

**COMMONWEALTH OF KENTUCKY
BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION**

In the Matter of:

The Application of Knott County Water and Sewer District for Approval of Financing Pursuant to KRS 278.300)
Case No. 2020-00384)

VERIFIED APPLICATION

Now comes Knott County Water and Sewer District, (“KCWSD” or the “Company”), pursuant to KRS 278.300, 807 KAR 5:001 and other applicable law, and hereby respectfully requests from the Kentucky Public Service Commission (Commission) an Order approving the refinancing of certain loans. In support of this Application the Company states as follows:

INTRODUCTION

1. Pursuant to 807 KAR 5:001, Section 14(2), KCWSD is a not-for-profit county water district organized by the Knott County Fiscal Court pursuant to KRS Chapter 74 (governing water districts) and KRS Chapter 220 (governing sanitation districts). Presently, KCWSD treats and sells potable water to five (5) wholesale customers and approximately 3,000 retail customers throughout Knott County, as well as provides sanitary sewer service for approximately 172 customers across its approximately 300 square mile service territory.

2. Pursuant to 807 KAR 5:001 Section 14(1), Knott County’s mailing address is 7777 Big Branch Road, Vicco, Kentucky 41773 and its electronic mail address for purposes of this proceeding is jaredsalmons@kcwsd.com. Further pursuant to 807 KAR

5:001 Section 14(1), KCWSD avers that this Application, including the Exhibit attached hereto and incorporated herein, contains fully the facts on which KCWSD’s request for relief is based, and an Order from the Commission is sought that authorizes KCWSD to refinance its existing loans pursuant to KRS 278.300 and other applicable law.

3. Copies of all orders, pleadings and other communications related to this proceeding should be sent to:

Mark David Goss
L. Allyson Honaker
Goss Samford, PLLC
2365 Harrodsburg Road Suite B-325
Lexington, Kentucky 40504
mdgoss@gosssamfordlaw.com
allyson@gosssamfordlaw.com

BACKGROUND

4. KCWSD previously obtained a Kentucky Infrastructure Authority (“KIA”) loan in 2011 in the principal amount of \$547,000. KCWSD also obtained two Rural Utilities Service (“RUS”) loans, one in 2003 in the principal amount of \$185,000, and another in 2007 in the principal amount of \$100,000.

5. Due to the recent decrease in interest rates, it is financially advantageous for KCWSD and its customers to refinance these loans and consolidate them into one loan.

REQUEST TO ISSUE EVIDENCE OF INDEBTEDNESS

8. Pursuant to 807 KAR 5:001 Section 12(2)(a)-(i), KCWSD is filing the following information in Exhibit A, which is incorporated herein and made a part of this Application:

<u>Exhibit #</u> <u>Page</u>	<u>Description</u>	<u>807 KAR 5:001</u> <u>Section Reference</u>
1	Financial Exhibit	12 (2)

1	Amount and kinds of stock authorized	12(2)(a)
1	Amount and kinds of stock issued and outstanding	12(2)(b)
1	Terms of preference or preferred stock	12(2)(c)
1	Brief description of each mortgage on property of KCWSD	12(2)(d)
1	Amount of bonds authorized and issued and related information	12(2)(e)
1	Notes outstanding and related information	12(2)(f)
1	Other indebtedness and related information	12(2)(g)
1	Dividend information	12(2)(h)
2-40	Detailed Income Statement and Balance Sheet	12(2)(i)

9. A description of KCWSD's property, its field of operation and the original cost and the cost to KCWSD are contained in Exhibit B.

10. The original copies of the KIA and RUS loans are attached as Exhibit C.

11. The KCWSD Board of Directors' Resolution approving the refinancing is attached as Exhibit D.

REQUEST TO REFINANCE THE KIA AND RUS LOANS AND OTHER NECESSARY APPROVALS

11. KCWSD is requesting to refinance the KIA and RUS loans under more favorable terms with the Bank of Hindman in the principal amount of \$325,000. The loan terms proposal is attached hereto as Exhibit E. The interest rate will be 2.75 % and the term of the loan will be 60 months.

TESTIMONY AND EXHIBITS

12. Additional facts supporting this Application are set forth in the Direct Testimony of Kyle Smith, Chief Financial Officer of KCWSD attached to this Application as Exhibit F, including the existing terms of the KIA and RUS loans, the new terms for the Bank of Hindman refinancing and the related benefits for KCWSD and its customers as a result of the refinancing.

