holders of the 2012A Bonds and outstanding parity bonds.

The 2012A Bonds are not general obligations of the District or a debt, indebtedness or pledge of the faith and credit of the District within the meaning of any provision or limitation of the Constitution or statutes of the Commonwealth of Kentucky, but are special and limited obligations payable solely from the 1989 Sinking Fund and the fixed portion of the income and revenues of the System deposited therein. The District has no taxing power.

THE DISTRICT

Organization

Hardin County Water District No. 2 (the "District") is a public water district created in 1965 and organized and operated pursuant to the provisions of Chapter 74 of the Kentucky Revised Statutes. It is regulated by the Public Service Commission of Kentucky. The District has authority to plan, design, finance, construct, operate, replace and maintain water treatment and water distribution facilities within its service area in portions of Hardin and Larue Counties, Kentucky, and operates an extensive water distribution system (the "System"). For over forty-four years the District has been active in constructing and expanding facilities to provide water service to the homes, farms and commercial customers in its service area.

Rates

The District may establish water service rates and charges, subject to the regulatory jurisdiction of the Public Service Commission of Kentucky (the "PSC"). The District is in compliance with regulatory laws governing its operations and has the authority to bill and collect a schedule of water service rates and charges, as approved by the PSC. Reference is made to Appendix A for the detailed description of the District's approved water rates.

Commission

The governing body of the District is its Commission, consisting of five Commissioners appointed by the County Judge/Executive of Hardin County to four-year terms, with the approval of the Fiscal Court of Hardin County. The present Commission is composed of the following:

Commissioner	Principal Occupation	Term Expires
Michael L. Bell Chairman (Served as Commissioner from 1986 to present)	Minister, Glendale Christian Church from 1970 to present. Past Chairman of Hardin County Cable TV Regulatory Board, Past Chairman and current member of the Board of Regents of Louisville Bible College, Vice Chairman of Hardin County Ministerial Association, Member of Elizabethtown-Hardin County Industrial Foundation, Member of Board of Directors of Hardin County History Museum	June 2014
John Effinger Commissioner (Served as Commissioner from 2004 to present)	President and Co-owner of Frank Otte Nursery, Chairman of Scholarship Committee for College Heights United Methodist Church	June 2015
Morris Miller Secretary-Treasurer (Served as Commissioner from 2007 to present)	Principal of Stone Works, Inc., Riverside Construction, Inc., MLM, LLC	June 2016
Cordell Tabb Commissioner (Served as Commissioner from 1997 to present)	Auctioneer, Realtor, Owner Hodges Auction Co., Inc. & Realty One, Inc.	June 2013
Tim Davis Commissioner (Served as Commissioner from 2009 to present)	Owner, Employee Benefits Administrators, Inc., The Partners Workplace Solutions Group, Inc. & Baltas Vision, LLC	June 2013

Management

The District serves approximately 16,700 customers and operates an 8.1 million gallons per day ("MGD") water treatment plant. Management of the District is carried out by a General Manager. The District utilizes personnel consisting of forty-eight employees. Operation of the District is divided into specific areas. Each area is staffed with personnel possessing specific skills relating to the particular function and each area is directed by a supervisor who reports to the General Manager.

Name	Position	Background Information
James R. Jeffries	General Manager	James Jeffries became General Manager of the District in August 2006. He holds a Bachelors of Science degree in Mechanical Engineering from the University of Kentucky and a Masters degree in Business Administration from Western Kentucky University. He has a Class IV-D Drinking Water Distribution Operator Certification and a Class IV-A Water Treatment Plant Operator Certification. Before joining the District, Mr. Jeffries spent fifteen years in the automotive manufacturing sector where he held positions in the engineering and production management fields.

Investment Policy

The District's Board of Commissioners has adopted an investment policy recommended by the Department of Local Government of the Commonwealth of Kentucky. This policy requires the investment of District funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the District and fully conforming to all Kentucky Revised Statutes. Investment objectives include safety, liquidity and return on investment. Subject to the provisions of the 2012A Resolution summarized under "THE 2012A RESOLUTION - Investments" hereinafter, authorized investments include obligations of the United States and of its agencies and instrumentalities, 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, obligations of any corporation of the United States government and certificates of deposit or other interest-bearing accounts of any bank or savings and loan institution which are insured by the FDIC or which are collateralized, to the extent uninsured, by obligations permitted under the Kentucky Revised Statutes.

Pension Obligations

All full-time employees of the District belong to the state operated cost-sharing multiple-employer pension plan, the County Employees Retirement System ("CERS"). All employees participate in the non-hazardous duty benefit plan. None of the District's employees participate in the hazardous duty benefit plan.

CERS is a defined benefit plan created by the Kentucky General Assembly. CERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits fully vest upon reaching five years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

CERS issued a stand-alone financial report, which may be obtained from the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by telephone at (502) 564-4646.

Kentucky Revised Statutes provide statutory authority for employee and employer contributions. The District and its employees have contributed 100% of the required contributions for the fiscal year ended December 31, 2011. Contribution rates for the fiscal year ended December 31, 2011 for individuals who became employees of the District before September 1, 2008 were as follows:

	Employee	Employer
Nonhazardous	5.00%	18.96%

The employees' contribution rates for individuals who became employees of the District on or after September 1, 2008 were 1.0% higher than the rates above.

The District's contributions for the fiscal years ending December 31 were as follows:

Year	Total
2011	$327,116
2010	283,410
2009	246,208

The District is obligated to make future contributions to CERS for the benefit of its employees. Future contribution rates may change given changes in benefits or the value of investments held by CERS. Please visit the following website http://kyret.ky.gov/ for further details regarding CERS.

CERS also provides post-retirement health care coverage and contributions towards the costs of such coverage to the District's employees who satisfy certain eligibility requirements. A portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The Kentucky Revised Statutes provide statutory authority requiring public employees to fund post-retirement health care through their contributions to CERS.

THE SYSTEM

Service Area

The District serves approximately 16,700 customers located throughout Hardin County, except for the City of Radcliff and the northern portion of the county, which is served by Hardin County Water District No. 1, and the City of Elizabethtown, which is served by its own municipal system. The District also serves limited areas in adjoining LaRue County. The District's service area includes many subdivisions adjacent to Elizabethtown and the towns of Glendale, Sonora, Upton, Rineyville, Cecilia, White Mills, East View and Summit.

Water Treatment Plant

The District completed construction of and commenced operating a 2.0 MGD water treatment plant in October 1990. The water treatment plant is located at White Mills in the southern portion of Hardin County on the Nolin River near the Western Kentucky Parkway-Kentucky Highway 84 interchange. The plant's rated capacity was increased to 2.7 MGD in June 1992. The plant was originally designed so that it could be expanded to 8.1 MGD, and the District completed construction of an $8.2 million expansion of the plant in July 2001. The water treatment plant now has a rated treatment capacity of 8.1 MGD. With a staff of nine operators, the plant is operated twenty-four hours per day, seven days per week and is continually under the operation of certified water treatment plant operators.

The source of water for the plant is the White Mills Spring and the Nolin River. The raw water intake structure is located at the confluence of the spring and the river. The combination of the spring and the river makes this presently the most reliable source of water in the county.

Office and Maintenance Facility

The main office of the District is located at 360 Ring Road, Elizabethtown, in a modern, 25,000 square foot Customer Service Center facility. The facility consists of an office building, which was constructed in 1997, and two adjoining warehouse buildings, which were constructed in 1998. This Customer Service Center facility houses the District's general administrative offices as well as warehouse and maintenance facilities. The warehouse portion of the facility is used for material storage, workshop area, equipment maintenance and meter testing. A staff of forty persons, including the General Manager, customer service representatives, billing and account clerks, meter readers and transmission and distribution personnel work at this location.

Existing System

The existing System serves over 16,700 customers (as of December 31, 2012) with approximately 800 miles of transmission and distribution lines ranging in size from four inches to thirty inches. The System also has nine water booster pump stations, three of which are used on a standby basis during periods of peak usage or temporary emergencies. The System has nine storage tanks with a total capacity of approximately 6.5 million gallons.

Sources of Supply

The source of water for the treatment plant is the White Mills Spring and the Nolin River. The raw water intake structure is located at the confluence of the spring and the river. The combination of the spring and the river presently make this the most reliable source of water in the county.

Alternative Sources of Water

The District has three alternative sources of water: the City of Elizabethtown, the City of Hodgenville and Hardin County Water District No. 1. The District maintains interconnections (including pumping stations) with each of these utilities. In periods of peak demands or during emergencies, these interconnections can deliver the following quantities of water: City of

Elizabethtown - 0.3 MGD, City of Hodgenville - 0.3 MGD, and Hardin County Water District No. 1 - 1.3 MGD.

Other Services

The District utilizes a modern supervisory control and data acquisition system. This system is a radio relayed telemetry system which monitors and controls pump stations, pressures, flow rates and tank elevations throughout the distribution system. Command and control centers are located at the water treatment plant and at the Customer Service Center. The District has developed a hydraulic computer model of its water System using the KY Pipe 2000 program. This model is used for long term planning, to analyze system performance and to determine whether System improvements will be needed in order to adequately serve proposed subdivisions. The District employs field crews fully equipped and capable of repairing all leaks, installing water meters, constructing water lines, installing fire service vaults and making road bores. The District employs water quality technicians devoted solely to sampling, analyzing water quality, flushing and pressure testing. The District operates and maintains a certified bacteriological laboratory at the White Mills water treatment plant. All of the District's bacteriological water sampling is handled by this lab. The District also provides laboratory services to several other neighboring water utilities as well as the general public.

The District has completed a comprehensive G.I.S./G.P.S. mapping project. The District's mapping system consists of a computerized, comprehensive data base of all major structures including water treatment plant, water storage tanks, pumping stations, water lines and other appurtenances.

Future Water Supply Project

The District's engineers have projected that the District will need an additional water supply source of 5 MGD by 2029. The most feasible alternative for obtaining this supplemental source of water is to purchase treated water from the Louisville Water Company. Approximately eleven miles of twenty-four-inch diameter pipe and a pump station will need to be constructed to enable the District to purchase water from the Louisville Water Company. The estimated cost is approximately $11 million.

The District has obtained grants totaling $6,500,000 to be used for this water supply project. Preliminary engineering design has already been completed and pipeline right-of-way easement acquisitions are nearly complete. Final engineering design is well underway. The District is negotiating a Water Purchase Agreement with the Louisville Water Company. The District plans to finance the remaining cost (approximately $4.5 million) by combining a loan from the United States Department of Agriculture, Rural Development with District reserve funds, and, perhaps, by issuing Additional Revenue Bonds (as defined below).

Water Supply Agreement with City of Elizabethtown

On December 5, 1996, the District entered into a contract to supply water on a wholesale basis to the City of Elizabethtown (the "<u>City</u>"). Under the terms of the contract, the City is required to purchase a minimum of 1.1 MGD from the District. The wholesale rate is determined by using the formula contained in the contract. The formula is based upon a cost of service study performed by Kenvirons, Inc., the District's engineers. The current rate is $1.99 per 1,000 gallons. The rate may be adjusted annually to reflect changes in the District's operation and maintenance costs. Approximately ten percent of the District's revenues are derived from the sale of water to the City.

By means of a Continuing Disclosure Agreement dated October 1, 2003, to which the City is a party, the City has agreed, among other things, to provide annual financial information, including audited financial statements, within nine months from the close of each fiscal year of the City (June 30) to the Nationally Recognized Securities Information Repositories ("NRMSIRS") and the State Information Depository ("SID"), if any, in accordance with Rule 15c2-12 of the Securities and Exchange Commission. Reference is hereby made to such annual financial information of the City filed with the NRMSIRS and the SID, if any. The City has provided the annual financial information with respect to its fiscal years ending June 30, 2009, 2010 and 2011 to the Electronic Municipal Market Access (EMMA) System operated by the Municipal Securities Rulemaking Board.

THE 2012A RESOLUTION

The following paragraphs contain excerpts, summaries or descriptions of certain provisions of the 2012A Resolution.

Operation and Revenues of System; Funds and Accounts

After issuance and delivery of the 2012A Bonds, and so long as any of the 2012A Bonds or parity bonds remain outstanding and unpaid, the System will continue to be operated on a fiscal year basis beginning each January 1 and ending on the last day of the following December, as at present, and on that basis the income and revenues of the System will be collected, segregated, accounted for and distributed as follows:

(a) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was previously created and is continued, designated and identified as the District's "Water Revenue Fund" (the "Revenue Fund"). The moneys in the Revenue Fund from time to time shall be used and disbursed and applied by the District, as permitted by applicable statutes, as follows:

(b) There was created in the 1989 Resolution a special fund of the District known as the "1989 Water System Revenue Bond and Interest Sinking Fund" (the "1989 Sinking Fund"), into which there will continue to be set aside from the income and revenues of the System in the Revenue Fund on a monthly basis such portion thereof as will be sufficient to pay the interest on and the principal of the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), 2012A Bonds and any additional parity bonds as may be issued and outstanding under the conditions and restrictions hereinafter set out. Moneys in the 1989 Sinking Fund shall be used solely and are pledged for the payment of interest and principal coming due on the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), 2012A Bonds and any additional parity bonds.

Such payments into the 1989 Sinking Fund shall be made in monthly installments on or before the twentieth day of each month, and the minimum amount to be paid into the

1989 Sinking Fund each month for the Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds) and 2012A Bonds shall be as follows:

(i) a sum which together with other funds available in the 1989 Sinking Fund for such purpose will be equal to one sixth of the next succeeding interest installment to become due on all Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds) and 2012A Bonds then outstanding; provided that before the first interest payment date next succeeding the issuance of the 2012A Bonds an amount shall be paid into the 1989 Sinking Fund sufficient to make up any insufficiency therein in order to pay the interest due on such first interest payment date; and

(ii) a sum which together with other funds available in the 1989 Sinking Fund for such purpose will be equal to one twelfth of the principal of all Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds) and 2012A Bonds maturing on the next succeeding January 1; provided that before the first principal payment date next succeeding the issuance of the 2012A Bonds an amount shall be paid into the 1989 Sinking Fund sufficient to make up any insufficiency therein in order to pay the principal due on such first principal payment date.

