

## Kentucky-American Water Company Presentation to Owenton City Council

December 3, 2002 (7:30 PM)

### Agenda

1. In August 2002, the City Council voted to enter into formal negotiations with Kentucky-American Water Company. We are now developing proposals for presentation to the Council in February 2003.

We will present two options:

#### **Purchase water and sewer systems**

##### Advantages:

- Solves immediate water quality needs to be in compliance with health-based regulations
- All liabilities and risks of future operation are transferred from the city to Kentucky-American
- Purchase will provide cash to reinvest in the system or for use for other city needs
- Future capital needs are funded by Kentucky-American
- All future rate increases (if any) are the responsibility of Kentucky-American and will be subject to PSC approval
- The Owenton system will be part of one of the world's largest water and wastewater systems

##### Disadvantages:

- Does not meet the desire of some City Council members to retain control of the systems
- Process may take longer to complete

#### **Public/Private Partnership for both systems**

##### Advantages:

- Solves immediate water quality needs to be in compliance with health-based regulations
- Addresses concern of some City Council members of selling city assets
- The Owenton system will be part of one of the world's largest water and wastewater systems
- Faster process to completion
- Some capital needs met by Kentucky-American

##### Disadvantages:

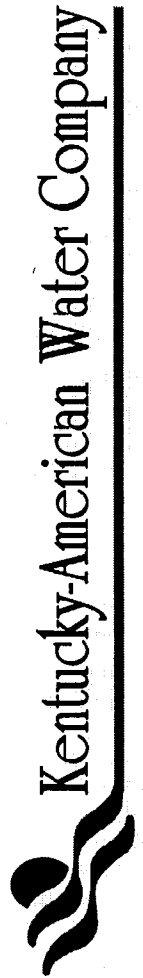
- Liabilities and risks of future operations continue to rest with city
- No immediate cash from sale of assets
- City is responsible for some future capital needs
- City is responsible for future rate increases (if any)

#### 2. Present and Future Water Quality Issues

- a. Jan Routh Presentation addressing compliance with health-based regulations
- b. Estimated cost of construction to solve immediate need to be in compliance with health-based regulations:
  - Intake - \$800,000 (\$500,000 met with grants)
  - Raw Water Main - \$200,000 (Includes replacement of approximately 4,000' of main)

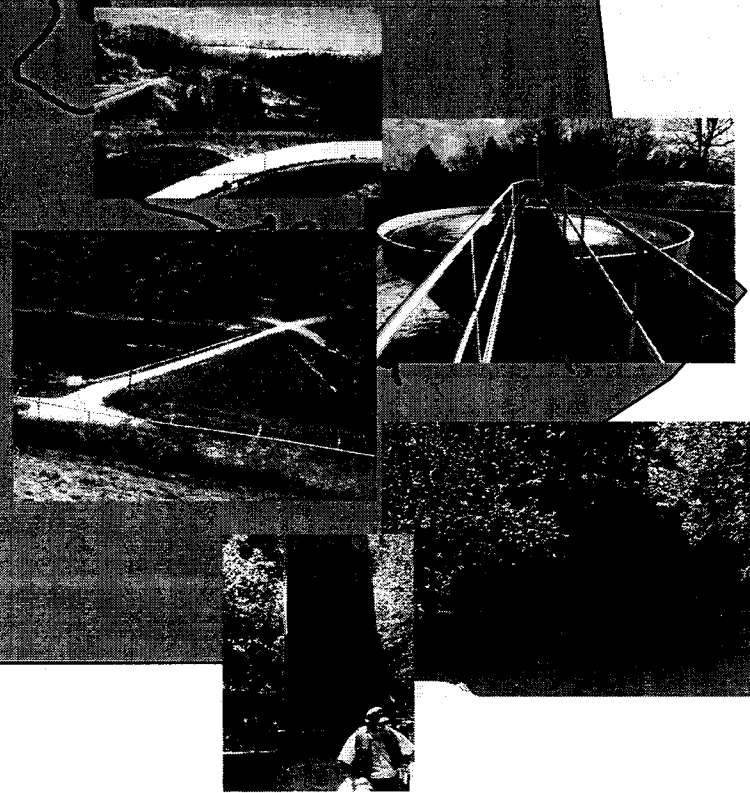
#### 3. Questions

# A Team Approach to Improving Water Quality in Owenton and Trivillage



***Purchaser:*** TriVillage  
water purchased  
via two master meters;  
must rechlorinate

***Supplier:*** Owenton  
conventional treatment  
facility, Reservoir source  
supplemented from Ky.  
River backwater tributary



JAMES E. BICKFORD  
SECRETARY



PAUL E. PATTON  
GOVERNOR

COMMONWEALTH OF KENTUCKY  
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
DEPARTMENT FOR ENVIRONMENTAL PROTECTION  
FRANKFORT OFFICE PARK  
14 REILLY RD  
FRANKFORT KY 40601

July 29, 1999

0940430  
Attn: Carol Tudor  
Tri-Village Water District  
3700 Hwy 127 N  
Owenton KY 40359

Certified Mail # Z 258 072 639  
RETURN RECEIPT REQUESTED

Dear Ms. Tudor:

A survey of our records indicates that your water system is in violation of the  
Kentucky Public and Semipublic Water Supplies Regulations 401 KAR 8:500.

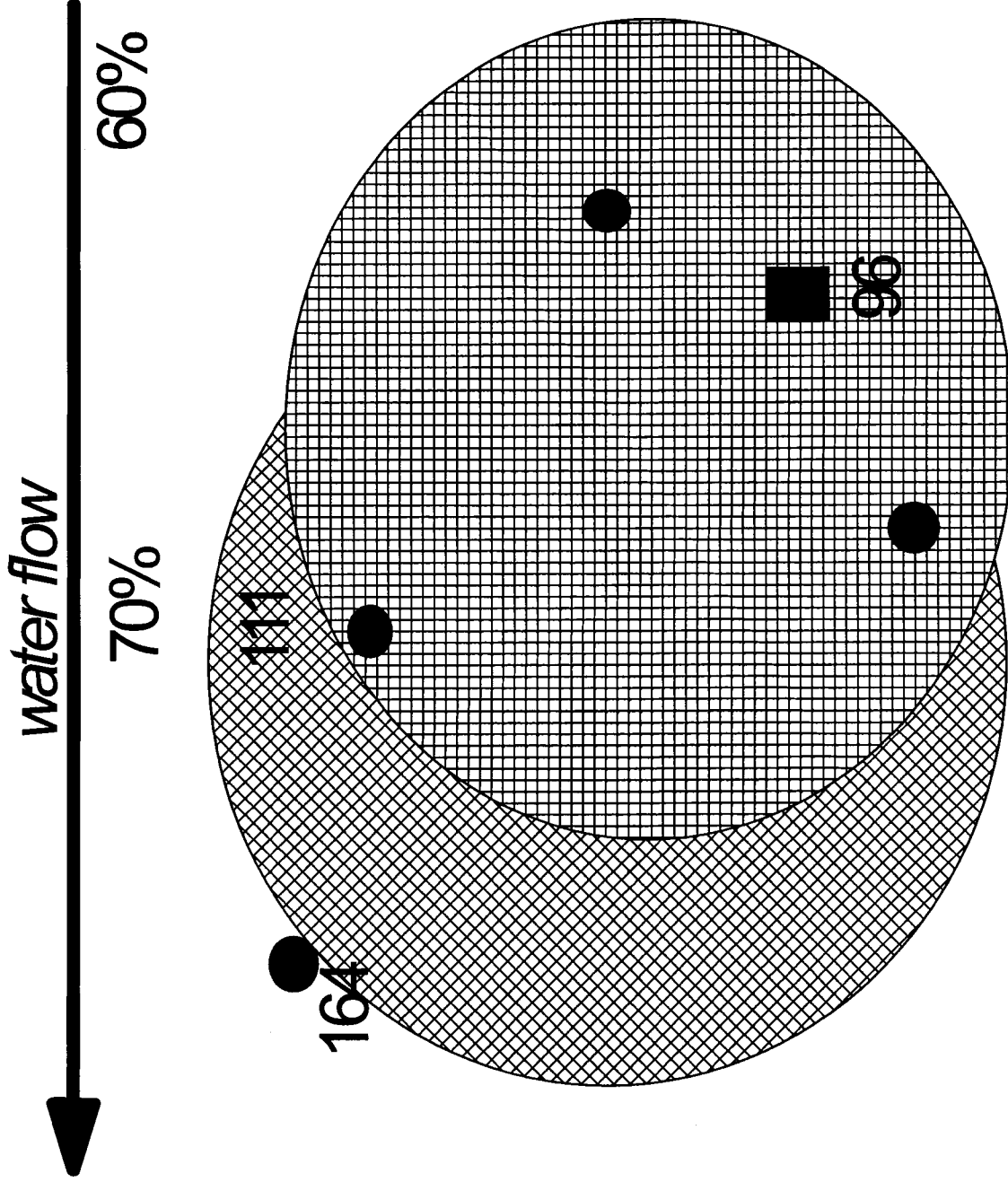
Specifically, the maximum contaminant level for lead is 0.01 mg/l.

A survey of our records indicates that your water system is in violation of the Kentucky Public and Semipublic Water Supplies Regulations 401 KAR 8:500. Specifically, the maximum contaminant level for total trihalomethanes was exceeded in representative water analyses during the reporting period of April 1 through June 30, 1999. The maximum contaminant level for trihalomethanes is 0.10 mg/l as calculated on a four quarter average. Your latest four quarter average is 0.13 mg/l.

Owenton City Water Works will be required to issue public notification on your behalf pursuant to Section 1 (3) of 401 KAR 8:500 which states:

*Any system determined by the Cabinet to be the major contributor to violations of maximum contaminant levels for total trihalomethanes shall notify the public as provided by 401 KAR 8:070.*

The Tri-Village Water District and Owenton City Water Works should both immediately initiate the necessary corrective actions to reduce the total trihalomethane levels to acceptable limits. ~~Since your system must booster chlorinate to maintain an~~ acceptable disinfectant residual throughout the distribution system, a cooperative effort between systems is essential.

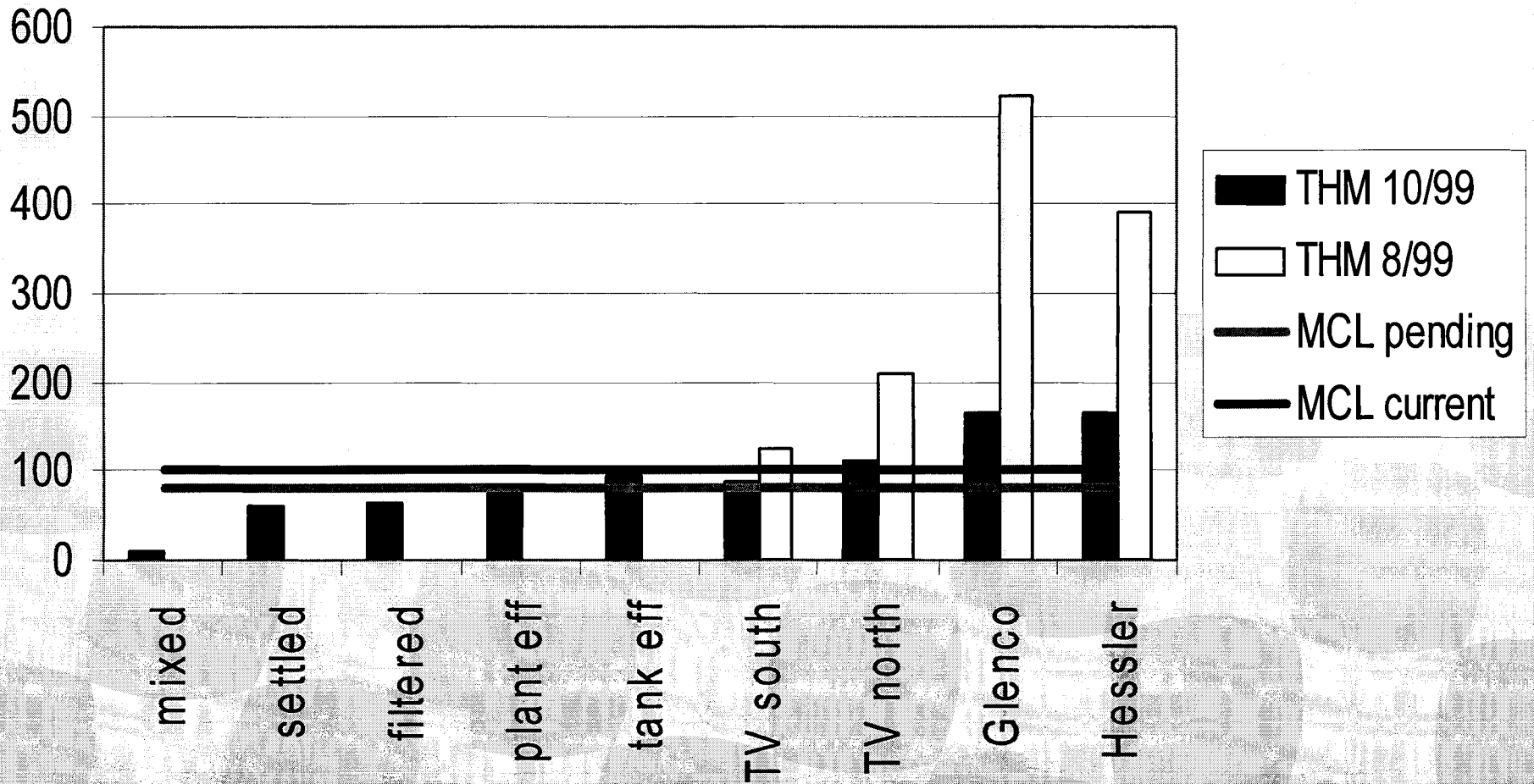


TriVillage

Owenton

- THM/HAA compliance = average of four sites per "joint" (or combined) system

# Studies of THM Formation through Treatment Plant and Distribution System



**TOC** + **chlorine** = **DBP's**

Total Organic Carbon or natural organic substances (decayed vegetation & algae)