WHEREFORE, KCWSD respectfully requests that the Commission:

- 1) Approve the refinancing of the KIA and RUS loans with the Bank of Hindman;
and
- 2) Grant any other relief to which KCWSD may be entitled.

Respectfully submitted,

Mark David Goss

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L. Allyson Honaker

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Counsel for Knott County Water and Sewer District

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF KNOTT)

Comes now Jared Salmons, General Manager of Knott County Water and Sewer, Inc., and, after being duly sworn, do hereby verify, swear and affirm that the averments set forth in the foregoing Application are true and correct based upon my personal knowledge and belief, formed after reasonable inquiry, as of this 14th day of December, 2020.



Jared Salmons, General Manager
Knott County Water and Sewer, Inc.

The foregoing Verification was verified, sworn to and affirmed before me, the NOTARY PUBLIC, by Jared Salmons, General Manager of Knott County Water and Sewer, Inc., on this 14 day of December, 2020.



NOTARY PUBLIC

Commission No. 6233

My Commission Expires: 5/02/24

EXHIBIT A
FINANCIAL EXHIBIT

Financial Exhibit Pursuant to 807 KAR 5:001 Section 12(2):

KCWSD had \$5,000,000 or less in gross annual revenue in 2019. No material changes have occurred since the end of the twelve month period. The audited financial statements for 2019 are attached. KCWSD has submitted the income statement and balance sheet for 2019 and will supplement this filing with the 2020 income statement and balance sheet once they have been completed.

Amount and kinds of stock authorized (807 KAR 5:001 Section 12(2)(a)):

- KCWSD does not have any authorized stock.

Amount and kinds of stock issued and outstanding (807 KAR 5:001 Section 12(2)(b)):

- KCWSD does not have any issued or outstanding stock.

Terms of preference of preferred stock, cumulative or participating, or on dividends or assets or otherwise (807 KAR 5:001 Section 12(2)(c)):

- There has been no preferred stock issued for KCWSD.

A brief description of each mortgage on property of applicant (807 KAR 5:001 Section 12(2)(d)):

- The only outstanding debt are the loans that are contained in this Application and are subject to the refinancing proposal.

Amount of bonds authorized and amounts issued and related information (807 KAR 5:001 Section 12(2)(e))

- There have been no bonds authorized or issued by KCWSD.

Notes outstanding and related information (807 KAR 5:001 Section 12(2)(f))

- The only outstanding notes are the three loans that are a part of this refinancing Application.

Other indebtedness and related information (807 KAR 5:001 Section 12(2)(g))

- There are no other items of indebtedness than what is contained in this Application.

Dividend information (807 KAR 5:001 Section 12(2)(h))

- KCWSD has not issued dividends.

Detailed Income Statement and Balance Sheet (807 KAR 5:001 Section 12(2)(i))

See pages 2 through 40 of this Exhibit for KCWSD's 2019 audited financial statements.

**KNOTT COUNTY WATER AND SEWER DISTRICT
Vicco, Kentucky**

**FINANCIAL STATEMENTS
December 31, 2019 and 2018**

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Knott County Water and Sewer District
Vicco, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Knott County Water and Sewer District (the District), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Knott County Water and Sewer District, as of December 31, 2019 and 2018, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 22–25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The budgetary comparison schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