In the event additional parity bonds are issued pursuant to the conditions and restrictions prescribed in that connection in the 2012A Resolution, the monthly deposits to the 1989 Sinking Fund will be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

If for any reason there should be a failure to pay into the 1989 Sinking Fund the full amounts above stipulated, then an amount equivalent to such deficiency will be set apart and paid into the 1989 Sinking Fund from the first available income and revenues of the System, subject to the previously described priorities.

No further payments need be made into the 1989 Sinking Fund if and when the amount held therein and in the Debt Service Reserve Fund hereinafter described is at least equal to the amount required to retire all outstanding Prior Parity Bonds (excluding the 2003 Bonds and the 2005A Bonds), 2012A Bonds and parity bonds and paying all interest that will accrue thereon.

(c) A separate and special fund or account of the District was created in the 1989 Resolution and designated the "1989 Water System Revenue Bond Debt Service Reserve Fund" (the "Debt Service Reserve Fund"), which will continue to be maintained so long as there are outstanding 2002C Bonds, 2004A Bonds, 2005B Bonds, 2010A Bonds and 2012A Bonds and parity bonds herein permitted to be issued on a parity with the 2012A Bonds, except those parity bonds the original purchaser or purchasers of which have waived the benefit of, and any claim to, the Debt Service Reserve Fund. Parity bonds which may be issued and outstanding from time to time as hereinafter permitted and with respect to which the original purchaser or purchasers have not waived the benefit of and claim to the Debt Service Reserve Fund, including the 2002C Bonds, 2004A Bonds, 2005B Bonds, 2010A Bonds and 2012A Bonds, are hereafter referred to as "Qualified Parity Bonds." It is acknowledged that the original purchaser of the

2007A Bonds, by its acceptance of those bonds, elected, for itself and on behalf of all subsequent holders of the those bonds, to waive the benefit of and any claim to the Debt Service Reserve Fund.

All moneys deposited in the Debt Service Reserve Fund from time to time shall be held and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the outstanding Qualified Parity Bonds if and to the extent insufficient funds are available therefor in the 1989 Sinking Fund. Whenever the amount in the Debt Service Reserve Fund is less than the Reserve Amount, hereinafter defined, the amount necessary to restore the balance in the Debt Service Reserve Fund to the Reserve Amount shall be paid into the Debt Service Reserve Fund in sixty equal monthly installments, each payable on the twentieth day of the month (except that when the twentieth day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day) from the Revenue Fund, after making the deposits set out in subsection (b) above, until the Reserve Amount is on deposit in the Debt Service Reserve Fund. The term "Reserve Amount" as used herein means an amount of money equal to the least of (i) the maximum principal and interest requirement on the respective series of outstanding qualified parity bonds in any year ending January 1, (ii) an amount equal to ten percent of the proceeds of the respective series of qualified parity bonds within the meaning of Section 148(d) of the United States Internal Revenue Code of 1986, as amended (the "Code"), and (iii) an amount equal to one hundred twenty-five percent (125%) of the average principal and interest requirement on the respective series of outstanding qualified parity bonds in any year ending January 1 (as prescribed in Section 1.148-2(f) of the Income Tax Regulations promulgated under the Code).

Any amount in the Debt Service Reserve Fund in excess of the Reserve Amount shall be transferred to the 1989 Sinking Fund and applied as credit against payments into the 1989 Sinking Fund from the Revenue Fund on a monthly basis as described in the foregoing subsection (b).

(d) All moneys held in the 1989 Sinking Fund and the Debt Service Reserve Fund shall be deposited in a bank or banks which are members of the Federal Deposit Insurance Corporation ("FDIC"), and all such deposits which cause the aggregate deposits of the District in any one bank to be in excess of the amount insured by FDIC shall be continuously secured by a valid pledge of direct obligations of the United States of America having an equivalent market value. All or any part of the 1989 Sinking Fund may, and the Debt Service Reserve Fund shall, be invested in Investment Obligations, as hereinafter defined, maturing or being subject to retirement at the option of the holder on such dates as the same may be needed for meeting interest and/or principal payments, and all such investments shall be carried to the credit of the Fund which supplied the funds for such investments, and the income from such investments shall be credited to the 1989 Sinking Fund; provided, however, if the amount in the Debt Service Reserve Fund is less than the Reserve Amount, income from investments in the Debt Service Reserve Fund shall be credited to the Debt Service Reserve Fund until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Fund shall be valued at cost.

Investment income accruing to the 1989 Sinking Fund shall be credited against payments into the 1989 Sinking Fund from the Revenue Fund on a monthly basis as set out in the foregoing subsection (b).

(e) The District previously created and continued special funds identified as the "Water Depreciation Fund" (the "Depreciation Fund") and the "Operation and Maintenance Fund" (the "Operation and Maintenance Fund"). The Depreciation Fund and the Operation and Maintenance Fund shall continue in effect with the District making monthly transfers to them, on or before the twentieth day of each month, from the Revenue Fund as follows:

(i) To the Depreciation Fund there shall be deposited monthly the minimum sum of $18,025 (as provided in the 2007A Resolution). There shall also be deposited to the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn out or obsolescent properties of the System, if the same shall be sold upon order of the Commission. Any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System shall be paid, as received, into the Depreciation Fund.

The Depreciation Fund shall be available and may be withdrawn and used by the District, upon appropriate certification as to the authorization for such withdrawal, for the purpose of paying the costs of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the annual budget of current expenses, and the costs of constructing additions and improvements to the System which will either enhance its revenue producing capacity or provide a higher degree of service. The Depreciation Fund shall also be available for transfer to the 1989 Sinking Fund in order to avoid default in connection with any bonds payable therefrom.

(ii) To the Operation and Maintenance Fund there shall next be deposited monthly from the Revenue Fund amounts sufficient to pay as they accrue the Current Expenses (as defined below) of operating and maintaining the System pursuant to the annual budget, for which provision is hereinafter made, and to accrue an operation and maintenance reserve not in excess of anticipated requirements for a two month period pursuant to the annual budget.

Moneys in the Depreciation Fund and in the Operation and Maintenance Fund, to the extent not needed within the next thirty days for authorized purposes, may, upon order of the Commission of the District, be invested in Investment Obligations, as defined below, being subject to redemption or conversion into cash at not less than par no later than the time moneys shall be needed for the indicated purposes. All investments of moneys in each of the Depreciation Fund and the Operation and Maintenance Fund shall be carried to the credit thereof; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to the investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

Investments

As used in the 2012A Resolution, the term "Investment Obligations" means any of the following, if and to the extent the following are legal investments for the moneys held in the funds and accounts established or continued pursuant to the Resolution:

(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, which 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) Government National Mortgage Corporation; and (iv) Merchant Marine;

(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 institution, including the Paying Agent and Bond Registrar or any of its affiliates, 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 Section 41.240(4) of the Kentucky Revised Statutes;

(e) Uncollateralized certificates of deposit, time deposits, trust accounts, trust deposits and demand deposits, including interest bearing money market accounts, of any bank or savings and loan institution, including the Paying Agent and Bond Registrar or any of its affiliates, rated in one of the three highest categories by a nationally recognized rating agency;

(f) Bankers' acceptances for banks, including the Paying Agent and Bond Registrar or any of its affiliates, rated in one of the three highest categories by a nationally recognized rating agency;

(g) Commercial paper rated in the highest category by a nationally recognized rating agency, including commercial paper issued by the Paying Agent and Bond Registrar or any of its affiliates, if so rated;

(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 or agency thereof, in the United States, and rated in one of the three 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 years;

  (iii) All of the securities in the mutual fund shall be investments in any one or more of the investments described in (a) through (i) above; and

  (iv) The mutual funds may include, without limitation, any mutual fund for which the Paying Agent and Bond Registrar or any of its affiliates serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (1) the Paying Agent and Bond Registrar or any of its affiliates receives fees from such funds for services rendered, (2) the Paying Agent and Bond Registrar or any of its affiliates charges and collects fees for services rendered pursuant to the 2012A Resolution, which fees are separate from the fees received from such funds, and (3) services performed for such funds and pursuant to the 2012A Resolution may at times duplicate those provided to such funds by the Paying Agent and Bond Registrar or its affiliates.

Rebate Fund

The 2012A Resolution also creates the Hardin County Water District No. 2 Water System Refunding Revenue Bonds, Series 2012A Rebate Fund (the "Rebate Fund"). Amounts from time to time held in the Rebate Fund, if any, shall be invested in Investment Obligations (to the extent practicable), shall not be subject to the pledges of the 2012A Resolution, shall not constitute a part of the funds held for the benefit of the holders of the 2012A Bonds and shall be dedicated to the United States of America to the extent of any obligation on the part of the District to rebate to the United States Cumulative Excess Earnings (as defined in the 2012A Resolution).

Certain Covenants to Bondholders

The District irrevocably covenants and agrees with the registered holders of the 2012A Bonds that so long as the same or any part thereof or interest thereon remain outstanding and unpaid:

(a) It will at all times operate the System on a revenue producing basis and will permit no free services to be rendered or afforded thereby. It will maintain the System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided, and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of revenues accumulated and set aside for such purposes.

(b) It will establish, enforce and collect rates and charges for water services rendered and facilities afforded by the System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining it in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all outstanding bonds and the accruing interest thereon, and the accumulation of reserves as herein provided; and such rates and charges shall be adequate to meet all such requirements as provided in the 2012A Resolution.

(c) It will adopt an annual budget of Current Expenses for the System for the ensuing fiscal year, and will file a copy of each such budget, and of any amendments thereto, in the office of the Secretary-Treasurer of the District, and furnish copies thereof to the holder of any 2012A Bond upon request. The term "Current Expenses," as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the 1989 Sinking Fund and the Debt Service Reserve Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the amounts provided for Current Expenses in the annual budget, except upon resolution duly adopted by the Commission of the District determining that such expenses are necessary in order to operate and maintain the System. At the same time, and in like manner, the District agrees that it will prepare an estimate of cash income and revenues to be derived from operation of the System for each fiscal year, and to the extent that said cash income and revenues are insufficient to provide an amount equal to at least 110% of all payments required to be made into the 1989 Sinking Fund during such ensuing fiscal year, and to pay Current Expenses, the District covenants and agrees that it will revise its rates and charges for services rendered by the System, so that the same will be adequate to meet such coverage requirement.

(d) It will not at any time make any reduction in any prevailing schedule of rates and charges for use of the services and facilities of the System without first obtaining the written determination of a consulting engineer of national reputation that the proposed reduction will not adversely affect the ability of the District to meet all the requirements set forth in the 2012A Resolution.

(e) It will, within ninety days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state licensed accountant not in the employ of the District on a monthly salary basis, showing all receipts and disbursements, and reflecting in reasonable detail the financial condition and records of the System.

(f) Any holder of 2012A Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by the District and its officers and agents of all duties imposed or required by law or the 2012A Resolution in connection with the operation of the System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof. If there be any default in the payment of the principal of or interest on any of the 2012A Bonds, then upon the filing of suit by any holder of the 2012A Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System, and for the payment of Current Expenses, and to apply the revenues in conformity with the 2012A Resolution and the provisions of the statute laws of the Commonwealth of Kentucky aforesaid.

(g) It will procure, and at all times maintain in force, insurance of all insurable properties constituting parts of, or being appurtenant to, the System to the full insurable value thereof, against damage or destruction by fire, windstorm, and the hazards covered by the standard "extended coverage" policy endorsements or provisions. It will procure and at all times maintain public liability insurance relating to the operation of the System and with limits of not less than $200,000 for one person and $500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death; and not less than $100,000 from claims for damage to property of others which may arise from the District's operation of the System and will carry suitable workers' compensation insurance in accordance with law.

No Priority among 2012A Bonds; Issuance of Additional Bonds

The 2012A Bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, 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 such bonds, regardless of the fact that they may be actually issued and delivered at different times.

The District reserves 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 2012A Bonds ("Additional Parity Bonds") in order to pay the costs of extensions, additions and improvements to the System, provided that either of the conditions set forth in (i) or (ii) below is met.

(i) The net income and revenues of the System for the fiscal year preceding the year in which such Additional Parity Bonds are to be issued were at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to all 2012A Bonds and parity bonds which are then outstanding and the Additional Parity Bonds then proposed to be issued. The term net income and revenues as herein used is defined as gross income and revenues of the System (including all payments to the Revenue Fund and interest earnings accruing to the 1989 Sinking Fund and the Depreciation Fund) less the sum of Current Expenses as defined in item (e) under the preceding subheading "Certain Covenants to Bondholders." Such showing of net income and revenues for such preceding fiscal year may be represented by the report of the auditors.

(ii) A statement is filed with the Secretary-Treasurer of the District by (a) an independent certified public accountant or firm of certified public accountants not in the regular employ of the District on a monthly salary basis or (b) an independent professional engineer or firm or firms of professional engineers not in the employ of the District on a monthly salary basis and of recognized excellent expertise and reputation in the field of water engineering and licensed in Kentucky, reciting the opinion based upon necessary investigation that the net income and revenues of the System as defined in (i) above for twelve consecutive months out of the eighteen months preceding the issuance of said additional parity bonds (with adjustments as hereinafter provided) were equal to at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to the 2012A Bonds and parity bonds then outstanding and the proposed additional parity bonds. The net income and revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such Additional Parity Bonds, and also to reflect any increase in such net income and revenues by reason of the extensions, additions and improvements to the System the cost of which (in whole or in part) is to be paid through the issuance of such Additional Parity Bonds; but such latter adjustments shall only be made if contracts for the immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into before the issuance of such Additional Parity Bonds. All such adjustments to reflect any revision of rates and charges or an increase in net income and revenues by reason of extensions, additions and improvements to the System as aforesaid shall be based upon written certification by (a) an independent professional engineer or firm of professional engineers not in the employ of the District on a monthly salary basis and of recognized excellent expertise and reputation in the field of water engineering and licensed in Kentucky or (b) an independent certified public accountant or firm of certified public accountants not in the employ of the District on a monthly salary basis.