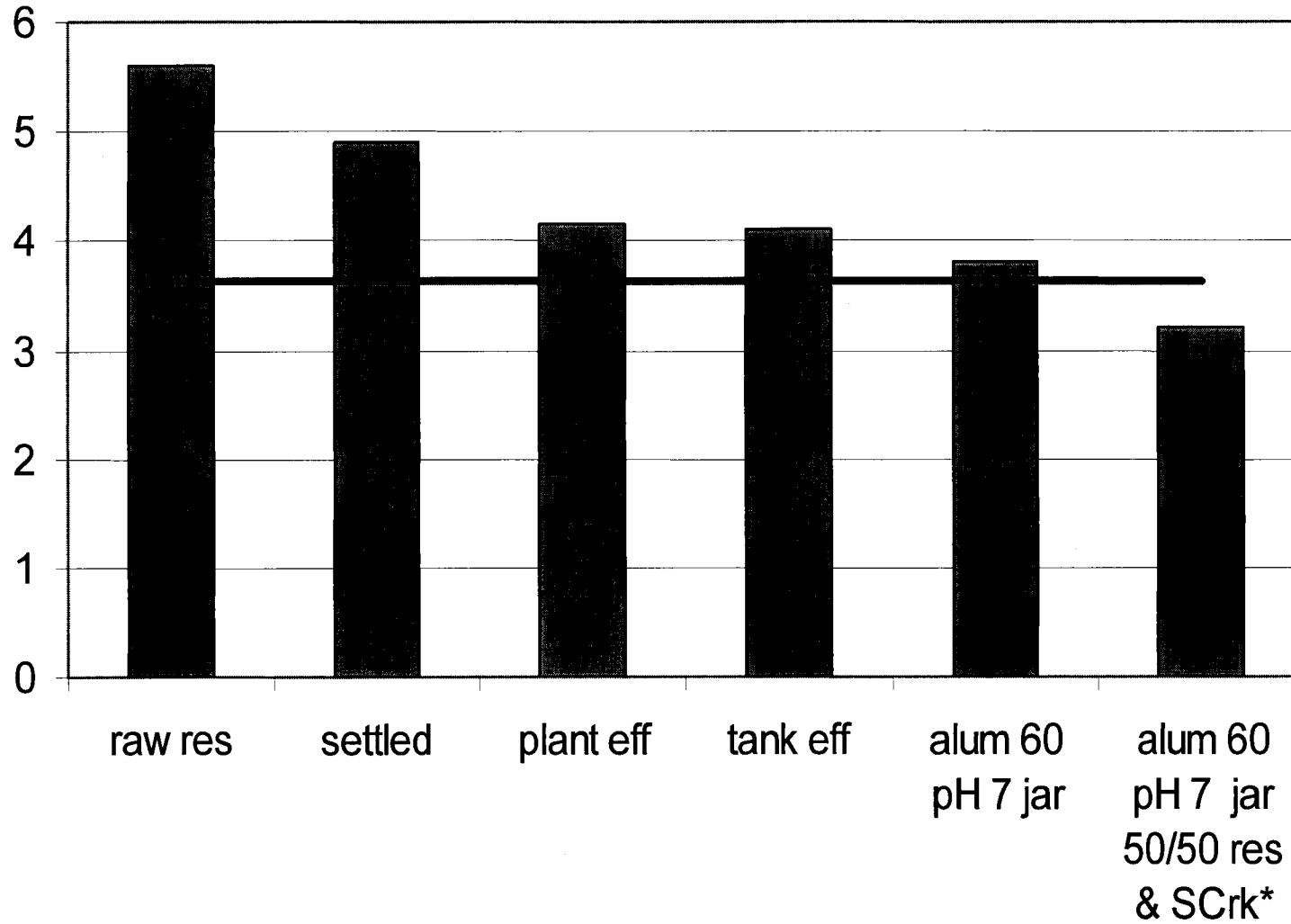
disinfectant to kill harmful bacteria, viruses, & protozoa

disinfection byproducts (THM's & HAA's)





## Studies of the Treatment Process Owenton Plant TOC removal fall 99



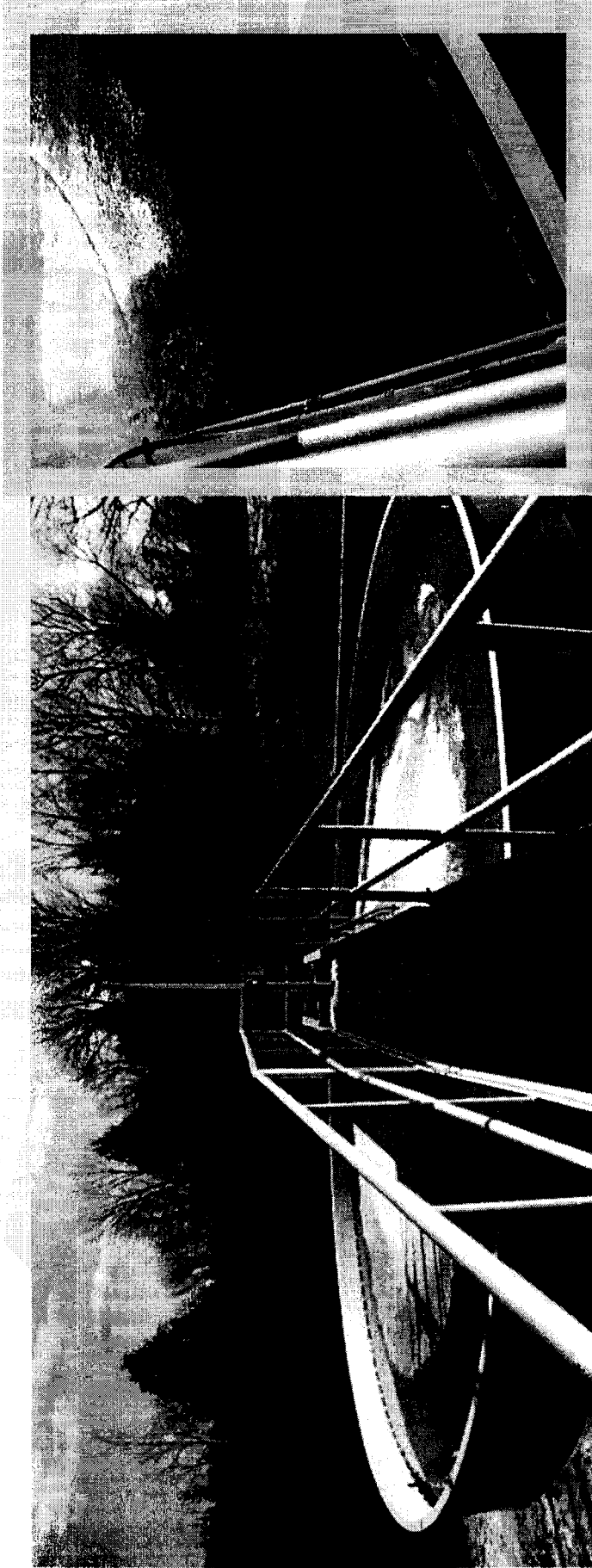
**compared to enhanced Jars**

# Studies to characterize Source water quality

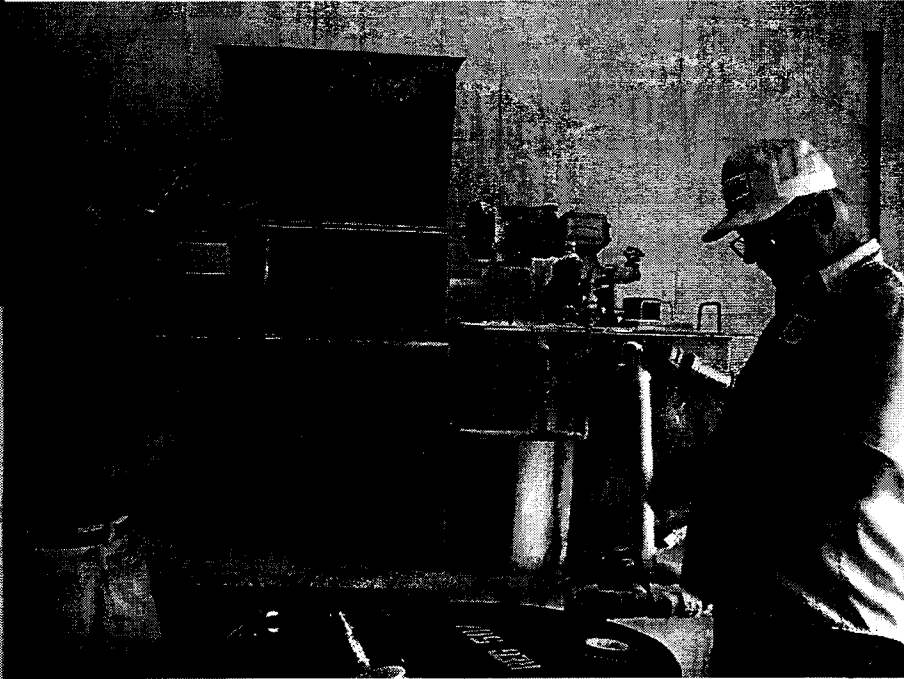
| Sample location      | River # 2 | Thomas Lake | Severn Creek |
|----------------------|-----------|-------------|--------------|
| TOC (mg/L)           | 2.58      | 6.57        | 6.05         |
| DOC (mg/L)           | 2.5       | 6.05        | 5.94         |
| UV-254               | 0.046     | 0.126       | 0.14         |
| SUVA                 | 1.84      | 2.07        | 2.24         |
| Ammonia              | 0.008     | 0.014       | 0.012        |
| TKN                  | 0.3       | 1.1         | 1.4          |
| Phosphate            | 0.25      | 0.21        | 0.41         |
| Alkalinity           | 60        | 131         | 135          |
| Total                | 10        | 335         | 940          |
| Coliform/100mL       |           |             |              |
| Fecal coliform/100mL | 4         | 181         | 733          |
| Fecal Strep/100mL    | 5         | 782         | 1504         |
| HPC/mL               | 90        | 121         | 162          |
| Giardia/100L         | 89.39     | 42.55       | 49.5         |
| Crypto/100L          | <42.9     | <42.55      | <49.5        |



# Enhanced coagulation operation challenge = single, solids-contact, upflow clarifier (*Claricone*)



# Lab tests to support treatment



Caustic

Usage Ta

Inches

1

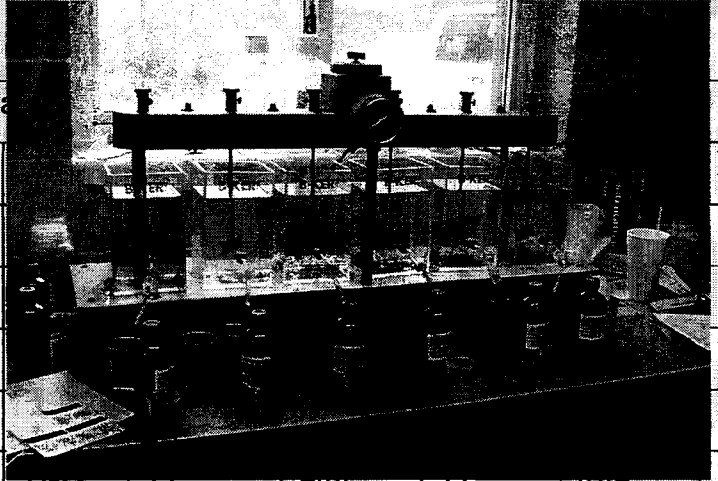
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3

4

5

6



Inc

19

20

21

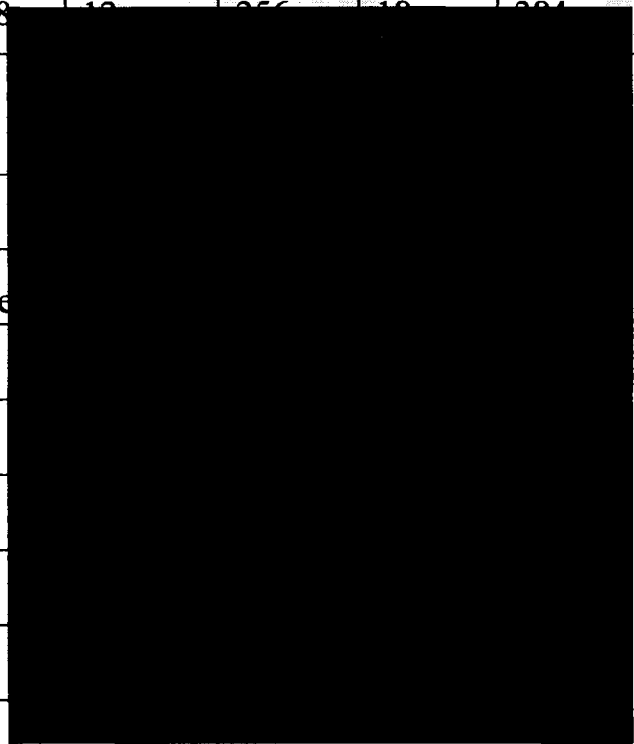
22

23

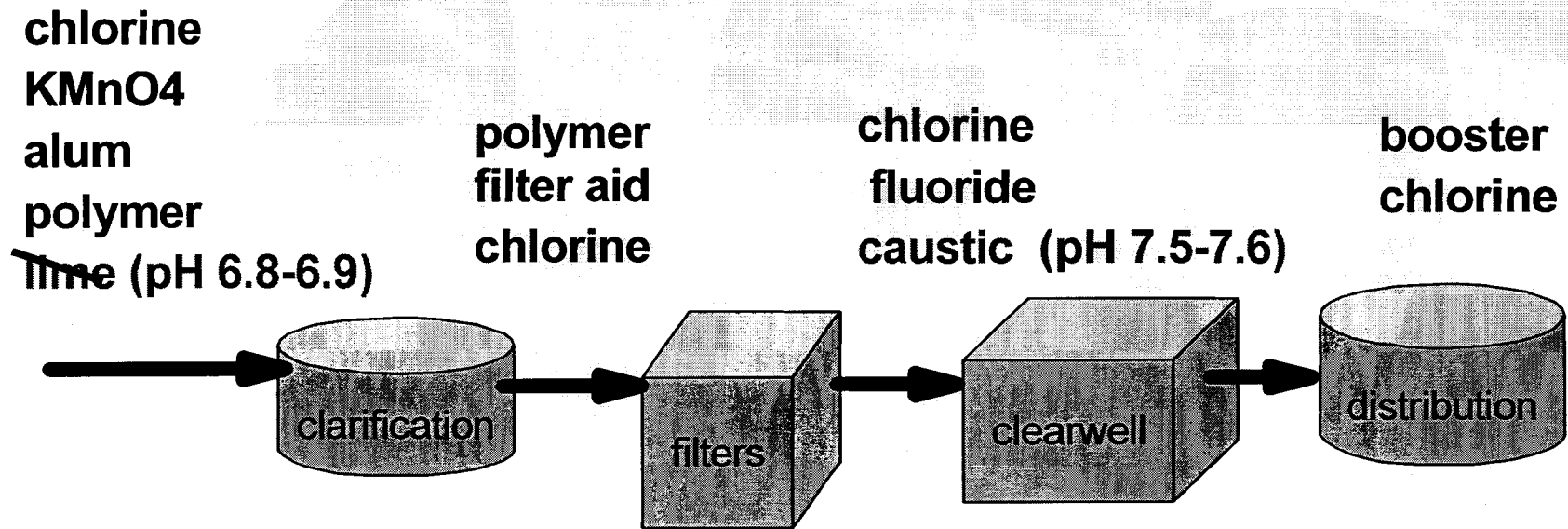
24

| Flow Rate →  | 770 gpm  | 810 gpm | 850 gpm |
|--------------|----------|---------|---------|
| mg/L desired | mL/min n |         |         |
| 35           | 190      |         |         |
| 40           | 218      |         |         |
| 45           | 245      |         |         |
| 50           | 272      |         |         |
| 55           | 298      | 313     | 328     |