RFH, PLLC
Lexington, Kentucky
March 25, 2020

KNOTT COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION
December 31,

ASSETS	2019	2018
Current assets		
Cash and cash equivalents	\$ 69,283	\$ 148,498
Customer accounts receivable, net	249,807	250,381
Prepaid expenses	14,207	19,082
Grant receivable	<u>114,870</u>	<u>138,482</u>
Total current assets	<u>448,167</u>	<u>556,443</u>
Restricted assets		
Cash and cash equivalents	540,437	657,278
Certificate of deposit	<u>305,583</u>	<u>-</u>
Total restricted assets	<u>846,020</u>	<u>657,278</u>
Capital assets		
Land	150,585	150,585
Construction-in-progress	606,656	332,260
Utility plant and equipment, net	<u>51,363,418</u>	<u>50,751,089</u>
Capital assets, net	<u>52,120,659</u>	<u>51,233,934</u>
Total assets	<u>53,414,846</u>	<u>52,447,655</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	275,622	199,797
Deferred outflows - OPEB	<u>132,398</u>	<u>82,640</u>
Total deferred outflows of resources	<u>408,020</u>	<u>282,437</u>
Total assets and deferred outflows of resources	<u>\$ 53,822,866</u>	<u>\$ 52,730,092</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 79,272	\$ 40,854
Accrued compensation	21,864	25,688
Payroll liabilities	27,677	23,631
Accrued interest	808	5,950
Other current liabilities	184,924	290,687
Current portion of long-term debt	<u>64,071</u>	<u>66,634</u>
Total current liabilities	<u>378,616</u>	<u>453,444</u>
Noncurrent liabilities		
Net pension liability	1,326,432	1,072,442
Net OPEB liability	317,149	312,627
Notes payable	225,000	230,400
Bonds payable	<u>93,050</u>	<u>152,021</u>
Total long-term liabilities	<u>1,961,631</u>	<u>1,767,490</u>
Total liabilities	<u>2,340,247</u>	<u>2,220,934</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	26,988	36,321
Deferred inflows - OPEB	<u>110,906</u>	<u>58,619</u>
Total deferred inflows of resources	<u>137,894</u>	<u>94,940</u>
NET POSITION		
Net investment in capital assets	51,738,538	50,784,879
Restricted	846,020	657,278
Unrestricted	<u>(1,239,833)</u>	<u>(1,027,939)</u>
Total net position	<u>51,344,725</u>	<u>50,414,218</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 53,822,866</u>	<u>\$ 52,730,092</u>

The accompanying notes are an integral
part of the financial statements.

KNOTT COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended December 31,

	2019	2018
OPERATING INCOME		
Water service	\$ 2,160,378	\$ 2,121,398
Sewer service	94,640	92,007
Penalties	18,043	21,478
Miscellaneous income	45,115	8,846
Reconnection and collection fees	<u>1,074</u>	<u>2,794</u>
Total operating income	<u>2,319,250</u>	<u>2,246,523</u>
OPERATING EXPENSES		
Salaries and fringe benefits	1,055,154	970,630
Commissioners	28,900	30,200
Office and advertising expense	6,300	853
Water consumption	80,724	94,251
Electricity	437,602	441,392
Telephone	15,004	13,236
Travel and training	5,789	4,764
Rents	471	3,705
Contractual fees	223,818	195,504
Vehicle expense	47,465	42,124
Operating supplies and maintenance	378,715	358,609
Licenses, permits, dues, and fees	6,858	14,916
Bad debt expense	-	62,875
Insurance and bonds	<u>57,521</u>	<u>62,638</u>
Total operating expense	<u>2,344,321</u>	<u>2,295,697</u>
Operating (loss) before depreciation	(25,071)	(49,174)
Depreciation expense	<u>1,364,456</u>	<u>1,307,466</u>
OPERATING (LOSS)	(1,389,527)	(1,356,640)
Non-operating income (expenses)		
Interest income	6,153	975
Refunds to customers	(282)	(827)
Gain on disposal of capital assets	-	7,248
Interest expense	<u>(18,147)</u>	<u>(20,315)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,401,803)	(1,369,559)
Capital contributions		
Tap fees	31,409	28,350
Contributed capital	<u>2,300,901</u>	<u>2,397,400</u>
CHANGE IN NET POSITION	930,507	1,056,191
Net position, beginning of year, as restated	<u>50,414,218</u>	<u>49,358,027</u>
NET POSITION, END OF YEAR	<u>\$ 51,344,725</u>	<u>\$ 50,414,218</u>

The accompanying notes are an integral
part of the financial statements.