The District further reserves the right and privilege of issuing Additional Parity Bonds for the purpose of refunding the 2012A Bonds or any Additional Parity Bonds, or any portion thereof, as may be outstanding, provided that before any Additional Parity Bonds are issued for such purpose, there shall have been procured and filed with the Secretary-Treasurer of the District a statement by an independent certified public accountant or firm of independent certified public accountants reciting the opinion based upon necessary investigation that after the issuance of such Additional Parity Bonds, the net income and revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such Additional Parity Bonds, after taking into account the revised maximum annual debt service resulting from the issuance of such Additional Parity Bonds and from the elimination of the bonds being refunded thereby, are equal to not less than 120% of the maximum annual debt service requirement for any year ending January 1 with respect to such Additional Parity Bonds and all parity bonds then outstanding and payable from the 1989 Sinking Fund, and calculated in the manner specified above.

The original purchaser or purchasers of a series of Additional Parity Bonds may waive the benefit of and any claim to the Debt Service Reserve Fund, in which event such bonds shall not be secured by or payable from the Debt Service Reserve Fund; and the District may make it a condition to the original sale of any series of Additional Parity Bonds that the purchaser or purchasers thereof, by offering to purchase or by purchasing the same, has agreed to such waiver.

Other obligations, the security and source of payment of which is subordinate and subject to the priority of the payments into the 1989 Sinking Fund for account of the 2012A Bonds, may be issued.

Certain Tax Covenants and Representations

The District certifies, covenants and agrees to and for the benefit of the Bondholders, among other things, that so long as any of the 2012A Bonds remain outstanding, moneys on deposit in any fund or account in connection with the 2012A Bonds, whether or not such moneys were derived from the proceeds of the sale of the 2012A Bonds or from any other sources, will not be invested or used in a manner which will cause the 2012A Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the United States Internal Revenue Code of 1986, as amended, and any lawful regulations promulgated or proposed thereunder. The District will at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the 2012A Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

Defeasance

If the District pays or causes to be paid, or there is otherwise paid, to the holders of all 2012A Bonds the total principal and interest due or to become due thereon, at the times and in the manner stipulated therein and in the 2012A Resolution, then the pledge of the 2012A Resolution, and all covenants, agreements and other obligations of the District to the Bondholders, will thereon cease, terminate and become void and be discharged and satisfied.

Whenever there shall be deposited and held irrevocably in the 1989 Sinking Fund or an escrow fund established for such purpose either (a) moneys in an amount which shall be sufficient or (b) direct obligations of or obligations fully guaranteed by the United States of America, including such obligations issued or held in book-entry form ("U. S. Obligations"), the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the 1989 Sinking Fund or such escrow fund, shall be sufficient to pay when due the principal of and interest on the 2012A Bonds or any part thereof to and including the date on which the 2012A Bonds or any of them will be redeemed in accordance with the 2012A Resolution, or the maturity date or dates thereof, as the case may be, then and in any of said events all such 2012A Bonds will be deemed to have been paid and discharged within the meaning and with the effect expressed above in this subsection. Thereafter the holders of such 2012A Bonds shall be entitled only to payment out of the cash and obligations deposited as set out above. If the maturity or redemption date of any 2012A Bonds so paid and discharged is more than one year from the date of such deposit, the Paying Agent and Bond Registrar shall and is hereby instructed to mail, via first class mail, irrevocable notice thereof to the holders of such 2012A Bonds, such notice to contain a statement that the cash and obligations as provided above are held in the 1989 Sinking Fund or such escrow fund, that such 2012A Bonds are deemed to have been paid in accordance with this Section, and a statement of the maturities or redemption date or dates on which the moneys are or will become available for the payment of the amounts due.

The provisions of the immediately foregoing paragraph are subject to the limitation that no discharge and release of the pledge of the 2012A Resolution will be accomplished through the use of any funds or investments which, in the opinion of the District's Bond Counsel, would adversely affect the exclusion of interest on any such 2012A Bonds from gross income for federal income tax purposes.

Holidays

If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the 2012A Resolution, is not a business day for the Paying Agent and Bond Registrar, such payment may be made or act performed or right exercised on the next succeeding business day with the same force and effect as if done on the date stipulated in the 2012A Resolution, and no interest shall accrue for the period after such stipulated date.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the 2012A Bonds, or in any way contesting or affecting the validity of the 2012A Bonds or any proceedings of the District taken with respect to the issuance or sale thereof, or materially adversely affecting the pledge or application of any moneys or security provided for the payment of the 2012A Bonds or the due existence or powers of the District.

RATING

The 2012A Bonds have been assigned a rating of "Aa3" by Moody's Investors Service, Inc. (the "Rating Agency"). An explanation of the significance of such rating may be obtained from the Rating Agency. The District has furnished the Rating Agency with certain information and materials relating to the 2012A Bonds and the District which have not been included in this Official Statement. Such rating reflects only the views of the Rating Agency at the time such rating is issued and is not a recommendation to buy, sell or hold the 2012A Bonds. The rating is subject to change or withdrawal by the Rating Agency at any time and any such change or withdrawal may affect the market price or marketability of the 2012A Bonds.

TAX MATTERS

General

It is the opinion of Bond Counsel, Stoll Keenon Ogden PLLC, Louisville, Kentucky, assuming the correctness and accuracy of certain representations and warranties of the District made in connection with the issuance of the 2012A Bonds, that under existing laws interest on the 2012A Bonds (a) is excluded from gross income for federal and Kentucky income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in clauses (a) and (b) of the first sentence of this paragraph are subject to the conditions, among others (as set out in Appendix D, to which reference is made) that the representations and warranties of the District referred to above are accurate and that the District comply with all requirements of the Code, that must be satisfied after the issuance of the 2012A Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements, or a determination that certain of such representations and warranties are inaccurate, could cause the interest on the 2012A Bonds to be included in gross income retroactive to the date of issuance of the 2012A Bonds. Bond Counsel expresses no opinion regarding other federal and Kentucky income tax consequences arising with respect to the 2012A Bonds. Reference is made to Appendix D, Form of Bond Counsel Opinion.

Prospective purchasers of the 2012A Bonds should be aware that:

(i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2012A Bonds or, in the case of a financial institution (within the meaning of Section 265(b)(5) of the Code), that portion of a holder's interest expense allocated to interest on the 2012A Bonds, except to the extent described below. The District has designated the 2012A Bonds as "qualified tax exempt obligations" within the meaning of Section 265(b)(3) of the Code, and, in the case of financial institutions (within the meaning of Section 265(b)(5) of the Code), including federal or state supervised commercial banks, a deduction is allowed for eighty percent of that portion of such a financial institution's interest expenses allocable to interest on the 2012A Bonds.

(ii) With respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by fifteen percent of the sum of certain items, including interest on the 2012A Bonds.

(iii) Interest on the 2012A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code.

(iv) Passive investment income, including interest on the 2012A Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than twenty-five percent of the gross receipts of such Subchapter S corporation is passive investment income.

(v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the 2012A Bonds.

Bond Counsel is further of the opinion that the 2012A Bonds are exempt from *ad valorem* taxation by the Commonwealth of Kentucky and its political subdivisions.

Original Issue Premium

The 2012A Bonds that bear an interest rate that is greater than the yield, as shown on the inside cover page hereof (the "Premium Bonds"), have an initial public offering price that is greater than the amount payable at maturity with respect to such 2012A Bonds. The difference between (a) the amount payable at maturity of the Premium Bonds and (b) the initial offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriter or wholesalers) at which a substantial amount of the Premium Bonds of such maturities are sold, will constitute "original issue premium" ("OIP"). Under certain circumstances, as a result of the tax cost reduction requirements of the Code relating to the amortization of bond premium, the owner of a Premium Bond may realize a taxable gain upon its disposition even though the Premium Bond is sold or redeemed for an amount not greater than the owner's original acquisition cost.

Owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal income tax purposes of the amount of OIP properly accruable each year and the treatment of OIP for state and local tax purposes.

Current and Future Legislative Proposals

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the 2012A Bonds or otherwise prevent holders of the 2012A Bonds from realizing the full benefit of the tax exemption of interest on the 2012A Bonds. Further, such proposals may impact the marketability or market value of the 2012A Bonds simply by being proposed. One such proposal is the American Jobs Act of 2011 (S.1549) (the "Jobs Bill") which was introduced in the Senate on September 13, 2011 at the request of the President. If enacted in its current form, the Jobs Bill could adversely impact the marketability and market value of the 2012A Bonds and prevent certain bondholders (depending on the financial and tax circumstances of the particular bondholder) from realizing the full benefit of the tax exemption of interest on the 2012A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued before enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the 2012A Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2012A Bonds would be impacted thereby.

Purchasers of the 2012A Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2012A Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

LEGAL MATTERS

Certain legal matters incident to the authorization and validity of the 2012A Bonds will be the subject of an approving opinion of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel, which will be available at the time of delivery of the 2012A Bonds. Reference is made to Appendix D, Form of Bond Counsel Opinion. Certain legal matters will be passed upon for the District by its counsel, Damon R. Talley, Esq., Hodgenville, Kentucky.

The information contained in this Official Statement under the headings "THE 2012A BONDS" and "AUTHORITY AND SECURITY" (except for amounts of outstanding bond issues and obligations, which have been supplied by the District), "THE 2012A RESOLUTION" and "TAX MATTERS" has been reviewed by Bond Counsel to determine that such information conforms in substance to the proceedings and laws relating to the issuance of the 2012A Bonds that are summarized in such information (see "REFERENCE TO DOCUMENTS" hereinafter); but Bond Counsel has not undertaken to review the accuracy or completeness of statements and data otherwise contained in this Official Statement, including Appendices A through C, and expresses no opinion thereon and assumes no responsibility in connection therewith.

UNDERWRITING

The 2012A Bonds were purchased (pending delivery on or about October 2, 2012) at a competitive sale held on August 28, 2012, by Raymond James & Associates, Inc., as underwriter, at a purchase price of $6,148,784.87, representing 101.30% of par value.

FINANCIAL ADVISOR

J.J.B. Hilliard, W.L. Lyons, LLC, Louisville, Kentucky has acted as Financial Advisor to the District in connection with the issuance of the 2012A Bonds and will receive a fee, payable from 2012A Bond proceeds, for its services as Financial Advisor.

CONTINUING DISCLOSURE UNDERTAKING

The District will agree in a Continuing Disclosure Certificate, dated as of the date of issuance of the 2012A Bonds (the "Continuing Disclosure Certificate"), to provide or to cause to be provided, in accordance with the requirements of Rule 15c2-12, as amended, and official interpretations thereof (the "Rule") promulgated by the Securities and Exchange Commission, the following:

(a) with the Municipal Securities Rulemaking Board (the "MSRB"), or any successor thereto for purposes of the Rule, through the continuing disclosure service portal provided by the MSRB's Electronic Municipal Market Access ("EMMA") system as described in 1934 Act Release No. 59062, or any similar system that is acceptable to the Securities and Exchange Commission, certain annual financial information and operating data, generally consistent with the financial information and operating data contained in Appendix A hereof, together with audited financial statements. The audited financial statements and other financial statements will be prepared in accordance with (a) generally accepted accounting principles (GAAP) as applied to governmental units, as described in the notes to the District's audited financial statements appearing in Appendix C hereof, (b) the standards of the Governmental Accounting Standards Board and (c) state law requirements, all as from time to time in effect. Reference is made to the notes to the District's audited financial statements for a detailed description of the accounting principles pursuant to which the District's financial statements will be prepared. Such information is expected to be available on or before May 1 of each year for the fiscal year ending on the preceding December 31.

(b) with the MSRB through EMMA, notice of the occurrence of any of the following events with respect to the 2012A Bonds in a timely manner not in excess of ten business days after the occurrence of such event: (i) principal and interest payment delinquencies, (ii) non-payment related defaults, if material, (iii) unscheduled draws on debt service reserves reflecting financial difficulties, (iv) unscheduled draws on credit enhancements reflecting financial difficulties, (v) substitution of credit or liquidity providers, or their failure to perform, (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2012A Bonds, or other material events affecting the tax status of the 2012A Bonds, (vii) modifications to rights of holders of 2012A Bonds, if material, (viii) 2012A Bond calls, if material, and tender offers, (ix) defeasances, (x) release, substitution or sale of property securing repayment of the 2012A Bonds, if material, (xi) rating changes, (xii) bankruptcy, insolvency, receivership or similar event of the District, (xiii) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and (xiv) appointment of a successor or additional trustee or the change of a trustee, if material.

The District may from time to time choose to file notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the

District, any such other event is material with respect to the 2012A Bonds, but the District does not undertake to commit to file any such notice of the occurrence of any event except those events listed above.

(c) in a timely manner, with the MSRB through EMMA, notice of a failure by the District to file the required financial information on or before the date specified in the Continuing Disclosure Certificate.

The District reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the District; provided that the District agrees that any such modification will be done in a manner consistent with the Rule. All documents provided to the MSRB in accordance with the Rule shall be accompanied by identifying information as prescribed by the MSRB. The District reserves the right to terminate its obligation to provide annual financial information and notices of events as set forth above, if and when the District no longer remains an obligated person with respect to the 2012A Bonds within the meaning of the Rule. The District acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders (including beneficial owners) of the 2012A Bonds and shall be enforceable by any holder of the 2012A Bonds; provided that a Bondholder's right to enforce the provisions of the undertaking shall be limited to a right to obtain specific performance of the District's obligations pursuant to the provisions of the undertaking, and any failure by the District to comply with the provisions of the undertaking shall not be an event of default with respect to the Bonds under the Ordinance.