**Revised  
operating  
procedures**



Step one: lower treatment pH, increase alum, convert to post caustic

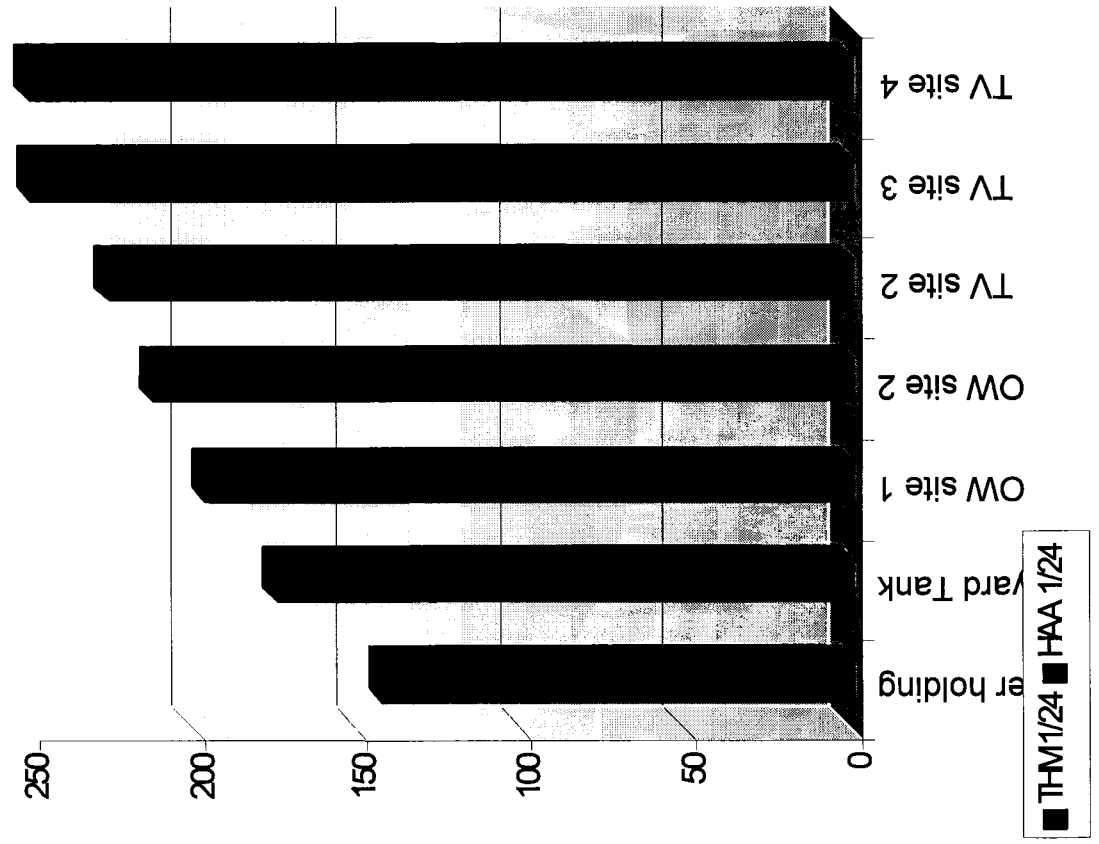


|       |     |   |                        |
|-------|-----|---|------------------------|
| TOC   | 6.1 | → | 3.0 mg/L (51% removal) |
| THM's |     | → | 72 ug/L → 79 ug/L(93)  |
| HAA's |     | → | 46 ug/L → 49 ug/L(82)  |

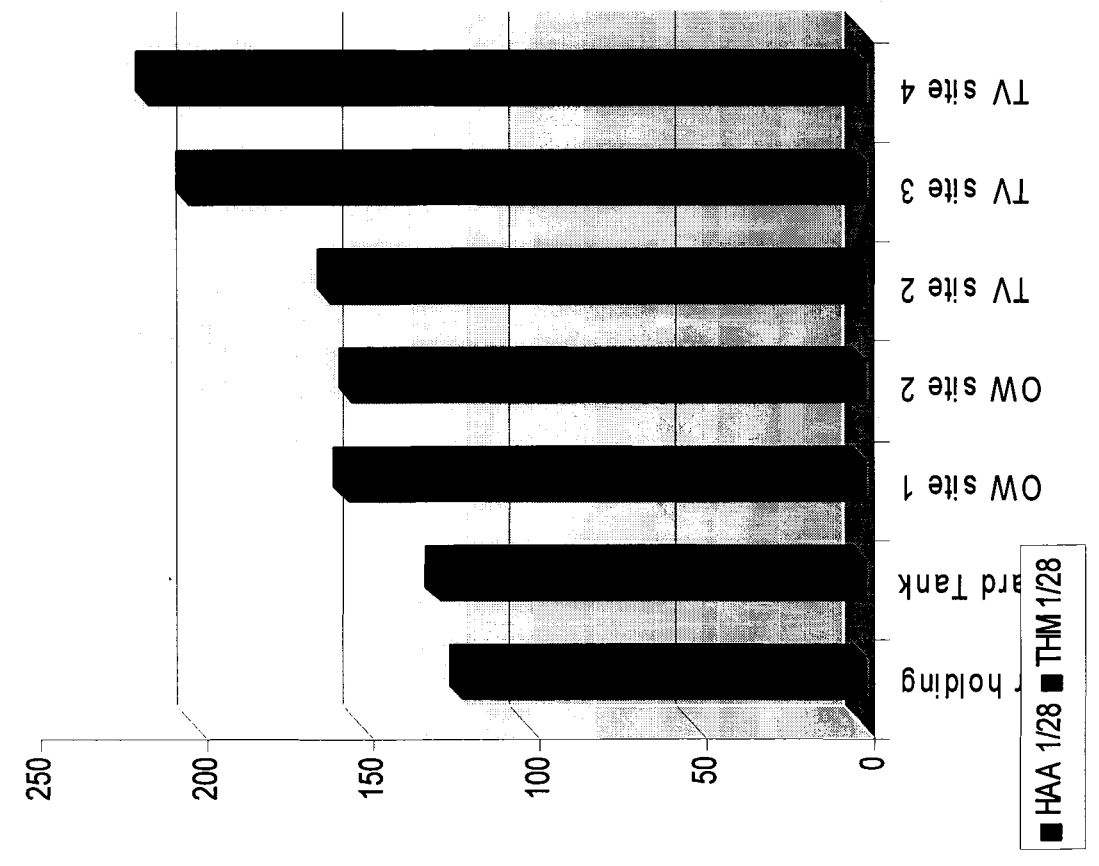
....after step one (Jan 28th & Feb15th, 2000).

# DBP's before & after alum enhancing

January 2000 before alum enhancing



January 2000 after alum enhancing



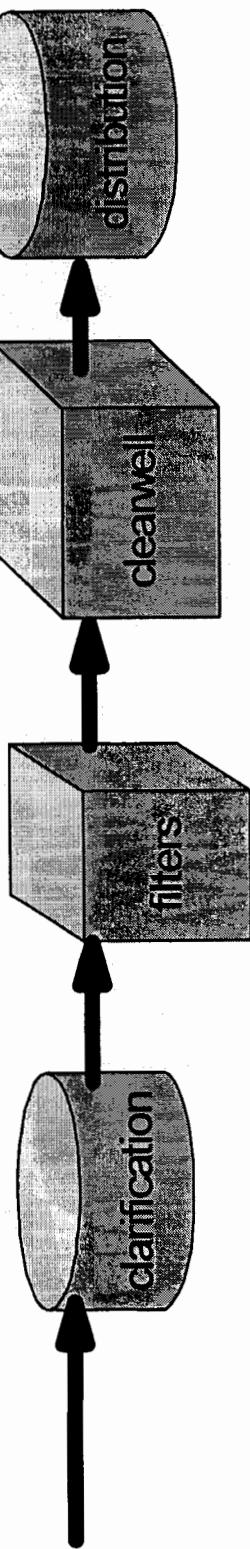
# Step two: move pre-chlorine to after clarification

~~chlorine~~  
KMnO4  
ferric chloride  
polymer  
(pH 6.9)

chlorine  
fluoride  
caustic (pH 7.5-7.6)

polymer  
filter aid  
chlorine

booster  
chlorine

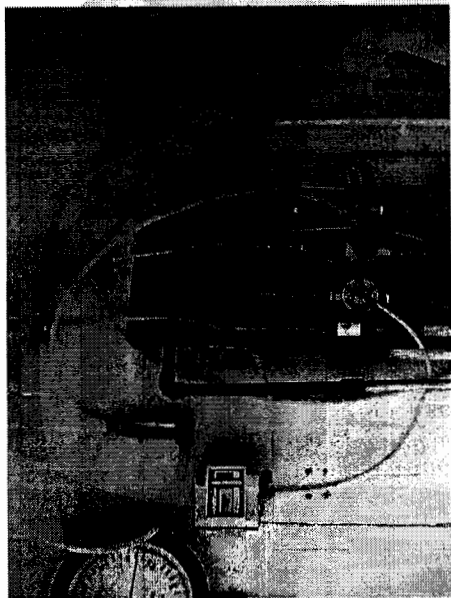


TOC 6.9 → 3.6 (47% removal)

THM's 36 ug/L → 59 ug/L

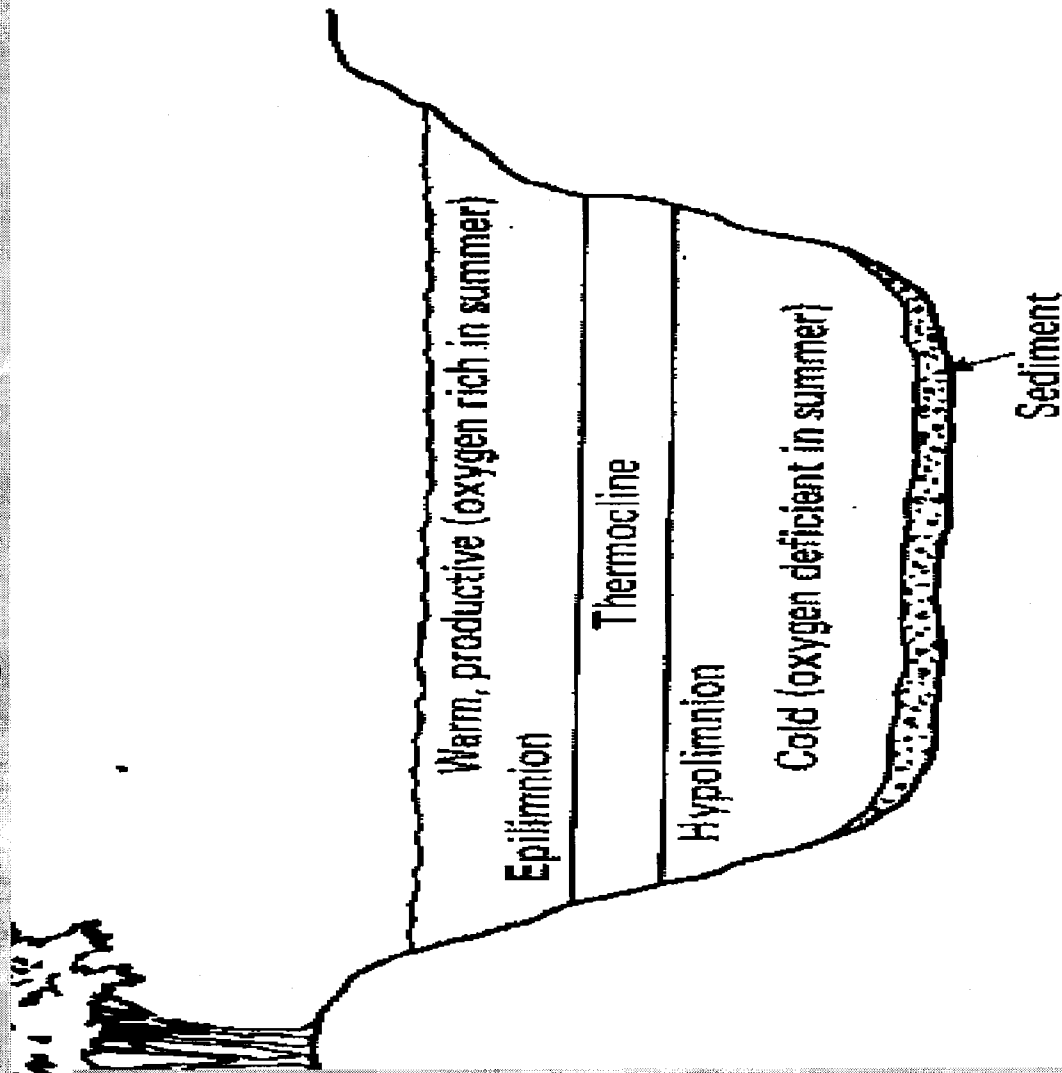
HAA's 23 ug/L → 41 ug/L

~ after step two changes (July 2000)