KNOTT COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,274,709	\$ 2,190,029
Payment to suppliers	(1,207,924)	(1,200,014)
Payment for employee services and benefits	(907,950)	(875,890)
Other receipts	<u>45,115</u>	<u>8,846</u>
Net cash provided by operating activities	<u>203,950</u>	<u>122,971</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(65,092)	(251,247)
Contributed capital and tap fees	55,021	210,317
Proceeds on sale of capital assets	-	7,248
Refunds issued to customers	(282)	(827)
Principal paid on capital debt	(66,934)	(54,391)
Interest paid on capital debt	<u>(23,289)</u>	<u>(15,382)</u>
Net cash (used) by financing activities	<u>(100,576)</u>	<u>(104,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(305,583)	-
Interest income	<u>6,153</u>	<u>975</u>
Net cash (used) provided by investing activities	<u>(299,430)</u>	<u>975</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(196,056)	19,664
Cash and cash equivalents at beginning of year	<u>805,776</u>	<u>786,112</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 609,720</u>	<u>\$ 805,776</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (1,389,527)	\$ (1,356,640)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	1,364,456	1,307,466
Net changes in pension liability	168,832	105,590
Net changes in OPEB liability	7,050	13,020
Changes in assets and liabilities:		
(Increase) decrease in receivables	574	15,227
(Increase) decrease in prepaid expenses	4,875	11,353
Increase (decrease) in accounts payable	38,418	16,345
Increase (decrease) in payroll and other liabilities	222	4,280
Increase (decrease) in other current liabilities	<u>9,050</u>	<u>6,330</u>
Net cash provided by operating activities	<u>\$ 203,950</u>	<u>\$ 122,971</u>
Supplemental disclosure of cash flow information:		
Non-cash capital and related financing information:		
Capital asset additions accrued as other current liabilities	<u>\$ 41,329</u>	<u>\$ 156,142</u>
Fair value of contributed capital assets	<u>\$ 2,300,901</u>	<u>\$ 2,122,520</u>

The accompanying notes are an integral part of the financial statements.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

1. ORGANIZATION AND ACCOUNTING POLICIES

Nature of Activities

Knott County Water and Sewer District (the District) was created by the Knott County Fiscal Court on February 10, 1999 to be governed and operated under rules and procedures established under Kentucky Revised Statutes (KRS) Chapter 74, relating to water districts and KRS Chapter 220 relating to sanitation districts. The entity is expanding its operating activities into parts of Knott County not presently served with water and sewer utility services.

Basis of Presentation

The Governmental Accounting Standards Board (GASB) Codification creates a framework for basic financial statements that report the government's financial activities. Financial statements include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Knott County Water and Sewer District is considered a special purpose government engaged in a business-type activity. Therefore, no governmental type funds are recognized and instead, proprietary fund financial statement are presented.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. For its water and sewer enterprise operations, the District uses the full-accrual basis of accounting where revenues are recorded when earned and expenses are recognized when incurred.

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

Capital Assets and Depreciation

Capital assets are stated at historical cost. Donated assets are valued at their fair market value on the date of donation. Capital assets costing over \$1,500 are recorded and depreciated using the straight-line method of accounting over the respective assets useful lives as follows:

Equipment	5-20	years
Transmission lines	30-63	years
Water wells, structures and improvements	15-63	years

Allowance for Doubtful Accounts

Knott County Water and Sewer District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimates of probable losses. The allowance for doubtful accounts was estimated at \$14,000 as of December 31, 2019 and 2018.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Net Position

The District's financial statements incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Restricted Net Position

Restricted net position reflects funds held in various reserve accounts to meet the covenants as may be specified and defined in the bond and note indentures, or as restrictions imposed by grantors.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for utility services provided. Non-operating includes interest income/expense, gain/loss on disposal of assets and refunds to customers.

Materials and Supplies

Purchases of materials and supplies are expensed when purchased and are not inventoried and reflected in the statement of net position. Generally, supplies are purchased as needed. This departure from generally accepted accounting principles (GAAP) is not considered material to the financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 25, 2020; which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2019, have not been evaluated by the District.

2. CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The District's deposits at December 31, 2019 and 2018, were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$1,011,933 and \$875,807 at December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, \$511,933 and \$625,807, respectively, of the District's deposits were covered by collateral held by the custodial banks in the District's name. As of December 31, 2019 and 2018, \$500,000 and \$250,000, respectively, of the District's deposits were covered by Federal Depository Insurance.