Purchase of the 2012A Bonds shall be conditioned upon the receipt by the initial purchaser of the 2012A Bonds, at or before the delivery of the 2012A Bonds, of evidence that the District has made the continuing disclosure undertaking described above, in the form of the Continuing Disclosure Certificate, for the benefit of the holders of the 2012A Bonds.

The District has filed all of its financial information, operating data and audited financial statements with the appropriate parties as required by the Continuing Disclosure Certificates executed in connection with the District's outstanding revenue bond issues. However, the District filed the financial information, operating data and audited financial statements for the District's 2006, 2009, 2010 and 2011 fiscal years one to three months after the deadlines contained in the applicable Continuing Disclosure Certificates. The District also failed to file the information for its 2007 fiscal year until the District reviewed the status of its filings in preparation for the issuance of the 2012A Bonds. The late filings resulted from changes in the District's personnel responsible for making the filings. To ensure that future filings for the outstanding revenue bonds and the 2012A Bonds are made on or before the deadlines contained in the applicable Continuing Disclosure Certificates, the District has adopted procedures designating the personnel responsible for making the filings and imposing deadlines for the receipt, approval and filing of the required information in accordance with the requirements of the Rule.

See "THE SYSTEM - Water Supply Agreement with City of Elizabethtown" herein with respect to certain annual disclosure obligations of the City of Elizabethtown pursuant to the Rule.

REFERENCE TO DOCUMENTS

All foregoing summaries and descriptions of provisions set forth in the 2012A Bonds, the 2012A Resolution, the Continuing Disclosure Certificate and related documents, and all references to other documents and materials not purported to be quoted in full, are brief outlines of certain provisions of such documents, reference to which documents is hereby made and copies of which will be furnished by the District upon written request.

MISCELLANEOUS

Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of any of the 2012A Bonds.

This Official Statement, including the Appendices, has been duly approved, executed and delivered by the Commission of the District.

Dated as of August 28, 2012.

HARDIN COUNTY WATER
DISTRICT NO. 2

By: /s/ Michael L. Bell
Chairman of the Commission

APPENDICES

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APPENDIX A

HARDIN COUNTY WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2012A

Selected Financial and Operating Information

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Water Customers and Usage

Calendar Year	Customers as of December 31	Water Sale Revenue	Water Usage Gallons
2011	16,704	$8,119,565	1,545,146,000
2010	16,593	8,139,065	1,488,038,000
2009	16,216	7,535,979	1,410,514,621
2008	16,068	7,875,790	1,520,320,843
2007	15,756	6,961,562	1,589,189,697

Source: Hardin County Water District No. 2

Ten Largest Customers for Calendar Year 2011

Name	Usage (Gallons)	Water Sale Revenue	Percentage of Total Revenue
City of Elizabethtown	455,590,900	$906,269.92	11.16%
Automotive Glass Corporation	98,185,000	242,605.54	2.99
Hardin County Detention Center	17,899,300	54,486.52	0.67
Central Hardin High School	8,649,800	46,786.34	0.58
Petro Iron Skillet	8,095,900	39,260.41	0.48
John Hardin High School	4,529,300	25,287.66	0.31
Blue Beacon of Glendale	4,097,000	22,866.27	0.28
Speedway Super America #8450	3,141,700	18,890.91	0.23
Pilot Travel	1,845,700	11,382.30	0.14
Irving Materials	1,773,000	9,018.54	0.11

Source: Hardin County Water District No. 2

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Present Water System Rates

Meter Size		Present Rates
Residential Service 5/8" x 3/4"	First 2,000 gallons	$18.50 (Minimum Bill)
	Next 498,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
1"	First 5,000 gallons	$33.95 (Minimum Bill)
	Next 495,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
1 1/2"	First 10,000 gallons	$59.70 (Minimum Bill)
	Next 490,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
2"	First 20,000 gallons	$111.20 (Minimum Bill)
	Next 480,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
3"	First 30,000 gallons	$162.70 (Minimum Bill)
	Next 470,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
4"	First 50,000 gallons	$265.70 (Minimum Bill)
	Next 450,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
6"	First 100,000 gallons	$523.20 (Minimum Bill)
	Next 400,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
8"	First 150,000 gallons	$780.70 (Minimum Bill)
	Next 350,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
10"	First 250,000 gallons	$1,295.70 (Minimum Bill)
	Next 250,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons
12"	First 400,000 gallons	$2,068.20 (Minimum Bill)
	Next 100,000 gallons	5.15/1,000 Gallons
	Over 500,000 gallons	2.10/1,000 Gallons

NOTE: Rates effective December 18, 2007

Source: Hardin County Water District No. 2

Statements of Revenues and Expenses

	For the Year Ending December 31				
	2011	**2010**	**2009**	**2008**	**2007**
REVENUES					
Water sales	$ 8,119,565	$ 8,139,065	$ 7,535,979	$ 7,875,790	$ 6,961,562
Other operating income	311,805	323,644	309,537	243,068	206,045
TOTAL	$ 8,431,370	$ 8,462,709	$ 7,845,516	$ 8,118,858	$ 7,167,607
EXPENDITURES					
Water and Power Purchased	413,071	407,418	355,777	412,230	362,986
Depreciation	1,589,067	1,762,676	1,406,261	1,315,353	1,281,696
Pumping and treatment labor	396,332	380,689	413,838	381,767	360,939
Purification supplies and expense	501,256	488,983	429,116	408,134	374,291
Transmission and distribution labor	1,147,028	1,138,286	1,097,094	1,086,018	1,012,086
Transmission and distribution supplies and expense	216,708	242,454	319,188	211,247	322,608
Transmission and distribution maintenance and repairs	45,507	55,323	66,903	68,579	72,355
Equipment rental	1,493	3,397	16,912	5,561	12,265
Transportation expense	170,367	151,316	110,811	167,637	143,893
Water treatment maintenance and expense	104,094	86,870	174,657	112,975	85,146
General and administrative expenses	1,536,027	1,692,919	1,466,979	1,456,569	1,442,540
TOTAL	$ 6,120,950	$ 6,410,331	$ 5,857,536	$ 5,626,070	$ 5,470,805
OPERATING INCOME	$ 2,310,420	$ 2,052,378	$ 1,987,980	$ 2,492,788	$ 1,696,802
NON-OPERATING REVENUES (EXPENSES)					
Gain (loss) on fixed asset sales	12,078	(173,259)	14,220	17,038	9,145
Interest income	1,085,665	283,473	338,461	446,770	361,178
Other income	104,028	157,063	103,150	67,609	9,278
Interest on long-term debt	(744,100)	(840,346)	(881,306)	(926,625)	(837,568)
Amortization of bond discount and expense	(85,266)	(227,728)	(112,797)	(167,495)	(187,425)
Other interest expense	(1,678)	(1,626)	(1,895)	(15,849)	(9,119)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 370,727	$ (802,423)	$ (540,167)	$ (578,552)	$ (654,511)
NET INCOME	2,681,147	1,249,955	1,447,813	1,914,236	1,042,291
CAPITAL CONTRIBUTIONS	682,822	1,733,116	1,541,139	1,289,163	2,543,188
INCREASE IN NET ASSETS	$ 3,363,969	$ 2,983,071	$ 2,988,952	$ 3,203,399	$ 3,585,479

Source: Hardin County Water District No. 2 Audited Financial Statements

Balance Sheets

	As of December 31, 2011	2010	2009	2008	2007
ASSETS					
Current Assets					
Cash and cash equivalents	$ 3,917,613	$ 5,489,710	$ 2,457,651	$ 1,245,323	$ 2,079,347
Investments	11,468,166	6,853,989	8,708,865	6,920,378	5,186,909
Accounts receivable, net	684,957	598,659	559,785	527,788	449,246
Prepaid insurance	-	42,874	32,988	37,033	39,284
Prepaid postage	37,935	-	-	-	-
State grants receivable	-	42,005	19,760	-	-
Federal grants receivable	-	-	-	72,103	-
Tap fees receivable	-	-	20,050	20,050	45,315
Materials and supplies	320,000	411,245	386,455	481,263	440,778
Total Current Assets	$ 16,428,671	$ 13,438,482	$ 12,185,554	$ 9,303,938	$ 8,240,879
Noncurrent Assets					
Restricted cash & cash equivalents	2,807,847	3,379,355	3,567,268	3,311,336	3,300,293
Investments	-	-	-	1,525,154	-
Restricted investments	963,005	963,005	1,221,392	1,222,362	1,237,320
Bond discount	394,744	-	-	-	-
Deferred amount on bond refundings	281,009	-	-	-	-
Loan receivable	-	-	-	-	50,000
Capital assets, net of accumulated depreciation	46,506,267	46,732,610	45,898,989	44,582,721	42,732,694
Total Noncurrent Assets	$ 50,952,872	$ 51,074,970	$ 50,687,649	$ 50,641,573	$ 47,320,307
Total Assets	$ 67,381,543	$ 64,513,452	$ 62,873,203	$ 59,945,511	$ 55,561,186
LIABILITIES					
Current Liabilities					
Accounts payable	132,637	189,923	313,692	238,965	169,375
Construction accounts payable	73,025	-	-	-	-
Accrued taxes	23,166	22,348	20,475	22,346	29,295
Accrued liabilities	51,659	44,076	37,293	27,774	34,812
Accrued vacation	82,600	79,229	65,985	72,215	74,089
Accrued interest	-	-	30,240	-	-
Customer deposits	28,791	27,482	44,893	42,058	37,825
Customer advances for construction	33,250	119,749	77,254	125,949	35,000
Notes payable	-	-	1,113,769	171,802	-
Bonds payable	913,500	1,211,000	1,158,500	1,131,500	1,114,500
Total Current Liabilities	$ 1,338,628	$ 1,693,807	$ 2,862,101	$ 1,832,609	$ 1,494,896
Noncurrent Liabilities					
Customer deposits	259,122	247,343	404,039	378,521	340,429
Customer advances for construction	-	-	172,721	243,288	428,538
Bonds payable	18,063,500	18,977,000	18,841,500	20,000,000	21,131,500
Less: Bond discount and deferred amt on refundings	-	(761,022)	(780,411)	(893,208)	(1,022,922)
Total Noncurrent Liabilities	$ 18,322,622	$ 18,463,321	$ 18,637,849	$ 19,728,601	$ 20,877,545
Total Liabilities	$ 19,661,250	$ 20,157,128	$ 21,499,950	$ 21,561,210	$ 22,372,441
NET ASSETS					
Invested in capital assets, net of related debt	28,131,995	27,305,632	25,565,631	24,172,627	21,509,616
Restricted for debt service	2,284,941	2,608,194	2,863,767	2,857,995	2,908,823
Unrestricted	17,303,357	14,442,498	12,943,855	11,353,679	8,770,306
Total Net Assets	$ 47,720,293	$ 44,356,324	$ 41,373,253	$ 38,384,301	$ 33,188,745
Total Liabilities & Net Assets	$ 67,381,543	$ 64,513,452	$ 62,873,203	$ 59,945,511	$ 55,561,186

Source: Hardin County Water District No. 2 Audited Financial Statements

Summary of Debt Outstanding as of August 28, 2012

Debt Outstanding (1)	Dated	Interest Rate	Last Maturity Date	Original Amount	Balance at August 28, 2012
Series of					
2002C	November 15, 2002	2.00-3.75%	January 1, 2014	$3,020,000	$800,000
2003 (2)	March 15, 2003	3.50-4.625%	January 1, 2038	4,485,000	3,290,000
2004A	March 15, 2004	2.00-4.00%	January 1, 2025	2,940,000	2,130,000
2005A (2)	June 16, 2006	4.375%	January 1, 2044	2,990,000	2,775,500
2005B	April 1, 2005	4.100%	January 1, 2025	1,775,000	1,365,000
2007A	December 18, 2007	4.000%	January 1, 2048	2,480,000	2,423,000
2010A	July 28, 2010	2.00-4.125%	January 1, 2031	5,625,000	5,280,000
Total				$23,315,000	$18,063,500

(1) The 2012A Bonds will rank on parity with the 2002C, 2004A, 2005B, 2007A and 2010A Bonds.
(2) The Series 2003 Bonds and the 2005A Bonds are being refunded through the issuance of the 2012A Bonds. See the "PURPOSE" section for more details.