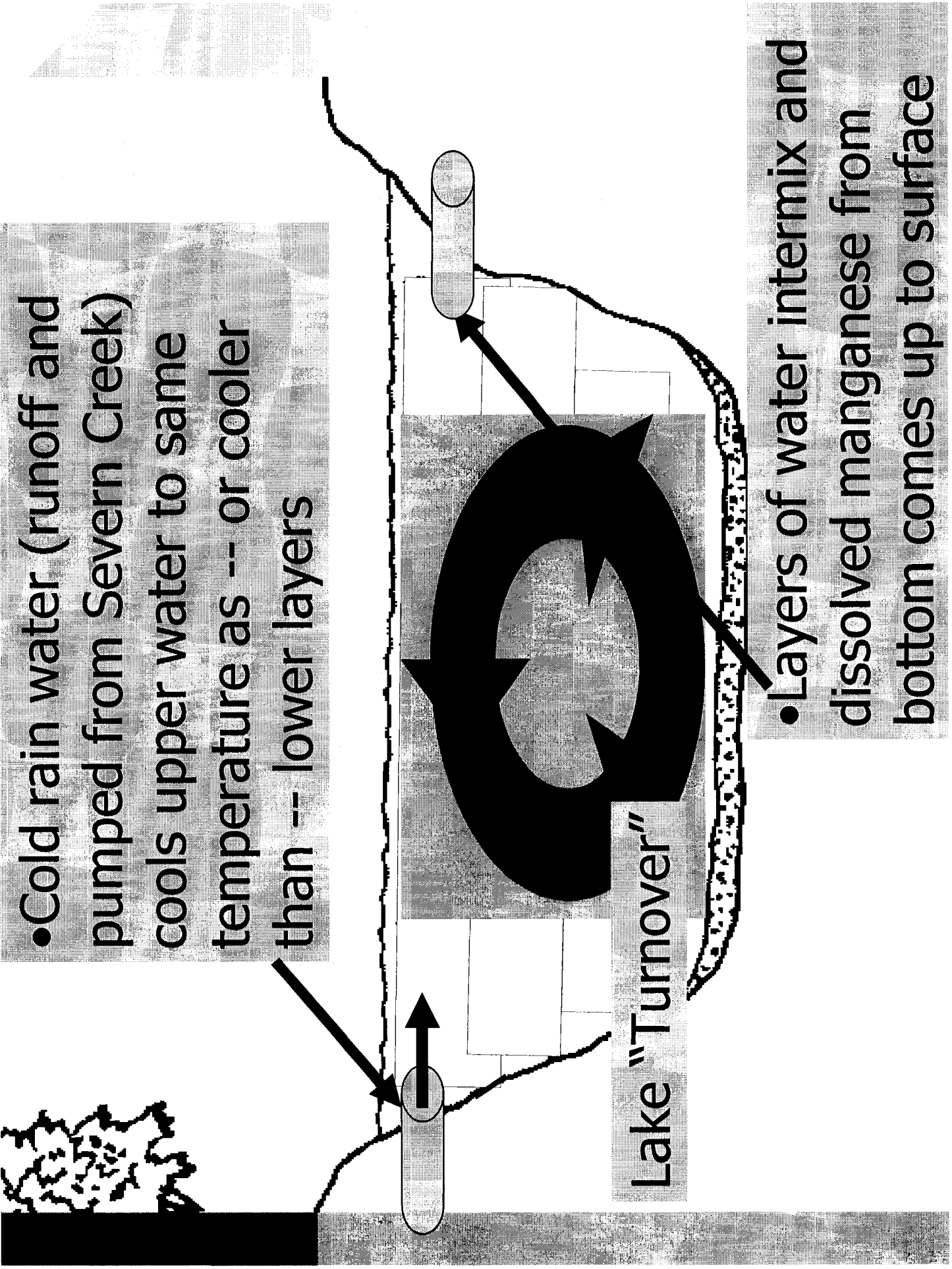
• Natural cycles in lakes, reservoirs, (deep, slow-moving or standing water)

- Algae grow in top (need light & produce oxygen)
- Algae die off and sink to bottom
- Bacteria degrade and deplete oxygen & water becomes more acidic (low pH)
- Manganese from sediment dissolves in acidic water





• Cold rain water (runoff and pumped from Severn Creek) cools upper water to same temperature as -- or cooler than -- lower layers

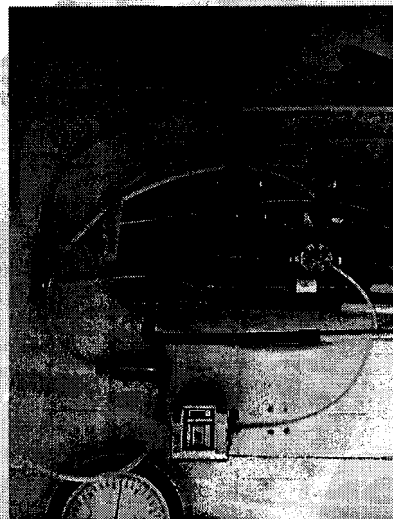


Lake "Turnover"

• Layers of water intermix and dissolved manganese from bottom comes up to surface

# Step three: manganese oxidation challenges

(>0.05 mg/L = yellow,  
>0.01mg/L = gradual build-up in system)



chlorine ~ 1.5 ppm dose

KMnO4

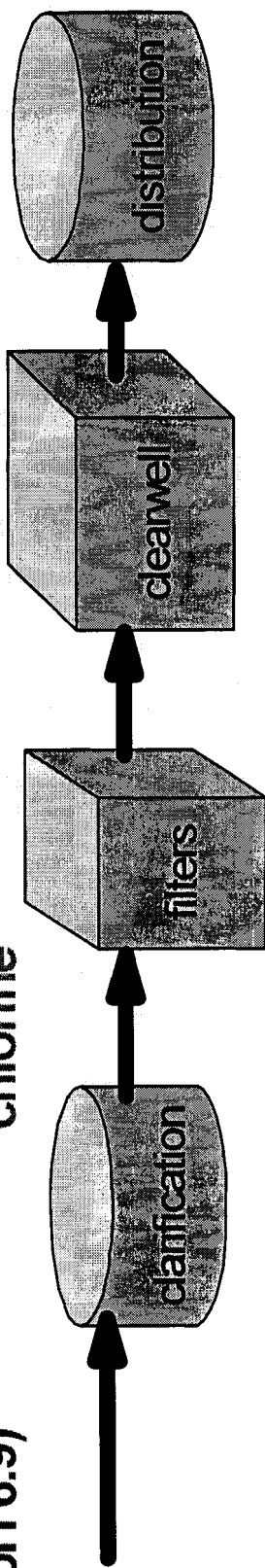
chlorine  
fluoride

ferric chloride

polymer  
filter aid  
chlorine

caustic (pH 7.5-7.6)

booster  
chlorine

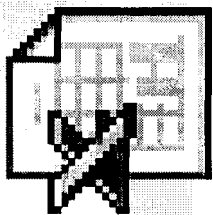


Mn 0.22mg/L → 0.1mg/L 0.02mg/L

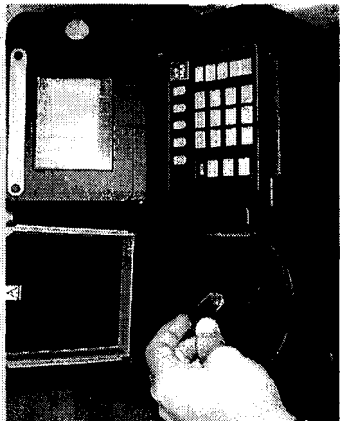
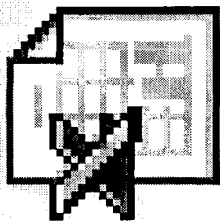
THM's 65 ug/L → 78 ug/L

Aug 2001

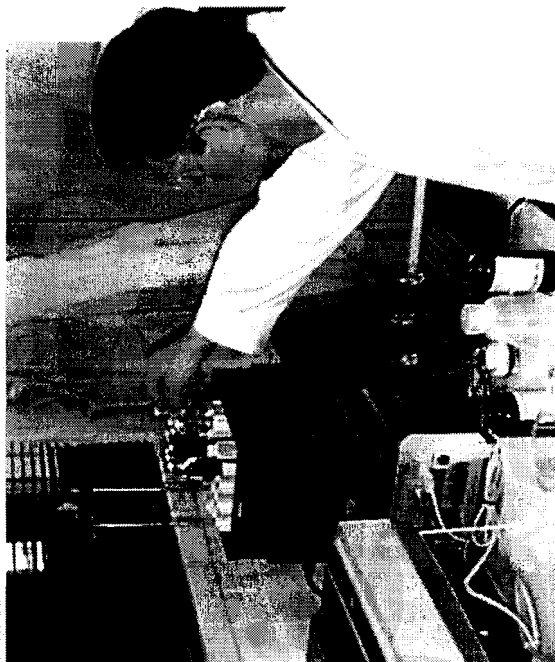
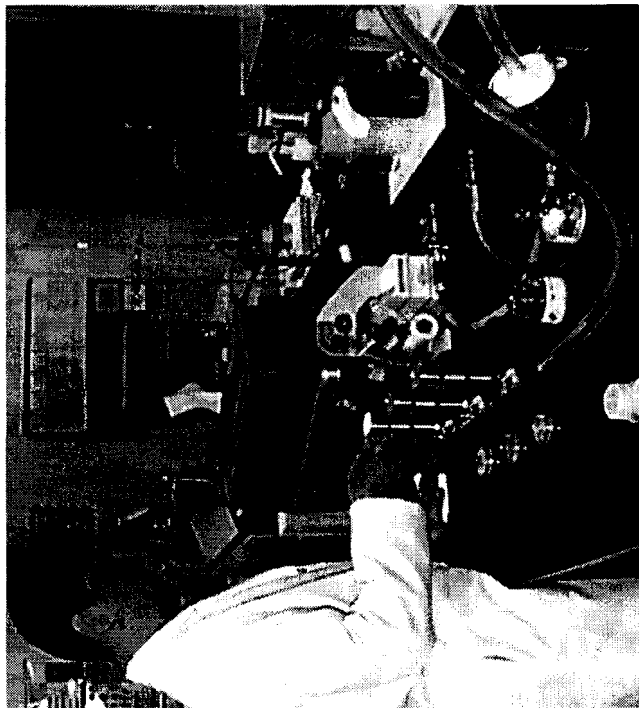
# •State-required Testing for Owenton and TriVillage performed and submitted by KAWC



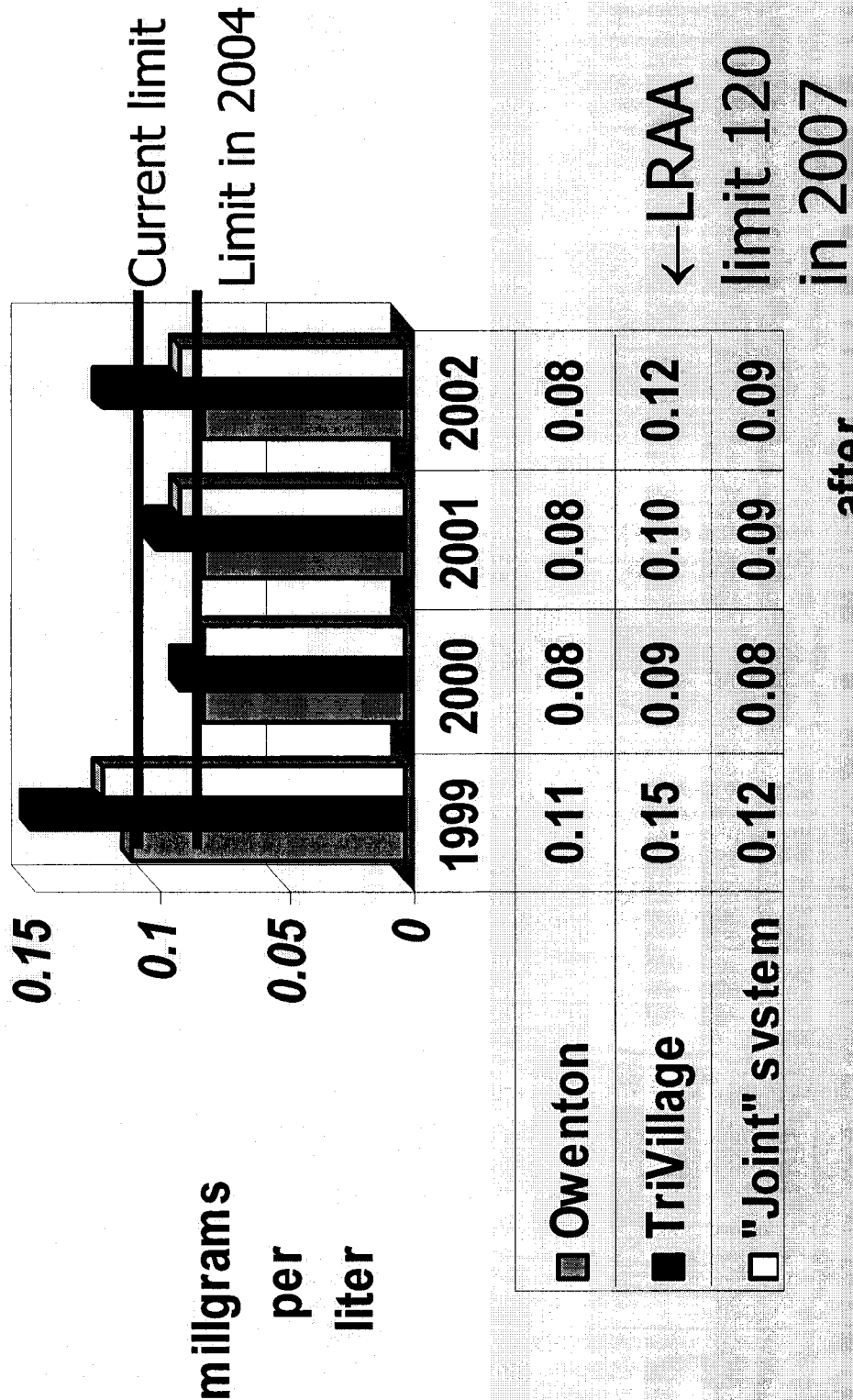
Microbiological related data



TOC and THM related data



# Distribution Trihalomethanes



after  
changes ->

• Goal for future: No more violations.  
• need additional changes to

meet 2004 regulations  
(New intake, upgrade pumps & transmission main to plant)

To plant



PAUL E. PATTON  
GOVERNOR



COMMONWEALTH OF KENTUCKY  
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
DEPARTMENT FOR ENVIRONMENTAL PROTECTION  
FRANKFORT OFFICE PARK  
14 REILLY RD  
FRANKFORT KY 40601

July 29, 1999

0940430  
Attn: Carol Tudor  
Tri-Village Water District  
3748 Hwy 127 N  
Owenton KY 40359

Certified Mail # Z 29 072 639  
RETURN RECEIPT REQUESTED

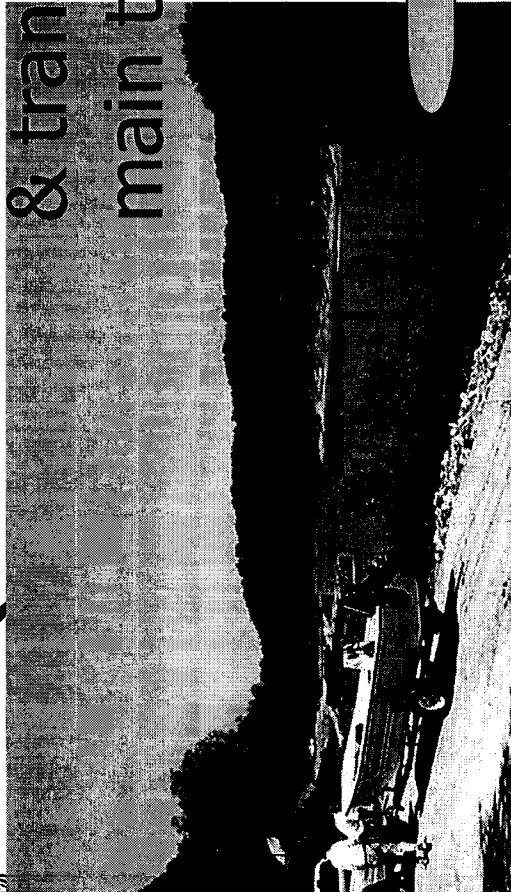
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Owenton City Water Works will be required to issue public notification on your behalf pursuant to Section 1.10 of 401 KAR 8:500 which states:

*Any system determined by the Cabinet to be the major contributor to violations of maximum contaminant levels for total trihalomethanes shall notify the public as provided in 401 KAR 8:070.*

The Tri-Village Water District immediately initiate the necessary steps to bring the system into compliance with acceptable residual chlorine levels and disinfectant residual. Since acceptable disinfectant residual is essential between systems is essential.