Statement of Cash Flows

The statement of cash flows includes as cash and cash equivalents the following as of December 31,:

	2019	2018
Cash and cash equivalents	\$ 69,283	\$ 148,498
Restricted cash and cash equivalents	<u>540,437</u>	<u>657,278</u>
	<u>\$ 609,720</u>	<u>\$ 805,776</u>

Certificate of deposit – As of December 31, 2019, the District held a certificate of deposit with a book value of \$305,583. The certificate of deposit has an interest rate of 2.75% and matures on May 2, 2024.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the District at December 31, 2019:

	Balance 12/31/18	Additions	Deductions	Balance 12/31/19
Capital Assets – Water				
Not depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	332,260	2,163,038	(1,888,642)	606,656
Depreciated				
Water plant and transmission lines	54,140,356	1,906,505	-	56,046,861
Vehicles	412,849	30,682	-	443,531
Operating equipment	207,816	39,598	-	247,414
Office furniture and equipment	<u>177,713</u>	<u>-</u>	<u>-</u>	<u>177,713</u>
Subtotal	<u>55,388,288</u>	<u>4,139,823</u>	<u>(1,888,642)</u>	<u>57,639,469</u>
Accumulated depreciation – Water				
Water plant and transmission lines	10,013,864	1,137,095	-	11,150,959
Vehicles	289,726	23,708	-	313,434
Operating equipment	146,746	9,929	-	156,675
Office furniture and equipment	<u>103,164</u>	<u>8,451</u>	<u>-</u>	<u>111,615</u>
Subtotal	<u>10,553,500</u>	<u>1,179,183</u>	<u>-</u>	<u>11,732,683</u>
Total - Water	<u>44,834,788</u>	<u>2,960,640</u>	<u>(1,888,642)</u>	<u>45,906,786</u>
Capital Assets – Sewer				
Not depreciated				
Land and land rights	33,291	-	-	33,291
Depreciated				
WWTPs and collection systems	7,045,453	-	-	7,045,453
Operating equipment	<u>68,811</u>	<u>-</u>	<u>-</u>	<u>68,811</u>
Subtotal	<u>7,147,555</u>	<u>-</u>	<u>-</u>	<u>7,147,555</u>
Accumulated depreciation – Sewer				
Vehicles	703,052	181,463	-	884,515
Operating equipment	<u>45,357</u>	<u>3,810</u>	<u>-</u>	<u>49,167</u>
Subtotal	<u>748,409</u>	<u>185,273</u>	<u>-</u>	<u>933,682</u>
Total - Sewer	<u>6,399,146</u>	<u>185,273</u>	<u>-</u>	<u>6,213,873</u>
Total capital assets, net	<u>\$ 51,233,934</u>	<u>\$ 2,775,367</u>	<u>\$(1,888,642)</u>	<u>\$ 52,120,659</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

3. CAPITAL ASSETS (CONTINUED)

The following is a summary of changes in capital assets for the District at December 31, 2018:

	Balance 12/31/17	Additions	Deductions	Balance 12/31/18
Capital Assets – Water				
Not depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	45,569	286,691	-	332,260
Depreciated				
Water plant and transmission lines	54,140,356	-	-	54,140,356
Vehicles	340,820	74,029	(2,000)	412,849
Operating equipment	182,310	25,506	-	207,816
Office furniture and equipment	177,713	-	-	177,713
Subtotal	<u>55,004,062</u>	<u>386,226</u>	<u>(2,000)</u>	<u>55,388,288</u>
Accumulated depreciation – Water				
Water plant and transmission lines	8,886,845	1,127,019	-	10,013,864
Vehicles	265,679	26,047	(2,000)	289,726
Operating equipment	137,790	8,956	-	146,746
Office furniture and equipment	93,720	9,444	-	103,164
Subtotal	<u>9,384,034</u>	<u>1,171,466</u>	<u>(2,000)</u>	<u>10,553,500</u>
Total - Water	<u>45,620,028</u>	<u>(785,240)</u>	<u>-</u>	<u>44,834,788</u>
Capital Assets – Sewer				
Not depreciated				
Land and land rights	33,291	-	-	33,291
Depreciated				
WWTPs and collection systems	4,948,439	2,122,520	(25,506)	7,045,453
Operating equipment	68,811	-	-	68,811
Subtotal	<u>5,050,541</u>	<u>2,122,520</u>	<u>(25,506)</u>	<u>7,147,555</u>
Accumulated depreciation – Sewer				
Vehicles	571,427	131,625	-	703,052
Operating equipment	40,982	4,375	-	45,357
Subtotal	<u>612,409</u>	<u>136,000</u>	<u>-</u>	<u>748,409</u>
Total - Sewer	<u>4,438,132</u>	<u>1,986,520</u>	<u>(25,506)</u>	<u>6,399,146</u>
Total capital assets, net	<u>\$ 50,058,160</u>	<u>\$ 1,201,280</u>	<u>\$ (25,506)</u>	<u>\$ 51,233,934</u>

During 2018, the District assumed ownership of the Ball Creek Sewer Extension Highway 80 project in a non-monetary transaction with the Troublesome Creek Environmental Authority. The District recorded contributed capital at the estimated fair value of the plant of approximately \$2,100,000.