HARDIN COUNTY (KENTUCKY)
WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2012A

TOTAL ANNUAL DEBT SERVICE REQUIREMENTS

		Series 2012A			
Fiscal Year December 31,	**Existing Parity Lien Debt Service(1)**	**Principal**	**Interest**	**Fiscal Total**	**New Total Parity Lien Debt Service**
2012	$1,636,489.70	-	-	-	$1,636,489.70
2013	1,253,163.76	$215,000.00	$123,393.55	$338,393.55	1,591,557.31
2014	1,257,833.76	180,000.00	162,625.02	342,625.02	1,600,458.78
2015	843,008.76	185,000.00	158,975.02	343,975.02	1,186,983.78
2016	844,781.88	190,000.00	155,225.02	345,225.02	1,190,006.90
2017	850,955.00	195,000.00	151,375.02	346,375.02	1,197,330.02
2018	854,778.75	195,000.00	147,475.02	342,475.02	1,197,253.77
2019	863,305.00	200,000.00	143,525.02	343,525.02	1,206,830.02
2020	859,267.50	205,000.00	139,346.88	344,346.88	1,203,614.38
2021	864,980.00	210,000.00	134,806.24	344,806.24	1,209,786.24
2022	869,410.63	215,000.00	129,890.62	344,890.62	1,214,301.25
2023	877,441.26	220,000.00	124,725.00	344,725.00	1,222,166.26
2024	887,800.01	230,000.00	119,237.50	349,237.50	1,237,037.51
2025	887,598.76	235,000.00	113,425.00	348,425.00	1,236,023.76
2026	513,635.01	245,000.00	107,118.75	352,118.75	865,753.76
2027	517,291.88	245,000.00	100,381.25	345,381.25	862,673.13
2028	519,035.00	255,000.00	93,506.25	348,506.25	867,541.25
2029	510,095.00	265,000.00	86,356.26	351,356.26	861,451.26
2030	510,675.00	270,000.00	78,662.51	348,662.51	859,337.51
2031	516,237.50	280,000.00	70,062.50	350,062.50	866,300.00
2032	128,880.00	295,000.00	60,718.75	355,718.75	484,598.75
2033	128,240.00	300,000.00	50,675.00	350,675.00	478,915.00
2034	128,520.00	210,000.00	41,750.00	251,750.00	380,270.00
2035	128,680.00	220,000.00	34,225.00	254,225.00	382,905.00
2036	128,720.00	230,000.00	26,062.50	256,062.50	384,782.50
2037	128,640.00	235,000.00	17,343.75	252,343.75	380,983.75
2038	129,440.00	250,000.00	8,250.00	258,250.00	387,690.00
2039	129,080.00	85,000.00	1,968.75	86,968.75	216,048.75
2040	129,600.00	10,000.00	187.50	10,187.50	139,787.50
2041	128,960.00	-	-	-	128,960.00
2042	129,200.00	-	-	-	129,200.00
2043	129,280.00	-	-	-	129,280.00
2044	129,200.00	-	-	-	129,200.00
2045	129,960.00	-	-	-	129,960.00
2046	129,520.00	-	-	-	129,520.00
2047	129,920.00	-	-	-	129,920.00
2048	133,120.00	-	-	-	133,120.00
Total	$18,936,744.16	$6,070,000.00	$2,581,293.68	$8,651,293.68	$27,588,037.84

(1) Includes debt service on the 2002C, 2004A, 2005B, 2007A, 2010A Bonds, and the unrefunded portion of the Series 2003 and 2005A Bonds (i.e. payments made in FY 2012).

Historical Debt Service Coverage on Parity Bonds

	Years Ending December 31				
	2011	2010	2009	2008	2007
NET INCOME (1):	$2,681,147	$1,249,955	$1,447,813	$1,914,236	$1,042,291
ADD BACK :					
Amortization	85,266	227,728	112,797	129,713	146,854
Depreciation	1,589,067	1,762,676	1,406,261	1,315,353	1,281,696
Interest Expense	744,100	840,346	881,306	920,283	870,280
Total revenues available to cover debt service	5,099,580	4,080,705	3,848,177	4,279,585	3,341,121
Less debt service requirements on non-parity debt in years presented (2)	-	-	-	40,848	82,454
Net revenues available to cover parity debt service	$5,099,580	$4,080,705	$3,848,177	$4,238,737	$3,258,667
Annual parity debt service amounts in years presented (3)	$1,883,225	$2,000,039	$2,014,014	$2,015,197	$2,003,700
PARITY COVERAGE	2.71	2.04	1.91	2.10	1.63
TOTAL DEBT SERVICE COVERAGE (Includes non-parity debt service)	2.71	2.04	1.91	2.08	1.60

Source: Hardin County Water District No. 2

(1) 2007-2011 amounts taken from audited financial statements as prepared by the District's Certified Public Accountant.
(2) Includes KIA debt. KIA debt, which is subordinate to parity debt, is being treated in the same fashion as an operation and maintenance expense for this presentation.
(3) Includes 2002C, 2003, 2004A, 2005A, 2005B, 2007A and 2010A Bonds.

Interim Unaudited Balance Sheets

	As of June 30, 2012	2011
ASSETS		
Current Assets		
Cash & cash equivalents	$ 3,143,749	$ 3,759,216
Investments	12,811,335	9,747,999
Accounts receivable, net	890,671	811,000
Prepaid insurance	31,089	14,441
State grants receivable	-	42,005
Inventory	320,000	411,245
Total Current Assets	$ 17,196,844	$ 14,785,906
Noncurrent Assets		
Restricted cash & cash equivalents	2,258,479	2,165,902
Investments	-	-
Restricted investments	963,005	963,005
Capital assets, net accumulated depreciation	48,705,228	48,180,147
Total Noncurrent Assets	$ 51,926,712	$ 51,309,054
Total Assets	$ 69,123,556	$ 66,094,960
LIABILITIES		
Current Liabilities		
Accounts payable	432,631	95,830
Accrued taxes	22,699	32,422
Accrued liabilities	35,160	9,561
Accrued interest	-	-
Notes payable	-	-
Total Current Liabilities	$ 490,490	$ 137,813
Noncurrent Liabilities		
Customer deposits	305,330	288,300
Accrued vacation	82,600	79,229
Customer advances for construction	38,250	131,599
Bonds payable	18,908,500	20,122,000
Less: bond discount & deferred amt refunding	(261,365)	(302,983)
Total Noncurrent Liabilities	$ 19,073,315	$ 20,318,145
Total Liabilities	$ 19,563,805	$ 20,455,958
Total Net Assets	$ 49,559,751	$ 45,639,002

Source: Hardin County Water District No. 2

Interim Unaudited Income Statements

	For the six month period ending June 30, 2012	2011
Operating Revenues		
Water sales	$ 4,175,172	$4,133,980
Other operating income	58,037	10,602
Total Operating Revenues	$ 4,233,209	$4,144,582
Operating Expenses		
Power purchased	198,626	198,579
Pumping & treatment labor	342,214	309,847
Purification supplies & expenses	167,908	147,432
Transmission & distribution labor	600,952	592,537
Transmission & distribution supplies & expenses	185,508	168,111
Customer service labor	334,136	293,943
Customer service supplies & expenses	98,254	114,884
General and administrative expenses	337,236	344,146
Depreciation	791,606	764,865
Total Operating Expenses	$ 3,056,440	$2,934,344
Net Operating Income	$ 1,176,769	$1,210,238
Non-Operating Revenues (Expenses)		
Interest income	31,641	43,115
Dividend income	143,688	249,778
Unrealized gain/loss	102,852	-
Realized gain	96,628	144,232
Leased land/tank space income	47,090	63,650
Interest expenses	(355,931)	(371,075)
Amortized debt discount expense	(38,991)	(42,632)
Total Non-Operating Revenues (Expenses)	$ 26,977	$ 87,068
Net Income	$ 1,203,746	$1,297,306

Source: Hardin County Water District No. 2

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APPENDIX B

HARDIN COUNTY WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2012A

Demographic and Related Data

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HARDIN COUNTY, KENTUCKY

Hardin County covers a land area of 628 square miles and is located primarily in Kentucky's Mississippian Plateaus Region, an area of gently rolling plains and uplands. The topography of the county is diverse, ranging from limestone plains in the eastern and central portions of the county, to steep high ridges further west. The county had an estimated 2010 population of 105,543 persons.

Elizabethtown, the county seat of Hardin County, is located in north central Kentucky at the intersection of several major highway systems. The city is situated 45 miles south of Louisville, Kentucky; 84 miles southwest of Lexington, Kentucky; 128 miles northeast of Nashville, Tennessee; and 144 miles southwest of Cincinnati, Ohio. Elizabethtown had an estimated 2010 population of 28,531 persons.

The Economic Framework

The total number of Hardin County residents employed in 2011 averaged 45,242. Manufacturing firms in the county reported 4,461 employees; trade, transportation and utilities provided 8,189 jobs; 16,765 people were employed in service occupations; public administration, informational and financial activities accounted for 7,614 employees; and contract construction firms provided 1,279 jobs.

Labor Supply

There is a current estimated labor supply of 58,953 persons available for industrial jobs in the labor market area. In addition, from 2011 through 2014, 57,215 young persons in the area will become 18 years of age and potentially available for industrial jobs. Major employers in Hardin County are listed below (as of July 2012):

Firm	Product	Average Employment
Akebono Brake Corporation	Automotive disc & drum brakes	1,333
Metalsa Structural Products Inc.	Framework, hydroforming/forming and assembly of Ford F-150, Lincoln Navigator, Ford Expedition and stampings for Toyota and GM frame components	610
Altec Industries Inc.	Telescope aerial devices for service trucks for telecommunications and utility companies	475
AGC Automotive Americas	Automobile glass	445
Summit Polymers Inc.	Injection molded thermoplastics and auto interior components	304
iPay LLC	Electronic payment processing	265
Flint Group Pigments	Organic pigments & printing inks	240
Dow Corning Corp.	Silicone sealants, adhesives	205
Mouser Custom Cabinetry LLC	Custom wooded kitchen & bath cabinets and vanities	172
Gates Corporation	Motorcycle and industrial belting	162

Source: The Kentucky Cabinet for Economic Development, Division of Research

Transportation

Elizabethtown is served by Interstate Highway 65, the Bluegrass Parkway, the Western Kentucky Parkway, U.S. Highways 31W and 62, and Kentucky Route 61, all of which are "AAA"-rated trucking highways. Twenty-eight trucking companies provide interstate and/or intrastate service to the area. Two companies maintain local terminals. CSX Transportation and the Paducah and Louisville Railway provide main line rail service to Elizabethtown. The nearest scheduled commercial airline service is located at the Louisville International Airport, 41 miles north of Elizabethtown. Addington Field, a local airport four miles west of Elizabethtown, maintains a 5,000-foot paved runway.

Power and Fuel

Kentucky Utilities Company provides electric power to Elizabethtown and portions of Hardin County. Nolin Rural Electric Cooperative Corporation and the Louisville Gas and Electric Company also serve the county. The Elizabethtown Water and Gas Department provides natural gas service to Elizabethtown.

Education

The Elizabethtown Independent School System and the Hardin County School System, both accredited by the Southern Association of Colleges and Schools, provide primary and secondary education to Elizabethtown and Hardin County. Elizabethtown Community and Technical College, a unit of the Kentucky Community and Technical College System, had a fall 2011 enrollment of 7,820 students. Vocational training is available locally at the Elizabethtown Regional Technology Center.

Hardin County
Economic Statistics
2008-2012

Year	Per Capita Income	Median Family Income	Average Weekly Wage	Unemployment Rate	Civilian Labor Force	Employment
2012	(1)	$57,100	(1)	7.6% (2)	49,399 (2)	45,637 (2)
2011	(1)	56,300	(1)	9.0	49,693	45,242
2010	(1)	55,600	$704.00	9.5	49,256	44,578
2009	$35,269	55,200	637.06	10.4	48,453	43,394
2008	34,176	52,700	622.59	6.3	47,757	44,770

Source: The Kentucky Cabinet for Economic Development, Division of Research

(1) Data not available
(2) Preliminary, as of May 2012.

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APPENDIX C

HARDIN COUNTY WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2012A

Audited Financial Statements for Fiscal Years Ending December 31, 2011 and 2010

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HARDIN COUNTY WATER DISTRICT NO. 2

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2011 AND 2010

HARDIN COUNTY WATER DISTRICT NO. 2

CONTENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

LETTER OF TRANSMITTAL

Hardin County Water District No. 2
360 Ring Road • P.O. Box 970 • Elizabethtown, KY 42702
Telephone (270) 737-1056 • Fax (270) 737-2301 • TTY 1-800-648-6956 or 711
www.hardincountywater2.org

February 20, 2012

TO: Hardin County Water District No. 2 Board of Commissioners

We are pleased to submit the Financial Report for Hardin County Water District No. 2 for the year ended December 31, 2011. This report has been prepared in accordance with generally accepted accounting principles (GAAP), as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the District. We believe the data as presented is accurate, that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the District as measured by its and that all disclosures necessary to enable the reader to gain maximum understanding of the District's financial affairs have been included.

District management's narrative on the financial activities of the District is in the Management's Discussion and Analysis (MD&A) section of this report, immediately following the Independent Auditor's Report. The letter of transmittal is written to complement the MD&A and the financial statements, and should be read from that perspective and in conjunction with all other sections of the report.

This report is a joint effort between our staff and Stiles, Carter, and Associates, Certified Public Accountants. I would like to recognize Mr. Scott Clark, Customer Service and Administrative Manager, for his role in leading the District in this effort. I also recognized Ms. Lea Ona Sims and Ms. Amber Summers for their continued role in keeping the finances of the District. Mr. Brian Woosley was the lead auditor for Stiles, Carter, and Associates and our staff spent several hours working closely with Mr. Woosley to complete this report.

Financial Performance and Highlights

Operating revenue for 2011 was flat against the record level set in 2010. Total water revenue finished at $8,431,370, down just 0.4%.Customer occupancy remains high against historical trends which contribute to a favorable peak in the revenue levels which began in 2010.

Operating expenses continue to be favorably managed by the District staff. Total operating expenses for 2011 finished at $6,120,950, a reduction of $289,381 or 4.5% from 2010. Depreciation accounted for $173,609 of the reduction and the remaining $115,772 is attributed to a reduction in spending in the operations and overhead areas. While the reduction in depreciation is skewed by one time write offs that occurred in 2010, the balance of the reduction is a result of effective management by the departmental heads. The 2011 performance in cost management, depreciation notwithstanding, follows a 5 year historical trend in which the average annual increase in operating costs is 2.0%.

The District continued for a second year the practice of investing reserve funds in the bond market in lieu of Certificates of Deposits. The District maintains two reserve accounts, one with Vanguard Investments and one with Dupree Investments. The Vanguard and Dupree accounts in 2011 returned a total of $242,284.28 and $771,892.74 respectively.

Capital Improvement and Projects

The District entered into agreements with 9 residents of St. Johns Road and Spears Lane for the expansion of our 4" water main. Each resident contributed $1,998.14 while the District contributed $4,192.81 and fronted the final $13,986.96 to finance the extension. The 6,400 foot expansion was completed before the Christmas holiday and had two active customers by the end of the year.

The District's construction crew completed the first section of the Elizabethtown to Radcliff Connector relocation project. The project resulted in the relocation of almost 12,000 feet of water line along Rineyville Road. The cost of the project to the District was $488K which was reimbursed by the State Highway Department.

The District also agreed to assist with the FLEX factory construction in the Hugh's Industrial Park. District crews relocated 820 feet of 12" ductile iron pipe along Black Branch Road to accommodate the site development for FLEX. The Elizabethtown Industrial Foundation financed the materials of the project which cost a total of $60,000.