JAMES E. BICKFORD  
SECRETARY

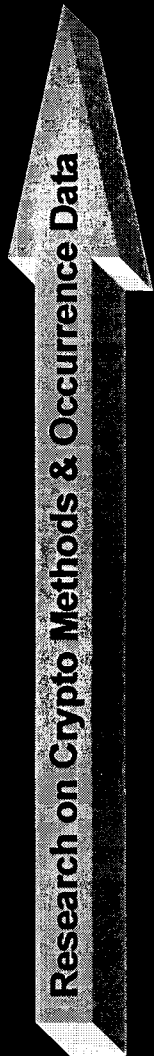
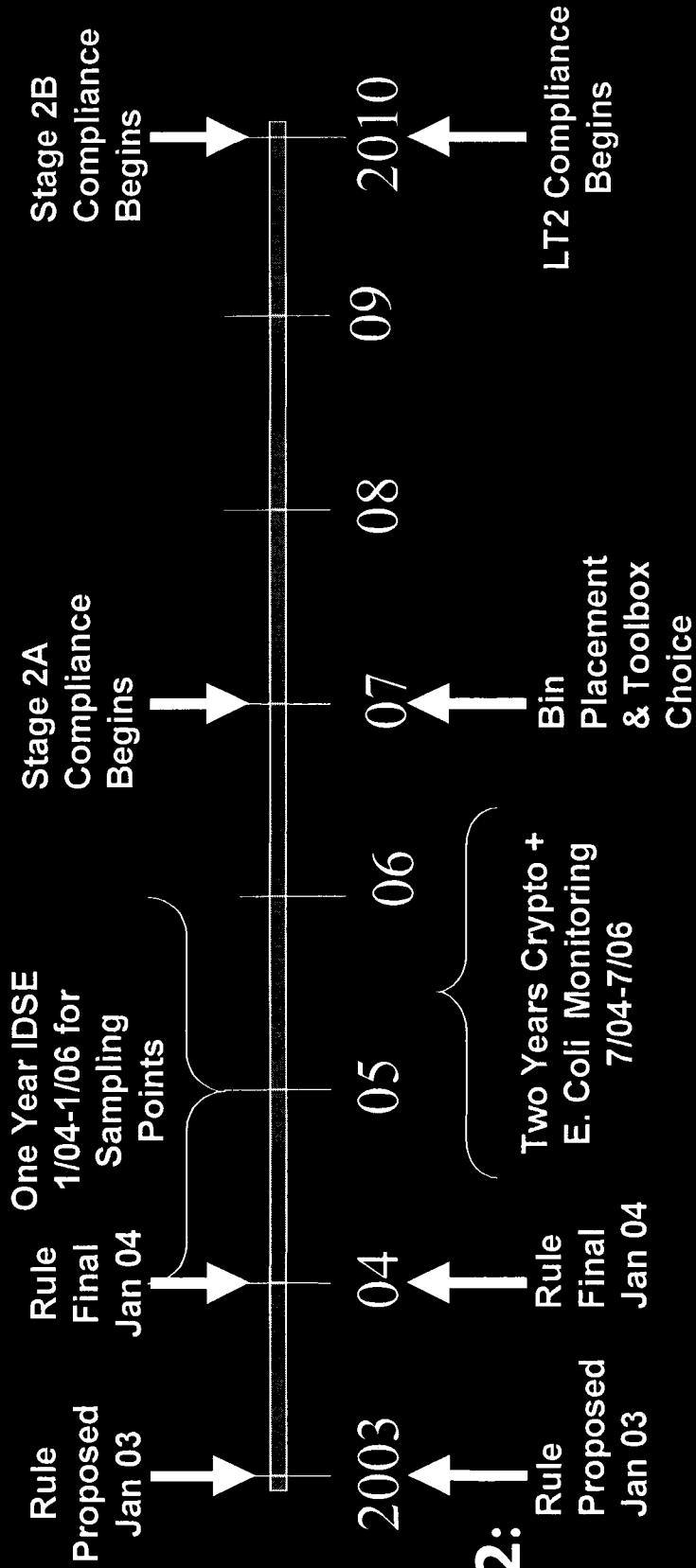


# Stage 2, LT2 Schedule <sup>5-02</sup>

(Systems serving over 10,000 people)

**Stage 2:**

**LT2:**



- Priority now = new intake with transfer line to plant **\$1,000,000**
- Must have by 2004
- Future regulations will require additional upgrades **\$500,000?? + + + +**
- by 2008-2012? (need additional study with new source for best investment)

Thank you  
Questions?





## Kentucky-American Water Company

### Proposal to Purchase the Water and Sewer Assets of the City of Owenton

February 4, 2003

This proposal is based on the books and records of the City of Owenton as of the June 30, 2002 audit. The final purchase price will be based on the actual financial information at the time of closing. Should Owenton decide to pursue this proposal, Kentucky-American Water Company reserves the right to further negotiate to reach an agreement for purchase of the water and sewer system assets. All proposals and subsequent offers and closings are subject to all due diligence and approvals by all legal authorities including, but not limited to, the Kentucky Public Service Commission and the Company's Board of Directors.

|  | Water       | Sewer       | Total       |
|--|-------------|-------------|-------------|
| <b>Purchase Price</b>                        | \$1,852,628 | \$998,850   | \$2,851,478 |
| <b>Proceeds to city after debt repayment</b> | \$1,000,000 | \$(120,602) | \$879,398   |

#### Conditions of sale:

- Retention of current employees
- Office remains in Owenton for customer service and bill payment
- Utility Board stays in place to serve as an advisor on growth and capital investment issues
- All Owen County operations will be combined under one management
- Construction will begin immediately on new intake in Kentucky River and improvements to raw water line
- City may partner with Kentucky-American Water Company to extend service and upgrade facilities
- As a result of increased operating and maintenance costs and needed investment in the system, over time, rates may increase. When possible, these increases will be offset by system growth. All rate increases will be subject to Kentucky Public Service Commission approval

#### Questions from City Council that remain to be answered:

- Ownership and operation of Upper and Lower Thomas Lakes
- Ownership of 20 acres of land by sewer plant

#### Next Steps:

- Public meeting
- Vote by City Council to enter into purchase agreement with Kentucky-American Water Company



## Proposal to Purchase the Water and Sewer Assets of the City of Owenton

**February 27, 2003**

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|  | <b>Water</b> | <b>Sewer</b> | <b>Total</b> |
|--|--------------|--------------|--------------|
| <b>Purchase Price</b>  | \$1,852,628  | \$998,850    | \$2,851,478  |
| <b>Proceeds to city after debt repayment (2/04/03 proposal)</b>            | \$1,000,000  | \$(120,602)  | \$879,398    |
| <b>Restricted Assets</b>   | \$261,298    | \$253,147    | \$514,445    |
| <b>Proceeds to city after debt repayment (revised 2/27/03)<sup>1</sup></b> | \$1,261,298  | \$132,545    | \$1,393,843  |

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<sup>1</sup>The proceeds to the city have been increased to include restricted assets not included in prior models. The purchase price is unchanged, but these restricted assets could be freed up for city use. As of June 30, 2002, the restricted assets for Water are \$261,298 and for Sewer are \$253,147. The city should rely on its legal council for an opinion as to its future use of these assets. Some thoughts from our experience: It is possible that they may need to be applied to other under-funded loan reserves, make loan payments, etc. We see no reason that they would not be released from utility purposes, but these assets may not necessarily be released from all other city obligations.

City of Owenton Public Meeting – Monday, March 17, 2003

Where: City Hall, Owenton, KY

Time: 7:00 PM EST

**Participants:**

Main tables – Mayor Wotier, Freda, Mark, Bob Osborne, Bobby Walker, A. C. Sparrow, Doris Riley, Larry Dale Perry, Billy Kemper, Chuck Gill, Rick Morgan, (Marshall Gibson and Athelene Glore are possibles)

Side table – Roy Mundy, Bill Bunch, Jim Hamilton, Coleman Bush

**Presentations:**

Mayor Wotier – Welcome and opening comments about why this meeting is being held

Chuck Gill – Explanation of why the Water Board made the recommendation for the City Council to begin talks with KAWC

Roy Mundy – Brief comments about American Water and declaration of commitment of KAWC to Owen County

Coleman Bush – Review highlights of proposal made to City Council on February 27, 2003

Mayor – Opens the floor for questions

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**ASSET PURCHASE AGREEMENT**

THIS ASSET PURCHASE AGREEMENT ("Agreement"), entered into this 15<sup>th</sup> day of January, 2004, between the City of Owenton, Kentucky ("Seller"), a city of the 5th class in Kentucky, 220 South Main Street, Owenton, Kentucky 40359, and Kentucky-American Water Company ("Buyer"), a Kentucky corporation, with its principal office at 2300 Richmond Road, Lexington, Kentucky 40502:

1. **PURCHASE OF ASSETS.** Seller hereby agrees to sell to Buyer on the Closing Date identified in paragraph 12 herein, and Buyer hereby agrees to purchase, free and clear of all liens, claims and encumbrances, all of Seller's tangible assets (except two snow blades, salt box, Scag mower and Scag mower accessories) devoted to the provision of potable water service and wastewater service to the public, whether or not carried on or reflected in Seller's books and records. The purchase shall include the tangible assets of Seller's potable water system and wastewater system and all interest Seller has in real property, whether license, easement, fee simple, or any other type of ownership, (collectively referred to as the "Assets") which are listed in Exhibits 1 and 2. (Exhibit 2 is not complete as of the date of execution of the Agreement but will be subsequently prepared showing all recorded real estate interests of the Seller). Although Exhibits 1 and 2 (not prepared as of the date of execution of this Agreement) are intended to be complete, to the extent Seller on the date of this Agreement owns any assets which are needed to operate the potable water system or wastewater system that should be but are not included in the exhibits (except the water and sewer office building which shall be leased to Buyer for 40 years for the Seller's cost of utilities, janitor services, and insurance), such assets nonetheless shall be transferred to Buyer on the Closing Date.

2. **CONSIDERATION.** In consideration of the sale of such Assets, Buyer shall pay to Seller on the Closing Date, the sum of \$2,851,478 (two million eight hundred fifty one thousand, four hundred seventy eight dollars) ("Proposal"), adjusted for (i) any difference between the actual change in the book value, defined as gross utility plant less book depreciation and less contributions in aid of construction, and the pro forma change in book value used to arrive at an estimated book value as of June 30, 2003 for purposes of the Proposal and (ii) for the net increase or decrease in the book value of the Assets subsequent to June 30, 2003, the sufficiency of which is acknowledged by Seller. In the event Seller acquires or disposes of tangible assets devoted to the provision of utility service subsequent to the date of this Agreement, the purchase price shall be adjusted to reflect the net book value of those assets on the Closing Date. As further consideration of the sale of the Assets, Seller agrees that the transaction is conditioned on approval by the Public Service Commission of the Commonwealth of Kentucky ("PSC") of a Use Fee in lieu of property tax as defined in Section 22 hereof, said use fee being paid to Seller by Buyer to service debt of at least \$300,000 of capital improvements to the water and wastewater systems within the city limits. Seller shall set aside \$300,000 of the proceeds from the sale of the Assets in the escrow account described in paragraph 22 hereof until such time as the PSC has ruled on the Use Fee. If the Use Fee is not approved or if the Use Fee approved is not adequate to service \$300,000 in debt, the money set aside from the proceeds will be immediately contributed by Seller to Buyer toward the capital improvements of the systems in an amount equal to the difference between \$300,000 and the actual debt serviced by the Use Fee approved. The amount of the contribution to capital improvements shall be in Buyer's sole determination after consultation with Seller.

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

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

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

- (E) Seller has not received any notice or notification from any court or governmental agency, authority, or body that it is in violation of or not in compliance with any federal, state, or local law, statute, ordinance, rule, regulation, guideline (including voluntary guidelines), decree, or order or permit relating to the Assets or that upon the passage of time it will be in violation of any of the foregoing. Seller's operation of its water and wastewater systems complies in all respects with all governmental requirements relating to the provision of potable water service and wastewater system operation.
- (F) Seller has good, marketable, and insurable title to all of the Assets. None of the Assets will, after closing, be subject to any mortgage, pledge, lien, charge, security interest, encumbrance, restriction, lease, license, easement, liability or adverse claim of any nature whatsoever, direct or indirect, whether accrued, absolute contingent or otherwise. All the Assets are in good operating condition and repair and are suitable for the purposes used.
- (G) No other person or entity now has, nor at any time in the future will have, the right to purchase, own, use, or sell any of the Assets.
- (H) Seller is not insolvent. Seller is able to meet all business obligations as they become due and will not be insolvent or unable to meet its business obligations as a result of completing the transactions described herein.
- (I) All tax returns, if applicable, employee withholding forms and other tax-related documents, of every kind relating to Seller and the Assets that are due to be filed in accordance with any applicable law have been duly filed and all taxes and benefits shown to be due on such returns have been paid in full.
- (J) Seller has delivered to Buyer copies of 2002 and 2003 (when available) audited and unaudited financial statements, which are complete and correct and have been prepared from Seller's books and records in accordance with generally accepted accounting principles consistently applied and maintained throughout the periods indicated and fairly present the Seller's financial condition. Except as set forth in the financial statements, Seller has no debts, liabilities or obligations (whether absolute, accrued, contingent or otherwise), of any nature whatsoever including, without limitation, any other debts, liabilities or obligations relating to or arising out

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

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



hereto contains or will contain any untrue statement of a material fact or will omit a statement of any material fact required to make the statements herein or therein contained not misleading. Seller has disclosed to Buyer in writing all material adverse facts known to it relating to the Assets. Seller is not aware of any circumstances or facts which could be detrimental to the Assets other than those disclosed to the Buyer in writing.

- (Q) Seller has provided to Buyer all of its records regarding the operation of this water and wastewater system for calendar year 1998 through the present.
- (R) Seller has sufficient interests in land ownership for the proper operation and maintenance of the Assets.