Total depreciation expense is allocated as follows for the years ended December 31,:

	2019	2018
Water operations	\$ 1,179,183	\$ 1,171,466
Sewer operations	<u>185,273</u>	<u>136,000</u>
	<u>\$ 1,364,456</u>	<u>\$ 1,307,466</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

4. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at December 31,:

	2019	2018
Construction contractors payable	\$ -	\$ 97,974
Customer deposit payable	136,109	128,070
Engineering contract payable	41,329	58,168
Utility tax payable	6,761	5,309
Sales tax payable	<u>725</u>	<u>1,166</u>
Total other current liabilities	<u>\$ 184,924</u>	<u>\$ 290,687</u>

5. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, :

Bonds and Notes	2019	2018
Rural Utilities Service Bond - \$185,000, dated 12/19/03, was issued to pay off prior debt of the District, with payments through 2043, bearing interest at a rate of 4.5%.	\$ 145,000	\$ 152,000
Kentucky Infrastructure Authority Loan - \$547,000, dated 1/1/04, was issued to pay for expenditures related to the Highway 899/Mallie Waterworks improvement project, with payments through 2022, bearing interest at a rate of 4.05%.	152,021	208,655
Rural Utilities Service Bond - \$100,000, dated 1/26/07, was issued to finance a portion of the Water Treatment Plant project, with payments through 2046, bearing interest at a rate of 4.125%.	<u>85,100</u>	<u>88,400</u>
Total	382,121	449,055
Less: current portion of debt	<u>(64,071)</u>	<u>(66,634)</u>
Long-term debt	<u>\$ 318,050</u>	<u>\$ 382,421</u>

The annual requirements to amortize all bonds and notes outstanding as of December 31, 2019 are as follows:

Year Ending December 31,	Principal	Interest and Fees	Payment
2020	\$ 64,071	\$ 15,932	\$ 80,003
2021	66,604	13,149	79,753
2022	37,446	10,542	47,988
2023	5,800	9,887	15,687
2024	5,900	9,626	15,526
2025-2029	35,500	43,766	79,266
2030-2034	44,200	35,008	79,208
2035-2039	54,600	24,158	78,758
2040-2044	54,700	10,704	65,404
2045-2047	<u>13,300</u>	<u>1,432</u>	<u>14,732</u>
	<u>\$ 382,121</u>	<u>\$ 174,204</u>	<u>\$ 556,325</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

5. LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt, net pension liability, and net OPEB liability for the year ended December 31, 2019:

	December 31, 2018	Additions	Retirements	December 31, 2019	Due Within One Year
Net pension liability	\$ 1,072,442	\$ 253,990	\$ -	\$ 1,326,432	\$ -
Net OPEB liability	312,627	4,522	-	317,149	-
Bonds payable	240,400	-	(10,300)	230,100	5,100
Notes payable	<u>208,655</u>	<u>-</u>	<u>(56,634)</u>	<u>152,021</u>	<u>58,971</u>
	<u>\$ 1,834,124</u>	<u>\$ 258,512</u>	<u>\$ (66,934)</u>	<u>\$ 2,025,702</u>	<u>\$ 64,071</u>

The following is a summary of changes in long-term debt, net pension liability, and OPEB liability for the year ended December 31, 2018:

	December 31, 2017	Additions	Retirements	December 31, 2018	Due Within One Year
Net pension liability	\$ 1,010,749	\$ 61,693	\$ -	\$ 1,072,442	\$ -
Net OPEB liability	347,146	-	(34,519)	312,627	-
Bonds payable	240,400	-	-	240,400	10,000
Notes payable	<u>263,046</u>	<u>-</u>	<u>(54,391)</u>	<u>208,655</u>	<u>56,634</u>
	<u>\$ 1,861,341</u>	<u>\$ 61,693</u>	<u>\$ (88,910)</u>	<u>\$ 1,834,124</u>	<u>\$ 66,634</u>

The District is required to maintain debt service and depreciation reserves in accordance with their various debt agreements. The balance in the debt service reserve as of December 31, 2019 and 2018 was \$232,835 and \$203,981, respectively. The balance in the depreciation reserve as of December 31, 2019 and 2018 was \$39,950. The District has fully funded its debt service and depreciation reserves at December 31, 2019 and 2018.