The District continued procurement of the Louisville Water Connection Project by completed a yearlong conversion study in cooperation with Hardin County Water District No. 1 and Louisville Water Company. The study demonstrated in detail the affects of converting District water to a chloramines disinfectant system and of converting LWC water to a chlorine disinfectant system. The combined project team observed that LWC water performed very poorly with regard to disinfectant byproduct production when given a free chlorine residual. Conversely, District water that was given a chloramine residual performed better than current field observations. The study suggested that the distribution system of Hardin County Water District No. 2 would benefit from a chloramine system by observing a reduction in the current levels of disinfectant byproduct production. This benefit would be timely as the new EPA Stage II regulations which further restrict disinfectant byproduct level go into effect in 2014.

Water Operations

The District water treatment plant treated and delivered 1.83 billion gallons during the year. This was an increase of 3.4% from the 1.77 billion gallons delivered in 2010. Capacity utilization was an average of 65.3% as total gallons sold to customers finished at 1.54 billion gallons versus 1.49 billion gallons in 2010. The distribution leak percentage did see a slight improvement in 2011. The T&D department responded to 279 leaks in 2011 compared to 297 in 2010. The leak percentage landed at 13.4%, down from 13.6% in 2010.

The District had no violations for water quality or reporting requirements. We experienced favorable audits in all areas including: workers compensation audit, DOW audit, PSC inspection, fire safety inspection, bacteriological laboratory inspection, and the fluoride inspection. The District did not issue any boil water advisories during the year.

New meter installations dropped dramatically in 2011 following the height of BRAC activities from 2010. Distribution personnel installed 237 new meters during the year compared to 425 for 2010. The combination of new meters and steady occupancy resulted in a record active customer count of 16,791 at the end of the year compared to 16,741 at the end of 2010, a growth rate of less than 1%.

Quality Recognition

The District was once again humbled by the recognition throughout the year for our excellence in water quality. The District won first place in the Kentucky Rural Water Association "Best Tasting Water" contest in February. This was the second year in a row that we received this honor. Only one other water company has won the KRWA title two years in a row. Then in June, the District finished in first place at the Kentucky-Tennessee Chapter Water Taste Test Competition. We have won this title two out of the past three years.

No other water company has won both the KRWA and the AWWA titles in the same year. As such, Hardin County Water District No. 2 claimed the title of being Kentucky's "Undisputed Best Tasting Water Champion" for 2011.

Closing Remarks

Hardin County Water District No. 2 has had another banner year in the core areas of our operations and in our financial performance in 2011. During a year when we achieved the title of "Undisputed Best Tasting Water Champion" in Kentucky and we experienced a 3.4% increase in water volume, we also saw our overall costs come down by 4.5%. This unlikely scenario is attributed to the dedicated employees of the District who continuously work to be the best water professionals possible.

It has been a pleasure for the staff to bring these results to the Board of Commissioners for their consideration and review. On behalf of all the employees of the District, it has been a pleasure to provide the highest quality service to our customers for another year.

James R. Jeffries

James R. Jeffries
General Manager

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hardin County Water District No. 2
Elizabethtown, Kentucky

We have audited the accompanying financial statements of Hardin County Water District No. 2 as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hardin County Water District No. 2, as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 20, 2012, on our consideration of Hardin County Water District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise Hardin County Water District No. 2's financial statements as a whole. The accompanying letter of transmittal and Schedules I, II and III are presented for purposes of additional analysis and are not a required part of the basic financial statements. Schedules I and II are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The letter of transmittal and Schedule III have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Stiles, Carter & Associates
Certified Public Accountants
February 20, 2012

REQUIRED SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2011

The discussion and analysis of Hardin County Water District No. 2's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was $19.2 million. The balance at December 31, 2010, was $16.7 million. This reflects an increase in cash and investments during the year of $2.5 million.

- The District continued the E-town Loop. Louisville Water Interconnection and Rineyville Sewer Projects and began the Nolin River and Intake projects.

- The District invested approximately $1.1 million in capital assets during the year.

USING THIS ANNUAL REPORT

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; a statement of cash flows; and notes to the basic financial statements.

The ***statement of net assets*** presents the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the ***statement of revenues, expenses, and changes in fund net assets*** presents the results of the District's activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The ***statement of cash flows*** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The ***notes to the basic financial statements*** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

ENTITY-WIDE FINANCIAL ANAYLSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $47.7 million and $44.4 million as of December 31, 2011 and 2010.

The largest portion of the District's net assets reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, equipment, transmission and distribution systems and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Assets
as of December 31, 2011 and 2010

	2011	2010
Assets		
Current and Other Assets	$ 20,875,276	$ 18,541,864
Capital Assets	46,506,267	46,732,606
Total Assets	67,381,543	65,274,470
Liabilities		
Long-term liabilities	18,322,622	19,224,343
Other Liabilities	1,338,628	1,693,807
Total Liabilities	19,661,250	20,918,150
Net Assets		
Invested in capital assets, net of related debt	28,131,995	27,305,632
Restricted for debt service	2,284,941	2,608,194
Unrestricted	17,303,357	14,442,498
Total Net Assets	$ 47,720,293	$ 44,356,324

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), increased by 20.1% from $14.4 million to $17.3 million at December 31, 2011. Restricted net assets decreased $323 thousand (12.3%). Investment in governmental capital assets, net of related debt increased by $817 thousand (2.9%).

(Table 2)
Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES:		
Water sales	$ 8,119,565	$ 8,139,065
Other operating income	311,805	323,644
Total operating revenues	8,431,370	8,462,709
OPERATING EXPENSES:		
Power purchased	413,071	407,418
Pumping and treatment labor	396,332	380,689
Purification supplies and expense	501,256	488,983
Transmission and distribution labor	1,147,028	1,138,286
Transmission and distribution supplies and expense	216,708	242,454
Transmission and distribution maintenance and repairs	45,507	55,323
Equipment rental	1,493	3,397
Transportation expense	170,367	151,316
Water treatment maintenance and expense	104,094	86,870
General and administrative expenses	1,536,027	1,692,919
Depreciation	1,589,067	1,762,676
Total operating expenses	6,120,950	6,410,331
OPERATING INCOME	2,310,420	2,052,378
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,085,665	283,473
Other income	104,028	157,063
Gain (loss) on disposal of assets	12,078	(173,259)
Interest expense on long-term debt	(744,100)	(840,346)
Interest expense on customer deposits	(1,678)	(1,626)
Amortization of bond discount and expense	(85,266)	(227,728)
TOTAL NON-OPERATING REVENUES (EXPENSES)	370,727	(802,423)
Capital contributions	682,822	1,733,116
Increase in net assets	$ 3,363,969	$ 2,983,071

Operating revenue was consistent as compared to the prior year. Total operating expenses decreased by 4.5% of which 2.0% was related to a decline in depreciation expense. Therefore, operating expenses decreased by 2.5%. Interest expense on long-term debt decreased 11.4%. The District continues to receive capital contributions through the State of Kentucky, the Federal government, other governments and individual developers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2011 and 2010, the District had $46.5 million and $46.7 million invested in a variety of capital assets, as reflected in the following table:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31, 2011 and 2010

	2011	2010
Non-Depreciable Assets:		
Land and land rights	$ 555,983	$ 552,983
Depreciable Assets:		
Structures and improvements	2,118,003	2,203,108
Supply mains	926,663	970,762
Water treatment plant	7,605,711	7,829,121
Standpipes, tanks and foundations	4,435,750	4,597,031
Transmission and distribution mains	25,370,553	25,888,449
Services and meters	3,555,752	3,460,662
Hydrants	76,172	89,138
Office furniture and fixtures	49,004	55,484
Transportation equipment	458,679	370,276
Communication equipment	-	-
Other property and equipment	76,649	86,027
Capital assets in service	45,228,919	46,103,041
Construction in progress	1,277,348	629,569
Total capital assets, net of depreciation	$ 46,506,267	$ 46,732,610

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Beginning balance	$ 46,732,610	$ 45,898,989
Additions	1,380,198	4,944,048
Retirements	(17,474)	(2,347,751)
Depreciation	(1,589,067)	(1,762,676)
Ending balance	$ 46,506,267	$ 46,732,610

Debt

At December 31, 2011 and 2010, the District had $18.9 million and $20.2 million, in bonds and notes outstanding. A total of $914 thousand is due within the 2012 calendar year.

(Table 5)
Outstanding Debt
as of December 31, 2011 and 2010

	2011	2010
Revenue bonds	$ 18,977,000	$ 20,188,000

District Challenges for the Future

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact James Jeffries, General Manager, 360 Ring Road, Elizabethtown, Kentucky 42701, (270) 737-1056.

BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF NET ASSETS

DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,917,613	$ 5,489,710
Investments	11,468,166	6,853,989
Accounts receivable, net	684,957	598,659
Prepaid insurance	-	42,874
Prepaid postage	37,935	-
State grants receivable	-	42,005
Materials and supplies	320,000	411,245
TOTAL CURRENT ASSETS	16,428,671	13,438,482
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	2,807,847	3,379,355
Restricted investments	963,005	963,005
Bond discount	394,744	436,040
Deferred amount on bond refundings	281,009	324,982
Capital assets, net of accumulated depreciation	46,506,267	46,732,610
TOTAL NONCURRENT ASSETS	50,952,872	51,835,992
TOTAL ASSETS	67,381,543	65,274,474
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	132,637	189,923
Construction projects payable	73,025	-
Accrued taxes	23,166	22,348
Accrued liabilities	51,659	44,076
Accrued vacation	82,600	79,229
Customer deposits	28,791	27,482
Customer advances for construction	33,250	119,749
Bonds payable	913,500	1,211,000
TOTAL CURRENT LIABILITIES	1,338,628	1,693,807
NONCURRENT LIABILITIES:		
Customer deposits	259,122	247,343
Bonds payable	18,063,500	18,977,000
TOTAL NONCURRENT LIABILITIES	18,322,622	19,224,343
TOTAL LIABILITIES	19,661,250	20,918,150
NET ASSETS		
Invested in capital assets, net of related debt	28,131,995	27,305,632
Restricted for debt service	2,284,941	2,608,194
Unrestricted	17,303,357	14,442,498
TOTAL NET ASSETS	$ 47,720,293	$ 44,356,324

See accompanying notes to financial statements.

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Water sales	$ 8,119,565	$ 8,139,065
Other operating income	311,805	323,644
TOTAL OPERATING REVENUES	8,431,370	8,462,709
OPERATING EXPENSES:		
Power purchased	413,071	407,418
Pumping and treatment labor	396,332	380,689
Purification supplies and expense	501,256	488,983
Transmission and distribution labor	1,147,028	1,138,286
Transmission and distribution supplies and expense	216,708	242,454
Transmission and distribution maintenance and repairs	45,507	55,323
Equipment rental	1,493	3,397
Transportation expense	170,367	151,316
Water treatment maintenance and expense	104,094	86,870
General and administrative expenses	1,536,027	1,692,919
Depreciation	1,589,067	1,762,676
TOTAL OPERATING EXPENSES	6,120,950	6,410,331
OPERATING INCOME	2,310,420	2,052,378
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,085,665	283,473
Other income	104,028	157,063
Gain (loss) on disposal of assets	12,078	(173,259)
Interest expense on long-term debt	(744,100)	(840,346)
Interest expense on customer deposits	(1,678)	(1,626)
Amortization of bond discount and expense	(85,266)	(227,728)
TOTAL NON-OPERATING REVENUES (EXPENSES)	370,727	(802,423)
CAPITAL CONTRIBUTIONS	682,822	1,733,116
CHANGE IN NET ASSETS	3,363,969	2,983,071
NET ASSETS, beginning of year	44,356,324	41,373,253
NET ASSETS, end of year	$ 47,720,293	$ 44,356,324

See accompanying notes to financial statements.

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 8,345,072	$ 8,403,835
Payments to suppliers	(2,707,430)	(3,075,840)
Payments to employees	(1,853,682)	(1,762,714)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,783,960	3,565,281
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(1,211,000)	(7,917,000)
Principal payments on notes	-	(1,872,307)
Proceeds from bonds	-	8,105,000
Acquisition of capital assets	(1,124,627)	(2,221,224)
Contributions in aid of construction	549,318	1,710,871
Interest on long-term debt	(744,100)	(840,346)
Sale of capital assets	29,006	33,210
Customer deposit interest	(1,678)	(1,626)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,503,081)	(3,003,422)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(4,982,586)	(7,960,857)
Proceeds from investments	963,005	9,907,494
Utility plant leased to others and other income	104,028	157,063
Investment income	491,069	178,587
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(3,424,484)	2,282,287
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,143,605)	2,844,146
CASH AND CASH EQUIVALENTS, beginning of year	8,869,065	6,024,919
CASH AND CASH EQUIVALENTS, end of year	$ 6,725,460	$ 8,869,065
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid during the year	$ 745,778	$ 841,972
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,301,197	$ 2,052,378
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,581,486	1,762,676
Provision for bad debts	15,065	74,917
(Increase) in accounts receivable	(86,298)	(58,874)
(Increase) decrease in prepaids	4,939	(9,886)
Decrease in tap fees receivable	-	20,050
(Decrease) in accounts payable	(57,286)	(123,773)
Increase (decrease) in customer deposits	13,085	(174,107)
Increase in accrued taxes payable	818	1,873
Increase in accrued liabilities	7,583	6,783
Increase in accrued vacation	3,371	13,244
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,783,960	$ 3,565,281

See accompanying notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

Brief history - The Hardin County Water District No. 2 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Hardin County, Kentucky.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The District's financial statements are presented in accordance with the accrual basis of accounting. As allowed in Section P80 of Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted for debt service"; and "unrestricted" components. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

(1) Accounts Receivable - The allowance method is used to record uncollectible accounts.- At December 31, 2011 and 2010, accounts receivable was stated net of an allowance for uncollectible accounts of $80,000 and $80,000. Bad debt expense for 2011 was $15,065 and 2010 was $74,917. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.