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

5. **OPERATION OF WATER AND WASTEWATER SYSTEMS.** Buyer shall own and operate the water and wastewater systems acquired from Seller and all customers currently served by Seller shall, for all intents and purposes, be customers of Buyer. Said customers shall, after the Closing Date, be charged at those rates and charges for such customers as from time to time are approved for use for such customers by Buyer by the Public Service Commission of the Commonwealth of Kentucky ("PSC"). As of the Closing Date Buyer will specifically assume Seller's obligations under all other contracts to which Seller may be bound as of the date of this Agreement, all of which are listed in Exhibit 4, except the Water Purchase Agreement between Seller and Buyer as it may have been amended, which will be terminated as of the Closing Date.

6. **EMPLOYEES.** Buyer agrees to offer employment to Seller's employees, at mutually agreed upon compensation levels, who are listed in Exhibit 5, provided that such employees pass the examinations, background check and other screening tests routinely required of applicants for employment with Buyer. The employees meeting such requirements will be employed, on an at will basis, as the Buyer's full-time employees with benefits as listed in Exhibit 6, as may change from time to time, comparable to the Buyer's employees performing the same tasks, although Buyer and Seller recognize that the specific duties and responsibilities of said employees may be different from duties and responsibilities of Buyer's existing employees at other geographic locations and may be subject to different supervisory oversight and reporting. The employees shall be deemed to have been employed by Buyer on the dates indicated in Exhibit 5 for the limited purpose of determining vacation or sick pay benefits with Buyer. Seller acknowledges that it has told all of the persons listed in Exhibit 5 that the benefits of employment by Buyer may change from time to time and there is no assurance that the level of benefits will remain the same as they existed on the Closing Date.

7. **FINAL METER READING AND BILLING.** At least one week prior to the Closing Date Seller will provide Buyer with a current list of the names and addresses of the Seller's customers. Within the week prior to the Closing Date, Buyer's meter readers, accompanied at the Seller's election, by Seller's meter readers, will read all customer meters and provide copies of those meter readings to Seller. Seller will bill all customers for water service as reflected in the final meter reading. Seller will, after satisfaction of all routine customary expenses of Seller through the Closing Date use any monies received from these billings in addition to all monies from all accounts receivable from prior billings for the payment of any

other of the Seller's liabilities remaining at the closing. Buyer will be entitled to all revenue from water services provided by Buyer on and after the Closing Date.

8. OPERATION OF UPPER AND LOWER THOMAS LAKES. Seller owns and as of the Closing Date, by an appropriate recordable document ("Document"), shall grant to Buyer the right to use Upper and Lower Thomas Lakes ("Lakes") as an emergency source of supply at no cost to Buyer, including the right to pump water into and withdraw water from the Lakes and the right to increase or decrease the level of water in the Lakes. Seller will agree in the Document not to take or allow any action that would cause any pollution or detrimental effect on the quality of the water in the Lakes and to maintain the surrounding land, including the dam, in a safe and operational condition, meeting all governmental requirements.

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

10. GRANT REPAYMENT. In the event that any grant existing at the date of closing is later required to be repaid, Seller assumes all liability for such repayment. *DMC*  
*1/15/04*

11. PUBLIC SERVICE COMMISSION APPROVAL. Within ninety (90) days from the satisfaction of the conditions precedent described in paragraph 17 (C), (D), (E), (F), (G), and (I) both Seller and Buyer agree to file and pursue with diligence a Joint Application with the Public Service Commission of the Commonwealth of Kentucky, if necessary, seeking approval of this Agreement.

12. CLOSING DATE. The closing of this Agreement shall take place within sixty (60) days after the latest of (a) receipt of an acceptable final order from the PSC, if necessary, approving this Agreement, and no appeal having been taken from the issuance of such order, and

(b) receipt of any other required waivers or consents to the transfer of the water system, and (c) completion of all conditions precedent as provided in Section 17 hereof.

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

14. **ACCESS TO BOOKS.** Between the date of this Agreement and the Closing Date Buyer shall have the right to examine all of Seller's assets and to obtain copies of all Seller's books and records at such reasonably convenient times as Buyer may require. In the event the transaction contemplated by this Agreement is not consummated, all such copies of the inventory and books and records shall be returned to Seller. If prior to the Closing Date (a) any material discrepancies are discovered in the Seller's books and records (b) any claims, liabilities, liens, encumbrances or defects in title which would materially affect the value of the Assets are discovered by or disclosed to Buyer, or (c) any one of the representations and warranties set forth in this Agreement is determined by Buyer not to be true and correct, Buyer may at its sole option terminate this Agreement and neither Buyer nor Seller shall be further obligated hereunder or incur or be liable for any claim, loss, damage or expenses to the other as a result of such termination.

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

16. **FORCE MAJEURE.** If the performance of any of the covenants or agreements contained herein is delayed or prevented by reasons beyond the Buyer's or Seller's control such

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

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

(A) The PSC shall have entered a final order, if necessary (from which no appeal is taken), which approves the Joint Application to be filed by Buyer and Seller including (i) any specific rate making approach or request as set forth in the Joint Application, (ii) a request for the use of Buyer's existing rules and regulations for Seller's water and wastewater customers, (iii) a request for the use of the Seller's existing rates to its customers as may be changed from time to time and as approved by the Public Service Commission, and (iv) this Agreement and all of its terms, conditions, undertakings, agreements and limitations between Buyer and Seller.

(B) The PSC, nor any court, shall not have attached to any order, any terms, conditions or limitations which in the sole opinion of either the Buyer or the Seller shall adversely affect the economic feasibility of this project or the Agreement between the parties or require Buyer or Seller to take any action or refrain from taking any action which might require

either of them to breach any of their obligations under any mortgage indenture, as supplemented, or any other agreement to which either of them might be a party.

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

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

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

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

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

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

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

(J) Seller has two grant applications pending: (1) City of Owenton Water Collection and Treatment System Improvements and Freshwater Intake Project, to the Environmental Protection Agency pursuant to Public Law 107-206, a fiscal year 2001 Special Appropriations Grant, in the amount of Three Hundred and Eighty-Seven Thousand One Hundred and Sixty Dollars (\$387,160) after administrative fees and (2) Kentucky River Raw Water Intake, to the Kentucky Infrastructure Authority. Project Number WX21187207, in the amount of One Hundred Thousand Dollars (\$100,000). Seller is required to provide matching funds of approximately Two Hundred and Fifty Thousand Dollars (\$250,000) to secure the grants. Subject to the terms and conditions to be contained in an agreement respecting ownership and operation of the intake, Buyer shall pay Seller a use fee equivalent to the annual debt service incurred by Seller to provide the matching funds as long as Seller owns the intake and until the debt is fully paid. Because the construction of the new intake is critical, an amount equal to the grant funds sought (\$487,160) shall be escrowed from the purchase price in a bank(s) chosen by Seller, subject to the joint control of Buyer and Seller, and released as grant funds are expended or used to construct the intake when the grants are denied or the grant funds are not available.

18. **INDEMNITY AGREEMENT.** Seller agrees to indemnify and hold harmless Buyer against any loss, claim, action, suit, proceeding, deficiency or expense (including attorneys' fees) relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by Seller

under this Agreement (including the Exhibits) or any documents delivered to Buyer in connection with this Agreement; (b) claims of negligence or strict liability in connection with the Assets or the business conducted prior to the Closing Date; (c) all debts, liabilities, contracts or obligations whatsoever relating to the Assets prior to the Closing Date, or (d) all contingent liabilities relating to Seller, its business or the Assets which Buyer becomes obligated to pay with respect to any state of facts or occurrences existing at or prior to the Closing Date.

19. **WATER BOARD.** The Owenton Water Board ("Water Board") shall remain in place to serve as an advisor on growth and capital investment issues. The Seller through its Water Board may partner with the Buyer to extend service and upgrade facilities. The Water Board shall meet with Buyer on a regular basis, no less than quarterly, with Buyer compensating Water Board members Twenty-Five Dollars (\$25.00) per attended meeting.

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

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

22. **SALE-LEASE BACK.** As soon as practicable after completion of the transaction contemplated in this Agreement, Buyer will transfer legal title of all assets acquired from Seller and all subsequent capital improvements to Seller, subject to all liens and specifically the lien of the Buyer's general mortgage indenture, in consideration for tax-exempt bonds issued by the Seller in an amount equal to the Buyer's cost of all assets so conveyed. Seller will promptly lease all assets so conveyed to Buyer who will use and operate them for the duration of



the existence of the tax-exempt bonds. Seller shall have no liability for payment of the tax exempt bonded indebtedness or the operation of the assets owned by it. Thereafter, Buyer shall pay to Seller, annually, a Use Fee in an amount equal to property taxes Buyer would pay if it were the owner of the assets. The use fee shall be sufficient for Seller to retire the indebtedness created by the issuance of the tax-exempt bonds.

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

**CITY OF OWENTON**

*Deborah Kelley*  
Witness

BY: *D. M. Weber*  
Mayor

**KENTUCKY-AMERICAN WATER COMPANY**

*Colleen Br...*  
Witness

BY: *Jay W. ...*  
President

COMMONWEALTH OF KENTUCKY )  
COUNTY OF Duven )

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of January, 2004, by Ray Mundy, President of Kentucky-American Water Company, a Kentucky corporation, on behalf of the corporation.

My Commission expires: 11-19-04

Freda C. Prather  
NOTARY PUBLIC

COMMONWEALTH OF KENTUCKY )  
COUNTY OF Owen )

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of January, 2004, by D. M. WOTER, Mayor of the City of Owenton, Kentucky, on behalf of the City.

My Commission expires: 11-19-04

Freda C. Prather  
NOTARY PUBLIC



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

|                                   |              |              |           |   |                      |                      |                      |
|-----------------------------------|--------------|--------------|-----------|---|----------------------|----------------------|----------------------|
| Equipment                         |              |              |           |   |                      |                      |                      |
| Equipment                         | 1977 SL-10   | 2,227.30     |           |   | 2,227.30             | 2,227.30             |                      |
| Temporary line                    | 1977 SL-10   | 14,000.00    |           |   | 14,000.00            | 14,000.00            |                      |
| Snow Plow                         | 1978 SL-10   | 1,617.00     |           |   | 1,617.00             | 1,617.00             |                      |
| Boat                              | Jul-83 SL-5  | 100.00       |           |   | 100.00               | 100.00               |                      |
| Alum Feeder Tank                  | Jun-85 SL-5  | 2,887.91     |           |   | 2,887.91             | 2,887.91             |                      |
| Ditch Witch                       | Jun-86 SL-7  | 450.00       |           |   | 450.00               | 450.00               |                      |
| Chlorinator Equipment             | Oct-86 SL-10 | 3,370.00     |           |   | 3,370.00             | 3,370.00             |                      |
| Two Cylinder Scale                | Nov-86 SL-10 | 755.00       |           |   | 755.00               | 755.00               |                      |
| Push Rod Machine                  | Apr-87 SL-10 | 4,500.00     |           |   | 4,500.00             | 4,500.00             |                      |
| Jar Test Equipment                | Oct-86 SL-5  | 778.02       |           |   | 778.02               | 778.02               |                      |
| Communication Equipment           | Jan-89 SL-10 | 1,396.00     |           |   | 1,396.00             | 1,396.00             |                      |
| PH Meter & Line Converter         | Jun-89 SL-15 | 424.29       |           |   | 424.29               | 366.00               |                      |
| Eccentric Slide Block             | Jun-89 SL-15 | 188.42       |           |   | 188.42               | 170.00               |                      |
| Porta Pump & Tow Chain            | Jun-89 SL-20 | 608.89       |           |   | 608.89               | 333.00               |                      |
| Hi Torq Mixer                     | Jun-89 SL-10 | 1,582.00     |           |   | 1,582.00             | 1,582.00             |                      |
| 1/2 Intercom                      | Oct-89 SL-10 | 30.45        |           |   | 30.45                | 30.45                |                      |
| Telephone system (partial)        | Jan-90 SL-10 | 272.84       |           |   | 272.84               | 272.84               |                      |
| Jackhammer                        | Feb-90 SL-10 | 5,499.90     |           |   | 5,499.90             | 5,499.90             |                      |
| Copy Machine                      | May-90 SL-10 | 421.25       |           |   | 421.25               | 421.25               |                      |
| Coin Operated Machine             | Mar-90 SL-10 | 989.00       |           |   | 989.00               | 989.00               |                      |
| Valve - River gate                | Apr-90 SL-40 | 3,150.00     |           |   | 3,150.00             | 987.00               |                      |
| Fencing                           | Jun-90 SL-20 | 6,025.00     |           |   | 6,025.00             | 3,763.00             |                      |
| Ten Foot Jon Boat                 | Jun-91 SL-10 | 85.00        |           |   | 85.00                | 85.00                |                      |
| 1/2 Mower                         | Jun-91 SL-10 | 561.87       |           |   | 561.87               | 561.87               |                      |
| Roto Tiller                       | Jun-93 SL-10 | 579.95       |           |   | 579.95               | 468.82               |                      |
| Lawnmower                         | Dec-94 SL-10 | 1,716.96     |           |   | 1,716.96             | 1,290.00             |                      |
| Computer                          | Dec-94 SL-5  | 350.00       |           |   | 350.00               | 350.00               |                      |
| P/U Truck Chevy (1/2)             | Jun-96 SL-5  | 18,916.57    |           |   | 18,916.57            | 18,916.57            |                      |
| Snow Plow & Utility bed for truck | Jul-90 SL-5  | 7,245.00     |           |   | 7,245.00             | 7,245.00             |                      |
| Computer Upgrade                  | Oct-97 SL-3  | 4,686.00     |           |   | 4,686.00             | 4,686.00             |                      |
| 1989 Dodge Truck                  | Aug-99 SL-5  | 6,000.00     |           |   | 6,000.00             | 3,500.00             |                      |
| 1999 Deere 310E Backhoe           | Sep-99 SL-10 | 28,034.41    |           |   | 28,034.41            | 7,942.00             |                      |
| 12' Truck Bed                     | Apr-00 SL-10 | 6,722.00     |           |   | 6,722.00             | 1,512.00             |                      |
| Scag Power mower                  | Jun-01 SL-5  | 4,000.00     |           |   | 4,000.00             | 866.67               |                      |
| Scag Power mower accessories      | Jun-01 SL-5  | 299.00       |           |   | 299.00               | 64.98                |                      |
| 2002 Chevy Pickup                 | Jan-02 SL-5  |              | 26,390.25 |   | 26,390.25            | 2,639.00             |                      |
|                                   |              |              |           |   |                      |                      |                      |
| Subtotal - Equipment              |              | 130,470.03   | 26,390.25 | - | 156,860.28           | 96,623.58            |                      |
| Grand Total Waterworks            |              | 4,209,108.76 | 54,332.25 | - | 4,263,441.01         | 1,215,160.38         | 1,772,487.18         |
|                                   |              |              |           |   | equals 6/30/02 audit | equals 6/30/02 audit | equals 6/30/02 audit |