6. LEASE COMMITMENTS

The District leased office equipment under a non-cancellable operating lease agreement that ended during 2018. Rental expense for the year ended December 31, 2018 was \$3,705.

7. RETIREMENT PLAN

The Knott County Water and Sewer District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the years ended December 31, 2019 and 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

7. RETIREMENT PLAN (CONTINUED)

Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2019, participating employers contributed 21.48% through June 30 and 24.06% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 8. For the year ended December 31, 2019, plan members contributed 16.22% to the pension trust through June 30th and 19.30%, thereafter for non-hazardous job classifications. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$92,829 for the year ended December 31, 2019, or 100% of the required contribution. The District contributed \$77,086 for the year ended December 31, 2018, or 100% of the required contribution.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	Not available

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

7. RETIREMENT PLAN (CONTINUED)

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2019, the District reported a net pension liability of \$1,326,432, or its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the District's proportion was .01886 percent, which was an increase of .00125 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized pension expense of \$254,844. For the year ended December 31, 2018, the District recognized pension expense of \$174,583. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 33,868	\$ 5,605
Changes of assumptions	134,250	-
Net difference between projected and actual earnings on Plan investments	-	21,383
Changes in proportion and differences between District contributions and proportionate share of contributions	60,737	-
District contributions subsequent to the measurement date	<u>46,767</u>	<u>-</u>
Total	<u>\$ 275,622</u>	<u>\$ 26,988</u>

The \$46,767 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2019 will be recognized in pension expense as follows:

Year ending December 31,

2020	\$ 121,993
2021	\$ 56,547
2022	\$ 21,811
2023	\$ 1,516

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

7. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2019 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2019, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	6.25%

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute funds as required by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

7. RETIREMENT PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability	
1% decrease	5.25%	\$	1,658,990
Current discount rate	6.25%	\$	1,326,432
1% increase	7.25%	\$	1,049,248

Payable to the Pension Plan – At December 31, 2019 and 2018, the District reported a payable of \$11,764 and \$10,706, respectively, for the outstanding amount of contributions payable to the pension plan. The payable includes both the pension and insurance contribution allocation.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2019, the employer's contribution was 5.26% through June 30th and 4.76% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2019, the District contributed \$26,182, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2018, the District contributed \$25,543, or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2019, the District reported a liability for its proportionate share of the net OPEB liability of \$317,149. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and was rolled forward using generally accepted actuarial procedures. At December 31, 2018, the District reported a liability for its proportionate share of the net OPEB liability of \$312,627. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2019 was .01886 percent, which was an increase of .00125 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized OPEB expense of \$38,591. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 95,691
Changes of assumptions	93,847	628
Net difference between projected and actual earnings on Plan investments	-	14,086
Changes in proportion and differences between District contributions and proportionate share of contributions	20,207	501
District contributions subsequent to the measurement date	<u>18,344</u>	<u>-</u>
Total	<u>\$ 132,398</u>	<u>\$ 110,906</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The \$18,344 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020. This includes an adjustment of \$6,810 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,

2020	\$	1,446
2021	\$	1,446
2022	\$	5,925
2023	\$	(2,663)
2024	\$	(2,793)
2025	\$	(213)

Actuarial Assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.00% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post – 65	Initial trend starting at 4.05% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2019 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	6.25%

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2019, was 5.68%, for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2019, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index”. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net OPEB liability calculated using the discount rate as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount rate	Proportionate share of net OPEB liability
1% decrease	4.68%	\$ 424,850
Current discount rate	5.68%	\$ 317,149
1% increase	6.68%	\$ 228,412

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate share of net OPEB liability
1% decrease	\$ 235,866
Current trend rate	\$ 317,149
1% increase	\$ 415,716

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. CONSTRUCTION COMMITMENTS

The District regularly engages in construction projects to expand water lines and access throughout its service area. The District generally applies for grant money to fund these projects. As of December 31, 2019 and 2018, the District had construction in progress of \$606,656 and \$332,260, respectively, related to various small projects.