(2) Materials and supplies – Materials and supplies is composed of items used in the capital construction process.

(3) Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest. The cost basis approximates market value.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District has established a minimum capitalization policy of $5,000.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	Years
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters	10-20

(5) Amortization - Bond discounts, expenses and deferred amounts on refundings are being amortized using the interest method over the life of each respective bond issue.

(6) Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

(7) Compensation for Future Absences - Accumulated vacation to be paid to employees is recorded as an expense and liability as the benefit is earned.

(8) Claims and Judgments - These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

(9) Revenues, Expenses and Rate Structure - Revenues and expenses are recognized on the accrual basis as earned or incurred. The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(10) Capital Contributions - Contributions are recognized in the Statement of Revenues, Expenses and Changes in Fund Net Assets when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts, issuance costs, and gains or losses on advance refundings and defeasances are deferred and amortized over the life of the bonds.

(12) Restricted assets are used to fund appropriations only after unrestricted resources are depleted except for appropriations related to a project/debt requirement for which the assets are restricted.

(13) Net Assets - Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

(14) Use of Estimates - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS

DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2011 and 2010, $7,724,384 and $6,126,926 of the District's bank balance of $6,626,926 and $8,474,384 was exposed to custodial credit risk. For 2011 and 2010, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE B – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS

At December 31, 2011 and 2010, the District had the following investments and maturities:

	12/31/2011 Fair Value	Average Credit Quality/Ratings	Maturities
Bond Mutual Funds	$ 3,370,108	Unrated	6.3 years average
Bond Mutual Funds	1,098,568	Unrated	9.4 years average
Bond Mutual Funds	5,209,451	Unrated	14.1 years average
Bond Mutual Funds	1,790,041	Unrated	25.5 years average
Treasury Money Market Fund	1,113,137	Unrated	Less than 1 year
Total Investments	$ 12,581,305		

	12/31/2010 Fair Value	Average Credit Quality/Ratings	Maturities
Bond Mutual Funds	$ 3,727,598	Unrated	13.88 years average
Bond Mutual Funds	3,126,391	Unrated	5.6 years average
Treasury Money Market Fund	1,428,999	Unrated	Less than 1 year
Total Investments	$ 8,282,988		

The funds listed above are not rated. The individual investments within the funds are rated no lower than BBB.

Investment Policies

District Policy

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the District's investing activities are under the custody of the District Commissioners. Investing policies comply with the State Statutes. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations of any corporation of the United States Government;
- 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;
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution 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 41.240(4)
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE C – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

- Commercial paper rated in the highest category by a nationally recognized rating agency;
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- 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
- Shares of mutual funds, each of which shall have the following characteristics:
    1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
    2. The management company of the investment company shall have been in operation for at least five (5) years; and
    3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. **Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the District's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The District does not have more than 5% or more of investments subject to the concentration of credit risk disclosure in any one issuer.

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District did not have any investments in securities at December 31, 2011 and 2010.

NOTE D - RESTRICTED CASH

The District has restricted cash for various purposes including debt service, future construction and customer deposits. The following schedule represents restricted cash at December 31, 2011 and 2010:

Restricted For	December 31, 2011	December 31, 2010
Debt service	$ 1,171,804	$ 1,179,195
Depreciation fund	266,121	450,018
Escrow	20,237	21,183
Construction	896,461	998,541
Customer deposits	303,092	289,797
	$ 2,657,715	$ 2,938,734

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE E – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset activity for the year ended December 31, 2011 follows.

	Balance at December 31, 2010	Additions	Retirements	Balance at December 31, 2011
Non-Depreciable Assets:				
Land and land rights	$ 552,983	$ 4,000	$ (1,000)	$ 555,983
Depreciable Assets:				
Structures and improvements	3,170,489	-	(11,118)	3,159,371
Supply mains	1,763,965	-	-	1,763,965
Water treatment plant	10,983,191	-	(4,091)	10,979,100
Standpipes, tanks and foundations	6,404,603	-	-	6,404,603
Transmission and distribution mains	33,342,865	158,361	-	33,501,226
Services and meters	5,226,216	354,014	(72,878)	5,507,352
Hydrants	310,058	7,539	(9,859)	307,738
Office furniture and fixtures	368,651	14,927	(52,824)	330,754
Transportation equipment	1,066,679	193,578	(91,901)	1,168,356
Communication equipment	55,270	-	-	55,270
Other property and equipment	350,687	-	(1,400)	349,287
Capital assets in service	63,595,657	732,419	(245,071)	64,083,005
Construction in progress	629,569	647,779	-	1,277,348
Total capital assets	64,225,226	1,380,198	(245,071)	65,360,353
Less accumulated depreciation for:				
Structures and improvements	967,381	79,592	(5,605)	1,041,368
Supply mains	793,203	44,099	-	837,302
Water treatment plant	3,154,070	221,718	(2,399)	3,373,389
Standpipes, tanks and foundations	1,807,572	161,281	-	1,968,853
Transmission and distribution mains	7,454,416	676,257	-	8,130,673
Services and meters	1,765,554	258,185	(72,139)	1,951,600
Hydrants	220,920	19,461	(8,815)	231,566
Office furniture and fixtures	313,167	15,409	(46,826)	281,750
Transportation equipment	696,403	104,473	(91,199)	709.677
Communication equipment	55,270	-	-	55,270
Other property and equipment	264,660	8,592	(614)	272,638
Total accumulated depreciation	17,492,616	1,589,067	(227,597)	18,854,086
Net capital assets	$ 46,732,610	$ (208,869)	$ (17,474)	$ 46,506,267

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE E – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended December 31, 2010 follows.

	Balance at December 31, 2009	Additions	Retirements	Balance at December 31, 2010
Non-Depreciable Assets:				
Land and land rights	$ 552,983	$ -	$ -	$ 552,983
Depreciable Assets:				
Structures and improvements	3,170,489	-	-	3,170,489
Supply mains	1,763,965	-	-	1,763,965
Water treatment plant	10,983,191	-	-	10,983,191
Standpipes, tanks and foundations	5,766,203	638,400	-	6,404,603
Transmission and distribution mains	30,223,140	3,119,725	-	33,342,865
Services and meters	5,286,319	441,471	(501,574)	5,226,216
Hydrants	292,279	17,779	-	310,058
Office furniture and fixtures	343,778	24,873	-	368,651
Transportation equipment	994,745	161,254	(89,320)	1,066,679
Communication equipment	55,270	-	-	55,270
Other property and equipment	272,411	85,957	(7,681)	350,687
Capital assets in service	59,704,773	4,489,459	(598,575)	63,595,657
Construction in progress	2,310,847	454,589	(2,135,867)	629,569
Total capital assets	62,015,620	4,944,048	(2,734,442)	64,225,226
Less accumulated depreciation for:				
Structures and improvements	887,165	80,216	-	967,381
Supply mains	749,104	44,099	-	793,203
Water treatment plant	2,932,040	222,030	-	3,154,070
Standpipes, tanks and foundations	1,647,622	159,950	-	1,807,572
Transmission and distribution mains	6,835,001	619,415	-	7,454,416
Services and meters	1,553,703	501,541	(289,690)	1,765,554
Hydrants	208,054	12,866	-	220,920
Office furniture and fixtures	292,698	20,469	-	313,167
Transportation equipment	685,746	99,977	(89,320)	696,403
Communication equipment	55,270	-	-	55,270
Other property and equipment	270,228	2,113	(7,681)	264,660
Total accumulated depreciation	16,116,631	1,762,676	(386,691)	17,492,616
Net capital assets	$ 45,898,989	$ 3,181,372	$ (2,347,751)	$ 46,732,610

During the years ended December 31, 2011 and 2010, the District capitalized $0 and $88,453 of interest and expensed $745,778 and $841,972 of interest.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE F – LONG-TERM OBLIGATIONS

The construction costs of the District's water facilities have been financed by issuance of revenue bonds authorized under Kentucky Revised Statutes and a short-term loan with Rural Development that was converted to permanent financing in 2010. All assets of the District are pledged as collateral for these bonds. Information relating to the outstanding bond issues is summarized below:

Issue	Interest Rate	Face Amount	Bonds Due 12/31/2011	Bonds Due 12/31/2010
2002 Series C	2.0% - 3.75%	$3,020,000	$1,180,000	$1,545,000
2003 Series	3.5% - 4.625%	4,485,000	3,365,000	3,525,000
2004 Series A	2.0% - 4.0%	2,940,000	2,245,000	2,355,000
2005 Series A	4.375%	2,990,000	2,815,000	2,853,000
2005 Series B	4.1%	1,775,000	1,435,000	1,560,000
2007 Series A	4.00%	2,480,000	2,452,000	2,480,000
2010 Series A	2.0% - 4.125%	5,625,000	5,485,000	5,625,000

On December 18, 2007, the District entered into an interim financing agreement with the Kentucky Rural Water Finance Corporation to borrow up to $2,480,000 for its Phase IV project. The loan initially carried an interest rate of 4.125%. The rate was changed to 3.7% in January 2009 and 2.9% in January 2010. The District borrowed $758,538 during 2010, $941,967 during 2009 and $171,802 during 2008. The loan was converted to the 2007A bond issue in 2010.

On July 28, 2010, the District issued $5,625,000 in Refunding Revenue Bonds with an average interest rate of 3.71 percent to advance refund $5,810,000 of outstanding 1999 Series A revenue bonds with an average interest rate of 4.63 percent. The refunding was an advance refunding. The net proceeds of $5,477,414 (after $147,586 in cost of issuance and bond discount which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to call the bonds on July 29, 2010.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $51,092. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2020 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 20 years by $918,727 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $535,029.

The District requires new customers to provide a $60 deposit for initial water service. Current customers in good standing who add additional service locations are not required to pay an additional deposit.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE F – LONG-TERM OBLIGATIONS (CONTINUED)

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Balance at December 31, 2010	Additions	Reductions	Balance at December 31, 2011	Amount Due Within One Year
Bonds and notes payable:					
Revenue bonds	$ 20,188,000	$ -	$ (1,211,000)	$ 18,977,000	$ 913,500
Notes payable	-	-	-	-	-
Total bonds and notes payable	20,188,000	-	(1,211,000)	18,977,000	913,500
Other liabilities:					
Customer deposits	274,825	21,005	(7,920)	287,910	28,791
Accrued vacation	79,229	82,600	(79,229)	82,600	82,600
Customer advances for construction	119,749	10,000	(96,499)	33,250	33,250
Total other liabilities	473,803	113,605	(183,648)	403,760	144,641
Long-term liabilities	$ 20,661,803	$ 113,605	$ (1,394,648)	$ 19,380,760	$ 1,058,141

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Balance at December 31, 2009	Additions	Reductions	Balance at December 31, 2010	Amount Due Within One Year
Bonds and notes payable:					
Revenue bonds	$ 20,000,000	$ 8,105,000	$ (7,917,000)	$ 20,188,000	$ 1,211,000
Notes payable	1,113,769	758,538	(1,872,307)	-	-
Total bonds and notes payable	21,113,769	8,863,538	(9,789,307)	20,188,000	1,211,000
Other liabilities:					
Customer deposits	448,932	71,073	(245,180)	274,825	27,482
Accrued vacation	65,985	13,244	-	79,229	7,923
Customer advances for construction	249,975	22,750	(152,976)	119,749	119,749
Total other liabilities	764,892	107,067	(398,156)	473,803	155,154
Long-term liabilities	$ 21,878,661	$ 8,970,605	$ (10,187,463)	$ 20,661,803	$ 1,366,154

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE F – LONG-TERM OBLIGATIONS (CONTINUED)

Bond maturities and Sinking Fund requirements in each of the next five years and in five year increments thereafter are as follows at December 31, 2011:

	Revenue Bonds		
Year	Principal	Interest	Totals
2012	$ 913,500	$ 723,274	$ 1,636,774
2013	946,500	692,695	1,639,195
2014	980,000	660,509	1,640,509
2015	593,000	634,691	1,227,691
2016	616,000	615,148	1,231,148
2017-2021	3,502,000	2,719,199	6,221,199
2022-2026	4,004,000	1,973,020	5,977,020
2027-2031	3,267,000	1,257,246	4,524,246
2032-2036	1,600,500	719,319	2,319,819
2037-2041	1,326,500	396,372	1,722,872
2042-2046	980,000	144,268	1,124,268
2047-2048	248,000	10,080	258,080
Total	$ 18,977,000	$ 10,545,821	$ 29,522,821

Year	Sinking Fund Requirements
2012	$ 1,636,774
2013	1,639,195
2014	1,640,509
2015	1,227,691
2016	1,231,148
2017-2021	6,221,199
2022-2026	5,977,020
2027-2031	4,524,246
2032-2036	2,319,819
2037-2041	1,722,872
2042-2046	1,124,268
2047-2048	258,080
Total	$ 29,522,821

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE F – LONG-TERM OBLIGATIONS (CONTINUED)

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented as follows:

Revenue Fund
All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond and Interest Redemption Funds
There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2002 Series C, 2003 Series, 2004 Series A, 2005 Series A and B issues, 2007 Series A and 2010 Series A.

Depreciation Fund
This fund receives, on a monthly basis, $18,700. This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

Operation and Maintenance Fund
This fund receives, on a monthly basis, sufficient amounts to pay current expenses from the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Bond and Interest Redemption Fund.

NOTE G - RETIREMENT PLAN

Plan Description - The District participates in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System's Board of Trustees. CERS provides benefits to its participants upon retirement. CERS issues a publicly available financial report that includes financial statements and required supplementary information for the retirement plan. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 502-564-4646.