| Owenton Sewer                           |         |                     |                      |           |             |                |              |      |
|---|---------|---------------------|----------------------|-----------|-------------|----------------|--------------|------|
| Audit Report                            |         |                     |                      |           |             |                |              |      |
| Year ended: June 30, 2002               |         |                     |                      |           |             |                |              |      |
| Kind of property                        | Date    | Method<br>Life Rate | Beginning<br>Balance | Additions | Retirements | Ending Balance | Accum. Depr. | CIAC |
| <b>Land</b>                             |         |                     |                      |           |             |                |              |      |
| Land & Rights of Way                    | 1938    | n/a                 | 2,250.00             |           |             | 2,250.00       | -            |      |
|   |         |                     |                      |           |             |                |              |      |
|   |         |                     |                      |           |             |                |              |      |
|   |         |                     |                      |           |             |                |              |      |
| Subtotal - Land &<br>Rights of Way      |         |                     | 2,250.00             | -         | -           | 2,250.00       | -            |      |
| <b>Buildings &amp;<br/>Improvements</b> |         |                     |                      |           |             |                |              |      |
| Restroom improvements                   | Apr-87  | SL-10               | 287.00               |           |             | 287.00         | 287.00       |      |
|   |         |                     |                      |           |             | -              |              |      |
|   |         |                     |                      |           |             | -              |              |      |
|   |         |                     |                      |           |             | -              |              |      |
| Subtotal - Buildings &<br>Improvements  |         |                     | 287.00               | -         | -           | 287.00         | 287.00       |      |
| <b>Furniture &amp; Fixtures</b>         |         |                     |                      |           |             |                |              |      |
| 1/2 Posting Machine                     | 1978    | SL-10               | 4,220.81             |           |             | 4,220.91       | 4,220.91     |      |
| 1/2 IBM Typewriter                      | 2-12-85 | SL-5                | 318.00               |           |             | 318.00         | 318.00       |      |
| Office Chair                            | 1-23-86 | SL-7                | 139.00               |           |             | 139.00         | 139.00       |      |
| Fire Proof Safe                         | Nov-89  | SL-10               | 300.00               |           |             | 300.00         | 300.00       |      |
| Phone System - partial                  | Jun-90  | SL-10               | 984.24               |           |             | 984.24         | 984.24       |      |
|   |         |                     |                      |           |             | -              |              |      |
|   |         |                     |                      |           |             | -              |              |      |
|   |         |                     |                      |           |             | -              |              |      |
|   |         |                     |                      |           |             | -              |              |      |
| Subtotal - Furniture &<br>Fixtures      |         |                     | 5,962.15             | -         | -           | 5,962.15       | 5,962.15     |      |

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

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



Exhibit 2  
Real Estate

|  |  |  |
|--|--|--|
| <b>Exhibit 2</b>                             |  |  |
| <b>Real Estate - Owenton Water and Sewer</b> |  |  |
| <b>Owenton Waterworks</b>                    |  |  |
| <b>Audit Report</b>                          |  |  |
| <b>Year ended: June 30, 2002</b>             |  |  |
|  |  |  |
| <b>In Progress</b>                           |  |  |
|  |  |  |
| <b>Owenton Sewer</b>                         |  |  |
| <b>Audit Report</b>                          |  |  |
| <b>Year ended: June 30, 2002</b>             |  |  |
|  |  |  |
| <b>In Progress</b>                           |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

**Exhibit 3**  
**Legal Proceedings**

None

**Exhibit 4**  
**Contracts**

Agreement between Seller and Tri-Village Water District

## Exhibit 5 Employees

| Last name    | First name | SS#         | Date of hire | Title               | Water licenses                       | WW licenses | DOB        |
|--------------|------------|-------------|--------------|---------------------|--------------------------------------|-------------|------------|
| <b>WATER</b> |            |             |              |                     |                                      |             |            |
| Glore        | Athelene   | 400.74.0190 | 1/25/1971    | Office Manager      |                                      |             | 6/4/1941   |
| Gibson       | Marshall   | 401.82.2249 | 7/24/1985    | Superintendent      | II-D 5121<br>III-A 05354<br>ALT 532  | II-05029    | 1/3/1955   |
| Clifton      | David      | 407.74.6060 | 5/9/1975     | WTP Operator        | III-D 01489<br>III-A 01488           | II-01916    | 5/25/1951  |
| Dempsey      | Steve      | 404.04.8785 | 6/29/1999    | Maintenance backhoe | II-D 3707                            |             | 12/9/1959  |
| O'Banion     | Bobby      | 405.88.1470 | 4/18/1979    | WTP Operator        | II-D 02682<br>III-A 03077            | II-03030    | 12/20/1959 |
| Callan       | Anthony    | 302.50.1179 | 4/4/1994     | WWTP/WTP Operator   | II-D 00173<br>III-A 00611            | II-00758    | 6/29/1950  |
| Kincaid      | Terry      | 406.78.4222 | 6/26/1980    | Maintenance backhoe | II-D 05652<br>ALT 532<br>III-A 06146 |             | 5/18/1953  |
| <b>SEWER</b> |            |             |              |                     |                                      |             |            |
| Young        | Ashley     | 401.33.0055 | 7/28/1997    | Maintenance         |                                      |             | 7/30/1977  |
| Howard       | Robert     | 404.84.7401 | 9/24/1985    | WWTP Operator       | II-D 5524                            | II-05743    | 8/30/1953  |
| Osborne      | LeeAnn     | 402.90.0709 | 4/1/1999     | Billing Clerk       |                                      |             | 9/7/1969   |

## Exhibit 6 Employee Benefits

### Holidays

Associates of the Company receive eleven paid holidays each year. The eleven holidays are:

|                |                                |
|----------------|--------------------------------|
| New Year's Day | Thanksgiving Day               |
| Good Friday    | Friday after Thanksgiving      |
| Memorial Day   | Christmas Eve                  |
| Fourth of July | Christmas Day                  |
| Labor Day      | Personal Floating Days*<br>(2) |

### Vacation

| Completed Years of Continuous Service | Vacation | Completed Years of Continuous Service | Vacation |
|---------------------------------------|----------|---------------------------------------|----------|
| 1 Year                                | 10 Days  | 15 & 16 Years                         | 20 Days  |
| 2 Years                               | 11 Days  | 17 & 18 Years                         | 21 Days  |
| 3 Years                               | 12 Days  | 19 & 20 Years                         | 22 Days  |
| 4 Years                               | 13 Days  | 21 & 22 Years                         | 23 Days  |
| 5 & 6 Years                           | 15 Days  | 23 & 24 Years                         | 24 Days  |
| 7 & 8 Years                           | 16 Days  | 25 Years Plus                         | 25 Days  |
| 9 & 10 Years                          | 17 Days  |                                       |          |
| 11 & 12 Years                         | 18 Days  |                                       |          |
| 13 & 14 Years                         | 19 Days  |                                       |          |

### Death in the Family

When death occurs in the immediate family of an associate and in a locality where it is reasonably possible for the associate to attend the funeral, the Company shall grant said associate up to three (3) consecutive scheduled working days at straight time for the purpose of making necessary arrangements and attending the funeral. The associate shall report to work no later than the second scheduled workday following the funeral. The Company should be advised when the associate plans to return to work. Within the meaning of this section, immediate family includes husband and wife, children, mother or father, brother, sister and immediate mother-in-law or father-in-law, stepfather or stepmother only. The Company shall grant two (2) scheduled work days with pay at straight time for the purpose of attending the funeral of a grandchild, grandmother and grandfather and one (1) scheduled work day with pay (providing the funeral occurs on a scheduled work day) at straight time for the purpose of attending the funeral of an immediate brother-in-law, sister-in-law, grandmother and grandfather of spouse.

**Sick Leave**

The Company provides a sick leave program wherein each associate who has completed six months of continuous service will be eligible for compensation after the first day of illness. An associate who is unable to perform his regular duties as a consequence of illness or accident shall be paid as follows during such disability:

Effective July 1, 2001, new associates will have two weeks of annual sick leave in which the associate will receive 100% of his/her base pay. After the two weeks of sick leave has been exhausted, the associate will receive 75% of his/her base pay under the short-term disability benefit. If the associate needs to be off, for more than 26 weeks, the associate will start to receive long-term disability benefits @ 60% of his/her base pay for as long as the associate remains disabled.

The Company has the option to select a medical doctor to examine the associate stating that the associate was ill and unable to perform his regular duties during such absence. Only a doctor's form provided by the Company will be accepted.

**Leave of Absence for Sickness or Accident Disability**

Associates will be granted leaves of absence for sickness or accident disability for the maximum periods as follows:

| <b>LENGTH OF SERVICE</b>           | <b>MAXIMUM PERIOD OF LEAVE OF ABSENCE</b> |
|------------------------------------|---|
| UP TO SIX MONTHS                   | TWO WEEKS                                 |
| SIX MONTHS BUT LESS THAN TWO YEARS | TWENTY-SIX WEEKS                          |
| TWO YEARS BUT LESS THAN FIVE YEARS | ONE YEAR                                  |
| OVER FIVE YEARS                    | TWO YEARS                                 |

**Continuity of Income to a Disabled Associate**

Because the Company realizes that delay sometimes occurs in the determination of benefits payable under the Worker's Compensation Law, the Company will pay a disabled associate's normal weekly wages in full for the period indicated under Sick Leave. All the associate need do is to agree that any benefits currently or subsequently received from the Worker's Compensation carrier (other than reimbursement of expenses) with respect to said period of disability, shall be assigned to the Company. The payments assigned from the compensation carrier to the Company include only weekly benefits for temporary disability.

## **Group Insurance**

All full-time associates can participate in the insurance plan, beginning on the first day of the month following 30 days of continuous service.

**THE BLUECARD PPO PROGRAM** is a national program that links participating doctors and hospitals to Blue Cross and/or Blue Shield Plans throughout the United States. Your only responsibility is for any applicable co-payments or coinsurance and any non-covered expenses. When a participating PPO physician or health care practitioner is used, he/she will file a claim of your behalf. If a nonparticipating provider is used, you are responsible for paying for care up front at the time of service. You then submit the bill along with a completed claim form, for reimbursement.

Information on the Plan is provided in the Summary Plan Description book.

**THE PPO DENTAL PROGRAM** will be administered by Aetna.

Information on the Plan is provided in the Summary Plan Description book.

## **Pension Plan (Retirement)**

Realizing the necessity of providing now, during your productive years, for the time when you will reach retirement, the Company has established and maintains a liberal pension plan. This plan covers both early and normal retirement, as well as disability retirement. After five years of continuous service, you have vested rights and will receive retirement benefits even if you leave the Company. For full information, consult "Your Pension Plan" booklet. Copies of this booklet may be borrowed from the Director Human Resources. You may also consult your supervisor concerning pension benefits.

## **Savings Bonds**

The Company encourages associates to participate in the U.S. Savings Bonds payroll deduction plan. Depending upon how much you decide to have deducted from each paycheck, you may receive any number of savings bonds per year. Consult the Accounting Supervisor or your immediate Supervisor for details.

## **401(k) Savings Plan**

The Company allows all associates to contribute to the 401(k) Savings Plan on a Pre-Tax Basis. The Company will contribute 50 percent (50%) of the first five percent (5%) contributed starting July 1, 2001. Please refer to the Summary Plan Description Booklet for full details of the Plan.

## **Credit Union**

The Company is a member of the Members Heritage Federal Credit Union. Information on all benefits provided by the Credit Union is included in the associate manual.

## **Central Kentucky Blood Center Program**

Kentucky-American Water Company participates in the Central Kentucky Blood Center drives twice per year. A mobile unit will be stationed at our office complex and associates desirous of donating can schedule a convenient time to give blood during working hours.

## **Educational Assistance Plan**

An educational assistance program was initiated in 1984 (revised in 1991) to assist associates who wish to continue their education on a voluntary basis, during off-duty hours. All associates will be eligible immediately with no waiting period required. If you have any questions, see your supervisor.

## **Fishing Privileges**

Kentucky-American Water Company associates and their immediate families are provided free fishing privileges at No. 4 Reservoir. You are required to abide by the rules and regulations set forth by the Lake Ellerslie Fishing Club. A Kentucky State Fishing License is required for anyone 16 years or older. See attached memo.

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**AGREEMENT**

THIS AGREEMENT made and entered into this 15<sup>th</sup> day of January 2004, by and between **KENTUCKY-AMERICAN WATER COMPANY**, a Kentucky corporation, with its principal offices at 2300 Richmond Road, Lexington, Kentucky 40502 and the **CITY OF OWENTON, KENTUCKY**, a city of the 5th class in Kentucky, with its mailing address at 220 South Main Street, Owenton, Kentucky 40359.

**WITNESSETH:**

**WHEREAS**, the City of Owenton ("City") is duly incorporated pursuant to Kentucky Revised Statutes and has the necessary power and authority to own and operate water treatment and distribution facilities; and

**WHEREAS**, the City believes that fulfillment of those responsibilities includes, where necessary, financing the cost of and undertaking the construction of certain water production facilities necessary to provide safe and reliable potable water service to customers in the city of Owenton and in Owen and surrounding counties, for purposes of this Agreement called the Kentucky River Raw Water Intake ("Intake"); and

**WHEREAS**, the City lacks sufficient treatment facilities to supply the current and estimated future needs of the customers in Owenton and Owen and surrounding counties to be served by the Intake; and

**WHEREAS**, the City believes it is in the best interests of the customers to be served from the Intake for Kentucky American Water to operate, maintain, repair and replace the Intake to be construed by the City; and

**WHEREAS**, the City intends to finance and construct and own the Intake from grants from the Kentucky Infrastructure Authority ("KIA") and the Environmental Protection Agency

("EPA") and from debt incurred by the City for the purpose of providing the necessary matching funds required by the granting agencies; and

**WHEREAS**, Kentucky-American Water Company ("Kentucky American Water"), under the Rules and Regulations of the Public Service Commission of Kentucky ("PSC"), is willing to operate, maintain, repair and replace the Intake; and

**WHEREAS**, the City has determined that Kentucky American Water has the financial, managerial and technical expertise necessary to operate, maintain, repair and replace the Intake; and

**WHEREAS**, Kentucky American Water in return for its exclusive use of the Intake has agreed to pay a fee for the use of the Intake ("Use Fee") to be constructed by the City under this Agreement;

**NOW, THEREFORE**, for and in consideration of the premises, which are hereby made an integral part of this Agreement and which are not to be construed as mere recitals, the covenants and agreements contained herein, and other good and valuable considerations, the receipt and sufficiency of all of which are hereby acknowledged, the Kentucky American Water and the City agree as follows:

I. **CONSTRUCTION OF INTAKE.**

After the conditions precedent described in Section VIII have been satisfied, the City shall proceed promptly and diligently to construct the following facilities:

City shall design, purchase, install, and own the Kentucky River Raw Water Intake as shown on attached drawing marked as Exhibit A. The Intake will be constructed at a total cost to the City estimated at approximately \$750,000. Final design and construction of the Intake shall be approved by the Kentucky American Water.