Funding Policy - Plan members employed before September 1, 2008, are required to contribute 5% of their annual covered salary and those hired on or after September 1, 2008, are required to contribute 6% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The rates at December 31, 2011, 2010 and 2009 were 18.96%, 16.93% and 16.16% of covered payroll. The contribution requirements of the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended December 31, 2011, 2010 and 2009 were $327,116, $283,410, and $246,208. Employee contributions were $92,045, $86,210 and $81,071 and covered payroll was $1,815,074, $1,700,409 and $1,655,839. All payments were made to the retirement system in the amount of the annually required contributions.

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(CONCLUDED)

NOTE G - RETIREMENT PLAN (CONTINUED)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid By Insurance Fund	% Paid By Member Through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

NOTE H – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2011 and 2010:

Source	2011	2010
State of Kentucky	$ 143,432	$ 945,768
Federal Government	4,509	30,611
Tap Fees	154,800	275,400
Developers	380,081	174,048
Hardin County Fiscal Court	-	307,289
	$ 682,822	$ 1,733,116

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(CONCLUDED)

NOTE I – RENTAL AGREEMENTS

The District has entered into agreements to lease space on its water towers to various telephone customers. Rental income during the years ended December 31, 2011 and 2010 was $79,520 each year. The following schedule represents future payments to be received.

2012	$62,310
2013	24 840
Total	$87,150

NOTE J – COMMITMENTS

The District has entered into construction commitments toward its construction projects. Also, the District has received certain funding commitments from federal and state agencies for current and planned construction projects.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District was insured for workers' compensation, general liability and automobile liability coverage under a retrospectively rated commercial policy.

OTHER SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE I - BOND AND INTEREST REQUIREMENTS

DECEMBER 31, 2011

	$ 3,020,000 2002 SERIES C		$ 4,485,000 2003 SERIES A	
	BOND	INTEREST	BOND	INTEREST
2012	$ 380,000	$ 36,445	$ 75,000	$ 146,609
2013	395,000	22,396	80,000	143,703
2014	405,000	7,594	80,000	140,703
2015			85,000	137,609
2016			90,000	134,283
2017			95,000	130,650
2018			95,000	126,779
2019			100,000	122,733
2020			105,000	118,479
2021			110,000	114,018
2022			115,000	109,349
2023			120,000	104,263
2024			130,000	98,638
2025			135,000	92,675
2026			140,000	86,488
2027			145,000	80,075
2028			155,000	73,325
2029			165,000	66,022
2030			170,000	58,275
2031			180,000	50,181
2032			190,000	41,625
2033			200,000	32,606
2034			110,000	25,438
2035			115,000	20,234
2036			120,000	14,800
2037			125,000	9,134
2038			135,000	3,122
2039				
2040				
2041				
2042				
2043				
2044				
2045				
2046				
2047				
2048				
	$ 1,180,000	$ 66,435	$ 3,365,000	$ 2,281,816

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE I - BOND AND INTEREST REQUIREMENTS

DECEMBER 31, 2011

(CONTINUED)

	$ 2,940,000 2004 SERIES A		$ 2,990,000 2005 SERIES A		$ 1,775,000 2005 SERIES B	
	BOND	INTEREST	BOND	INTEREST	BOND	INTEREST
2012	$ 115,000	$ 82,420	$ 39,500	$ 123,156	$ 70,000	$ 57,400
2013	115,000	78,826	41,500	121,428	75,000	54,428
2014	125,000	74,926	43,000	119,612	80,000	51,250
2015	125,000	70,708	45,000	117,732	85,000	47,868
2016	135,000	66,158	47,000	115,762	85,000	44,383
2017	145,000	61,113	49,000	113,706	90,000	40,795
2018	155,000	55,563	51,000	111,562	95,000	37,003
2019	160,000	49,575	53,500	109,332	105,000	32,903
2020	170,000	43,140	56,000	106,990	105,000	28,598
2021	175,000	36,413	58,500	104,540	115,000	24,088
2022	190,000	29,200	61,000	101,982	120,000	19,270
2023	200,000	21,400	63,500	99,312	130,000	14,145
2024	215,000	13,100	66,500	96,534	135,000	8,713
2025	220,000	4,400	69,000	93,626	145,000	2,973
2026			72,000	91,006		
2027			75,500	87,456		
2028			78,500	84,154		
2029			82,000	80,718		
2030			85,500	77,132		
2031			89,500	73,390		
2032			93,500	69,476		
2033			97,500	65,384		
2034			101,500	61,118		
2035			106,000	56,678		
2036			111,000	52,040		
2037			115,500	47,184		
2038			120,500	42,132		
2039			126,000	36,860		
2040			131,500	31,346		
2041			137,000	25,594		
2042			143,000	19,600		
2043			149,500	13,344		
2044			155,500	6,804		
2045						
2046						
2047						
2048						
	$ 2,245,000	$ 686,942	$ 2,815,000	$ 2,556,690	$ 1,435,000	$ 463,817

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE I - BOND AND INTEREST REQUIREMENTS

DECEMBER 31, 2011

(CONTINUED)

	$ 2,480,000 2007 SERIES A		$ 5,625,000 2010 SERIES A	
	BOND	INTEREST	BOND	INTEREST
2012	$ 29,000	$ 97,500	$ 205,000	$ 179,744
2013	30,000	96,320	210,000	175,594
2014	32,000	95,080	215,000	171,344
2015	33,000	93,780	220,000	166,994
2016	34,000	92,440	225,000	162,122
2017	36,000	91,040	230,000	156,288
2018	37,000	89,580	235,000	149,894
2019	39,000	88,060	245,000	142,987
2020	40,000	86,480	250,000	135,250
2021	42,000	84,840	260,000	126,800
2022	44,000	83,120	265,000	117,940
2023	46,000	81,320	275,000	108,656
2024	47,000	79,460	290,000	98,588
2025	49,000	77,540	300,000	87,707
2026	51,000	75,540	310,000	76,075
2027	54,000	73,440	325,000	63,772
2028	56,000	71,240	340,000	50,676
2029	58,000	68,960	345,000	36,976
2030	60,000	66,600	360,000	22,876
2031	63,000	64,140	380,000	7,838
2032	66,000	61,560		
2033	68,000	58,880		
2034	71,000	56,100		
2035	74,000	53,200		
2036	77,000	50,180		
2037	80,000	47,040		
2038	84,000	43,760		
2039	87,000	40,340		
2040	91,000	36,780		
2041	94,000	33,080		
2042	98,000	29,240		
2043	102,000	25,240		
2044	106,000	21,080		
2045	111,000	16,740		
2046	115,000	12,220		
2047	120,000	7,520		
2048	128,000	2,560		
	$ 2,452,000	$ 2,252,000	$ 5,485,000	$ 2,238,121

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE I - BOND AND INTEREST REQUIREMENTS

DECEMBER 31, 2011

(CONCLUDED)

	TOTAL ALL ISSUES	
	BOND	INTEREST
2012	$ 913,500	$ 723,274
2013	946,500	692,695
2014	980,000	660,509
2015	593,000	634,691
2016	616,000	615,148
2017	645,000	593,592
2018	668,000	570,381
2019	702,500	545,590
2020	726,000	518,937
2021	760,500	490,699
2022	795,000	460,861
2023	834,500	429,096
2024	883,500	395,033
2025	918,000	358,921
2026	573,000	329,109
2027	599,500	304,743
2028	629,500	279,395
2029	650,000	252,676
2030	675,500	224,883
2031	712,500	195,549
2032	349,500	172,661
2033	365,500	156,870
2034	282,500	142,656
2035	295,000	130,112
2036	308,000	117,020
2037	320,500	103,358
2038	339,500	89,014
2039	213,000	77,200
2040	222,500	68,126
2041	231,000	58,674
2042	241,000	48,840
2043	251,500	38,584
2044	261,500	27,884
2045	111,000	16,740
2046	115,000	12,220
2047	120,000	7,520
2048	128,000	2,560
	$ 18,977,000	$ 10,545,821

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Salaries	$ 700,591	$ 645,457
Commissioner's salaries	30,250	30,250
Employee benefits	416,297	399,008
Materials and supplies	48,860	70,319
Professional fees	18,500	20,995
Insurance	69,562	102,542
Advertising	1,885	674
Provision for bad debts	15,065	74,917
Other general and administrative	251,821	348,757
	$ 1,552,831	$ 1,692,919

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2011

WATER COMMISSIONERS

Michael Bell - Chairman
Morris Miller - Secretary/Treasurer
Cordell Tabb - Member
John Effinger - Member
Tim Davis - Member

ATTORNEY

Damon R. Talley - Hodgenville, Kentucky

GENERAL MANAGER

James Jeffries

CALENDAR YEAR

January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA

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PHILIP A. LOGSDON, CPA
J. ALTON PIKE, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTINGAND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Hardin County Water District No. 2
Elizabethtown, Kentucky

We have audited the financial statements of the Hardin County Water District No. 2, as of and for the year ended December 31, 2011, and have issued our report thereon dated February 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hardin County Water District No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hardin County Water District No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not define any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2011-01 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin County Water District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Hardin County Water District No. 2's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Hardin County Water District No. 2's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the commissioners, management, federal agencies, and the Kentucky Public Service Commission and is not intended to be and should not be used by anyone other than those specified parties.

Stiles, Carter & Associates

Certified Public Accountants
February 20, 2012

SCHEDULE OF FINDINGS AND RESPONSES

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

SIGNIFICANT DEFICIENCIES

REFERENCE NUMBER 2011-01 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that significant adjustments were not identified by the District's internal control.

Cause: The District did not make all necessary adjustments when closing the year.

Effect: The financial statements required adjustment of significant items.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Management Response: Management will improve operations to ensure that necessary adjustments are made in accordance with the normal closing process.

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APPENDIX D

HARDIN COUNTY WATER DISTRICT NO. 2
WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2012A

Form of Bond Counsel Opinion

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Upon delivery of the 2012A Bonds, Stoll Keenon Ogden PLLC, Bond Counsel to the District, proposes to issue its approving opinion in substantially the following form, dated the date of such delivery.

STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

October __, 2012

Re: $6,070,000 Hardin County Water District No. 2, Water System Refunding Revenue Bonds, Series 2012A

We have examined executed, certified or otherwise authenticated copies of proceedings of the Commission of the Hardin County Water District No. 2, Hardin and Larue Counties, Kentucky (the "District"), in respect of the authorization and issuance of $6,070,000 Hardin County Water District No. 2, Water System Refunding Revenue Bonds, Series 2012A, dated the date of issuance (the "Bonds"), consisting of fully registered bonds in the denominations of $5,000 or integral multiples thereof, maturing on January 1 of the respective years and bearing interest to maturity payable on each January 1 and July 1, beginning January 1, 2013, as shown in the following schedule:

Maturity January 1	Principal Amount	Interest Rate	Maturity January 1	Principal Amount	Interest Rate
2013	$215,000	1.000	2024	$230,000	2.500
2014	180,000	2.000	2025	235,000	2.500
2015	185,000	2.000	2026	245,000	2.750
2016	190,000	2.000	2027	245,000	2.750
2017	195,000	2.000	2028	255,000	2.750
2018	195,000	2.000	2029	265,000	2.750
2019	200,000	2.000	2030	270,000	3.000
2020	205,000	2.125	2032*	575,000	3.250
2021	210,000	2.250	2035*	730,000	3.500
2022	215,000	2.375	2040*	810,000	3.750
2023	220,000	2.375			

*Term Bonds subject to mandatory sinking fund redemption as set forth in the text of each 2012A Bond.

provided, however, that the Bonds maturing on and after January 1, 2024, are subject to redemption before stated maturity at the option of the District on January 1, 2023, and on any date thereafter, subject to notice as set forth in the text of each Bond. In expressing the opinions set forth below, we have relied on such proceedings, including without limitation the duly adopted resolutions and other official action of the District authorizing and providing for the sale and issuance of the Bonds (collectively the "Resolution"), certifications and representations of officials of the District as to certain facts and expectations and the opinion of counsel for the District as to certain legal matters. We have been furnished a certificate of an authorized officer of the Paying Agent and Bond Registrar (identified in the text of each Bond) acknowledging authentication by the Paying Agent and Bond Registrar of the Bonds and have examined the form of Bond and find it to be in due form of law.

Based upon our examination of the described proceedings, it is our opinion that the Bonds constitute valid special and limited obligations of the District according to their terms and applicable provisions of Kentucky law and that the Bonds, together with bonds ranking on a parity therewith that have been issued and are outstanding and any additional parity bonds that may be issued and outstanding under the conditions and restrictions set forth in the Resolution, are payable as to both principal and interest only from, and are secured by a pledge of a fixed portion of, the revenues to be derived from the operation of the District's water system, a sufficient portion of which revenues has been ordered set aside and pledged to the payment of the interest on and principal of the Bonds and such parity bonds when due.

Further, based on existing laws as construed and applied at the date hereof, and assuming the accuracy of certain representations and warranties of the District made in connection with the issuance of the Bonds, it is our opinion that interest on the Bonds (a) is excluded from gross income for federal and Kentucky income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in the preceding sentence are subject to the conditions that the representations and warranties of the District referred to above are accurate and that the District complies with all requirements of the United States Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be excluded from gross income for federal income tax purposes. The District has covenanted to comply with such requirements. Failure to comply with certain of such requirements, or a determination that certain of such representations and warranties are inaccurate, could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal and Kentucky income tax consequences arising with respect to the Bonds.

The Bonds have been designated by the District as "qualified tax exempt obligations" within the meaning of Section 265(b)(3) of the Code. In the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Code), a deduction is presently allowed for 80% of that portion of such a financial institution's interest expense that is allocable to interest on such "qualified tax exempt obligations."

It is also our opinion that the Bonds are exempt from *ad valorem* taxation by the Commonwealth of Kentucky and its political subdivisions.

With respect to the opinions expressed herein, (a) the rights and obligations under the Bonds and the Resolution are subject to bankruptcy, insolvency and other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought, and (b) we are passing on only those matters set forth in such opinions and are not passing on the investment quality of the Bonds or the accuracy or completeness of any statements made or data furnished in connection with any sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

By: ________________________________

Mark S. Franklin