II. **SUPPLY OF WATER.**

A. **Quality and Quantity of Water.** Upon completion of construction under this Agreement, Kentucky American Water agrees to provide to all customers served from the Intake, subject to the terms, conditions, undertakings, agreements, and limitations provided in this Agreement, its tariff, and PSC regulations, the total potable water requirements of its customers. Kentucky American Water will be paid for the water supplied to customers at the rates of Kentucky American Water from time to time approved by the PSC and all customers supplied by the Intake shall be customers of the Kentucky American Water.

B. **Monitoring of Water Quality.** Kentucky American Water shall monitor the water quality and be responsible for compliance with all state and federal standards for furnishing water to the public.

C. **Possible Water Shortage.** In the event of an extended shortage of water, or if the supply of water from Kentucky American Water is otherwise diminished or impaired, the supply of water to the customers served from the Intake shall be reduced or diminished to each customer in approximately the same proportion within each class of service. Any notification given by the Kentucky American Water to customers supplied by the Intake of any anticipated shortage of water shall also be given to the City.

III. **TERM OF THIS AGREEMENT.**

The term of this Agreement shall extend for forty (40) years from the date hereof and thereafter may continue in effect from year to year after the initial 40-year term of the Agreement by mutual consent of the parties, unless otherwise terminated as provided herein.

IV. PLANS AND SPECIFICATIONS FOR KENTUCKY RIVER RAW WATER INTAKE.

A. Approval of Plans and Specifications. City has agreed to retain the services of MSE Engineers to prepare the necessary plans and specifications and because Kentucky American Water will bear the cost of operating, maintaining, repairing and replacing the Intake, City agrees, prior to preparation of the necessary bidding documents, to submit the plans and specifications for the Intake to Kentucky American Water for approval, which approval shall not be unreasonably withheld, in order to insure that those plans and specifications meet Kentucky American Water's standards of construction.

B. Right to Inspect Construction. Kentucky American Water shall have the right, but not the obligation, to inspect the construction of the Intake. In the event an inspection by Kentucky American Water during construction of the Intake or of the construction techniques or methods employed by, or for, City or its contractor during construction reveals that construction of the Intake is not proceeding according to the approved plans and specifications, Kentucky American Water shall, within 15 days of any inspection by Kentucky American Water, give written notice thereof to City, and City hereby agrees that it will either (i) correct, or cause its contractor to correct, such discrepancy within 30 days of receipt of such notice or (ii) treat such construction as provided under Section VI below.

V. PAYMENT OF THE USE FEE TO CITY.

In exchange for the benefits of having exclusive use of the Intake for part or all of its raw water needs in Owenton, Kentucky and in Owen and surrounding counties as provided in this Agreement, Kentucky American Water agrees (after PSC approval) to pay directly to the City the actual and reasonable costs of the debt service required to provide the matching funds

for the Intake. At the time of payment of all of the costs of the debt required to provide the matching funds for the Intake, which payment may be made at any time by Kentucky American Water upon its sole election, ownership of the Intake shall vest in Kentucky American Water and this Agreement shall terminate.

**VI. OPERATION AND MAINTENANCE OF INTAKE BY KENTUCKY AMERICAN WATER FOR CITY.**

A. **Kentucky American Water to Operate.** After construction Kentucky American Water hereby agrees to operate, maintain, repair, and replace Intake described in Section I of this Agreement and all appurtenances added thereto with the written approval of Kentucky American Water and City. Notwithstanding the foregoing, Kentucky American Water shall not be under any obligation to maintain, repair or replace at its expense any condition, defect or malfunction arising from the installation of Intake by a City contractor or vendor which installation fails to meet the standards of Kentucky American Water, if such discrepancy in design or installation is reported in writing by Kentucky American Water to City within 15 days of discovery as provided in Section IV.

B. **Repair of Faulty Construction.** In the event that it becomes necessary to relocate, replace, maintain or repair any condition, defect or malfunction arising from faulty installation for which notice as set forth herein has been given to City by Kentucky American Water, and City has not been successful in correcting or causing its contractor to correct said deficiency arising from faulty installation, such replacement, relocation, maintenance or repair will be made by a contractor approved by Kentucky American Water or by Kentucky American Water upon notification by City using funds advanced by Kentucky American Water. Upon

demand by Kentucky American Water, City agrees to assign and transfer all its rights and privileges, from and against its contractor, to the Kentucky American Water.

C. **Replacement of Unit of Property.** In the event Kentucky American Water, under the terms of this Agreement, is required to install, relocate or replace any "unit of property" within the Intake, such unit of property being defined in the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners ("NARUC"), Kentucky American Water shall make such installation, relocation or replacement at its cost; provided, however, that in every such instance the unit of property shall be, and remain, the property of Kentucky American Water and shall be properly includable in the depreciable utility plant of the Kentucky American Water in calculating its cost of service and resulting rates.

D. **Ownership of Units of Property.** The City agrees that, in those instances in which the Kentucky American Water installs, replaces or relocates any unit of property on the Intake pursuant to the provisions of subsection C of this Section VI, the Kentucky American Water shall, by virtue of this Agreement, have the right to use all of related rights of way, easements, licenses or other property interests necessary for Kentucky American Water to have and own such unit of property in the location and manner in which it is installed, replaced or relocated on the Intake.

VII. **SERVICE AREAS.**

It is expressly understood and agreed by Kentucky American Water and the City that:

A. **Kentucky American Water Right to Serve.** Kentucky American Water shall be permitted to install and maintain such Kentucky American Water Facilities within

Owenton and Owen and surrounding counties as are necessary to enjoy and fulfill its rights and obligations under this Agreement, subject to the terms and conditions set forth in this Agreement.

B. **Kentucky American Water Customers.** Except as otherwise provided in this Agreement, all customers served through the Intake, either at present or in the future, by Kentucky American Water shall be considered customers of Kentucky American Water.

C. **Use of Intake After Termination.** As part of the consideration under this Agreement, Kentucky American Water shall have the right, at the actual and reasonable cost of operation, maintenance, repair and replacement of the Intake, even after termination of this Agreement, to have exclusive use of the Intake, and all future additions thereto, and to serve any of its customers in Owenton and Owen and surrounding counties who then and at any time in the future rely on the Intake for their supply of water.

VIII. **CONDITIONS PRECEDENT TO EFFECTIVENESS OF AGREEMENT.**

Kentucky American Water and the City understand and agree that this Agreement, and the obligations of each of them hereunder, are expressly conditioned upon the following, each of which is a condition precedent to the validity and enforceability of this Agreement.

A. **Funding.** The City shall have received the necessary funding, including the grants from the EPA and KIA and the required matching funds, to enable it to carry out its obligations under this Agreement.

B. **Approval of Agreement.** The PSC shall have approved this Agreement and granted, if necessary, a certificate of convenience and necessity for the construction of the facilities contemplated by this Agreement.

C. **Requisite Permits.** The City shall have acquired all necessary permits from all applicable local, state and federal agencies and shall provide evidence to Kentucky American Water, satisfactory to counsel for Kentucky American Water, that it has all of the necessary rights of way, easements, licenses or permits necessary for the installation of the Intake; provided, however, that in the event that it is later discovered that City does not have a right of way or easement for a portion of the Intake, this condition precedent shall be deemed satisfied if the City acquires such right of way or easement, and the related right of entry, by eminent domain at no cost to Kentucky American Water.

D. **Approval of Public Service Commission.** If the PSC is required by law to approve this Agreement, then the PSC shall have approved this Agreement and all of its terms, conditions, undertakings, agreements, and limitations. Specifically, and without in anyway limiting the generality of this condition, the Order approving the Agreement, if required, and the transactions contemplated thereby shall:

(1) Authorize and approve the use of the Use Fee as provided in the Agreement;

(2) Authorize the inclusion in depreciable utility plant of the Kentucky American Water any amounts expended by Kentucky American Water for the cost of installing the Intake and of installing, replacing or relocating any parts of the Intake which are defined as a "unit of property," in the NARUC Uniform System of Accounts and which are relocated or replaced by Kentucky American Water at its cost pursuant to Section VI of this Agreement; and

E. **No Adverse Ruling.** The PSC shall not have attached to any Order any terms, conditions or limitations which shall adversely affect this Agreement or the economic



feasibility of this Agreement between the parties insofar as requiring either of the parties to take any action or refrain from taking any action which, in the opinion of their respective counsel, might require them, or either of them, to breach any of their obligations under any Mortgage Indenture, as supplemented, or any other agreement to which either of them might be a party.

**IX. REPRESENTATIONS AND WARRANTIES.**

A. **City Representations and Warranties.** The City represents and warrants to Kentucky American Water as follows:

(1) The execution, delivery, and performance of this Agreement by the City has been duly authorized, and this Agreement constitutes a valid and binding obligation of the City enforceable in accordance with its terms;

(2) The execution and performance of this Agreement in accordance with its terms by the City will not violate any provisions of law, violate the terms or conditions of the various funds, or violate any other instruments relating to the construction of the Intake; and

(3) The City is, and will take all necessary steps to continue to be, an “Eligible Applicant” as defined by the EPA and the KIA.

B. **Kentucky American Water Representations and Warranties.** Kentucky American Water represents and warrants to City as follows:

(1) The execution, delivery, and performance of this Agreement by Kentucky American Water have been duly authorized, and this Agreement constitutes a valid and binding obligation of Kentucky American Water enforceable in accordance with its terms; and

(2) The execution and performance of this Agreement in accordance with its terms by Kentucky American Water will not violate any provisions of Kentucky American Water's indentures.

**X. ASSIGNABILITY.**

This Agreement shall be binding upon the successors and assigns of the respective parties hereto.

**XI. NOTICE.**

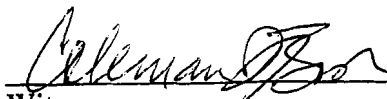
Any notice, demand or request given hereunder shall be deemed sufficient if in writing and sent by certified mail, postal charges prepaid, to Kentucky American Water, Attention: President, 2300 Richmond Road, Lexington, KY 40502, and to City addressed to Mayor, at or to such address as the parties shall indicate by written notice to the other party.

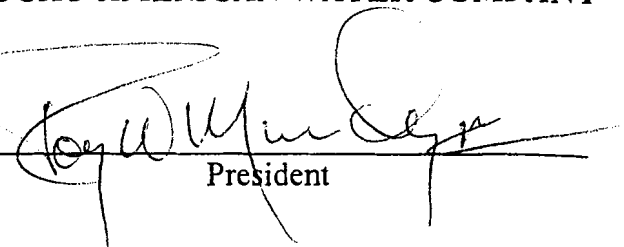
**XII. CAPTIONS.**

The captions preceding the text of the sections of this Agreement are inserted solely for convenience and reference and shall not be used to construe, interpret or affect any provision of this Agreement.

**IN WITNESS WHEREOF**, Kentucky American Water, a Kentucky corporation, and the City of Owenton, Kentucky have caused this Agreement to be signed, by their proper and authorized officers, all as of the day and year first above written.

**KENTUCKY-AMERICAN WATER COMPANY**

  
\_\_\_\_\_  
Witness

BY:   
\_\_\_\_\_  
President

CITY OF OWENTON

Norris A. Riley  
Witness

BY: D. M. Wotier  
Mayor

COMMONWEALTH OF KENTUCKY )  
COUNTY OF OWEN )

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of JANUARY, 2004, by Roy Mundy, President of Kentucky-American Water Company, a Kentucky corporation, on behalf of the corporation.

My Commission expires: 11-19-04

Freda C. Prather  
NOTARY PUBLIC

COMMONWEALTH OF KENTUCKY )  
COUNTY OF OWEN )

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of JANUARY, 2004, by D. M. WOTIER, Mayor of the City of Owenton, Kentucky, on behalf of the City.

My Commission expires: 11-19-04

Freda C. Prather  
NOTARY PUBLIC

COPY

**AMENDMENT NO. 1 TO ASSET PURCHASE AGREEMENT**

THIS AMENDMENT NO. 1 TO ASSET PURCHASE AGREEMENT dated July 12th, 2004 (hereafter "Amendment") to the Asset Purchase Agreement ("Agreement") between the City of Owenton ("Seller") and Kentucky-American Water Company ("Buyer") dated January 15, 2004,

**WITNESSETH:**

That for the consideration expressed herein and other good and valuable consideration between the Seller and Buyer, the Agreement is hereby amended as follows:

**I. EXCLUDED ASSETS**

A. The following Seller's assets are excluded from the purchase of assets described in Section 1 of the Agreement and Exhibit 1 thereto:

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

B. The above described assets ("Excluded Assets") shall remain the property of Seller until after said Excluded Assets are relocated from their present location to the approved places required by the Kentucky Transportation Cabinet. At such time this is completed, Seller agrees to transfer to Buyer and Buyer agrees to purchase, free and clear of all liens, claims and encumbrances, the Excluded Assets for the amount referenced in Section 3 of this Amendment.

C. Seller and Buyer agree that the sum of \$50,000.00 shall be retained by Buyer in an escrow account and shall be paid to Seller upon the completion of the events in Section 2 of this Amendment and the transfer of title of the Excluded Assets.

COPY

D. Buyer and Seller agree that all of the terms, conditions, agreements, representations, warranties and commitments in the Agreement shall also apply to the Excluded Assets. To this extent, the Agreement is incorporated herein by reference.

E. During the period of time that the Excluded Assets are owned by the Seller, the Seller agrees that it will allow, without further consideration, Buyer to use the Excluded Assets for the supply, delivery, flow, pressure and treatment of water and other purposes of Buyer as part of the water supply system assets being purchased by Buyer.

F. In the event that the relocation of the Excluded Assets is required to be paid by the Buyer, then the purchase price set forth in the Agreement shall be reduced by the amount of the Buyer's cost of relocation.

II. DEPRECIATION AFTER JULY 31, 2004

A. In the event the Closing Date occurs after July 31, 2004, then, for purposes of the consideration referred to in Section 2 of the Agreement, book depreciation on assets in service on July 31, 2004 shall be that amount as of July 31, 2004.

B. Any assets purchased after July 31, 2004 shall be valued on the Closing Date at cost less book depreciation less any contributions in aid of construction.

III. Except as specifically provided herein, all other terms and conditions of the Agreement remain in full force and effect.

Agreed by the Seller and the Buyer, this 12th day of July, 2004.

Seller:

CITY OF OWENTON

By: *D. M. Wotier*  
D. M. Wotier, Mayor

Witness: *Freda C. Prather*  
Freda C. Prather, City Clerk

Seller:

KENTUCKY-AMERICAN WATER  
COMPANY

By: *[Signature]*  
Title: President

Witness: *[Signature]*  
Secretary