11. PRIOR YEAR RESTATEMENT OF NET POSITION

During 2018, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Net position, as previously reported	\$ 49,633,613
Beginning net OPEB liability	<u>(275,586)</u>
Net position, as restated	<u>\$ 49,358,027</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

12. SUBSEQUENT EVENT

PSC Order – Water Rate Case 2019-00268

On July 31, 2019, the District filed an application with the Public Service Commission (PSC), requesting to adjust its rate for water service. In the application, the District requested rates that would increase annual water sales revenues by \$1,002,832, a 47.56% increase. Following an intensive analysis, the PSC ordered on January 31, 2020, the District to increase rates with a two-year phase in process. The retail water service rates in year one are calculated in order to recover approximately 66.6 percent of the retail revenue increase and the rates in year two are calculated in order to recover the full amount of the retail revenue increase for the District. In conclusion, the PSC determined that a revenue increase of \$646,151 from water service rates was necessary to generate the overall revenue requirement for the District.

REQUIRED SUPPLEMENTARY INFORMATION

**KNOTT COUNTY WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Four Calendar Years**

	2019	2018	2017	2016
District's proportion of the net pension liability	0.01886%	0.01761%	0.01727%	0.01672%
District's proportionate share of the net pension liability (asset)	\$ 1,326,432	\$ 1,072,442	\$ 1,010,749	\$ 823,295
District's covered employee payroll	\$ 514,991	\$ 476,238	\$ 460,392	\$ 442,662
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	257.56%	225.19%	219.54%	185.99%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.32%	55.50%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's calendar year payroll, reported on the Schedule of Contributions.

The measurement date of the net pension liability is 6 months preceding the calendar year of the District.

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS - PENSION
Last Four Calendar Years**

	2019	2018	2017	2016
Contractually required employer contribution	\$ 92,829	\$ 77,086	\$ 63,249	\$ 60,741
Contributions relative to contractually required employer contribution	<u>92,829</u>	<u>77,086</u>	<u>63,249</u>	<u>60,741</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 530,184	\$ 504,764	\$ 447,451	\$ 435,595
Employer contributions as a percentage of covered-employee payroll	17.51%	15.27%	14.14%	13.94%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The District's covered payroll reported above is payroll for the District's corresponding calendar year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Four Calendar Years**

	2019	2018	2017	2016
District's proportion of the net OPEB liability	0.01886%	0.01761%	0.01727%	0.01727%
District's proportionate share of the net OPEB liability (asset)	\$ 317,149	\$ 312,627	\$ 347,146	\$ 272,291
District's covered employee payroll	\$ 514,991	\$ 476,238	\$ 460,392	\$ 442,662
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	61.58%	65.65%	75.40%	61.51%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.39%	unavailable

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's calendar year payroll, reported on the Schedule of Contributions.

The measurement date of the net OPEB liability is 6 months preceding the calendar year of the District.

The above schedule will present 10 years of historical data, once available.

KNOTT COUNTY WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS - OPEB
Last Four Calendar Years

	2019	2018	2017	2016
Contractually required employer contribution	\$ 26,182	\$ 25,543	\$ 20,757	\$ 21,446
Contributions relative to contractually required employer contribution	<u>26,182</u>	<u>25,543</u>	<u>20,757</u>	<u>21,446</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 530,184	\$ 504,764	\$ 447,451	\$ 435,595
Employer contributions as a percentage of covered-employee payroll	4.94%	5.06%	4.64%	4.92%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the District's corresponding calendar year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

SUPPLEMENTARY INFORMATION

**KNOTT COUNTY WATER AND SEWER DISTRICT
BUDGETARY COMPARISON SCHEDULE
for the year ended December 31, 2019**

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
OPERATING INCOME				
Water service	\$ 2,181,000	\$ 2,181,000	\$ 2,160,378	\$ (20,622)
Sewer service	-	-	94,640	94,640
Penalties	-	-	18,043	18,043
Miscellaneous income	210,000	210,000	45,115	(164,885)
Reconnection and collection fees	-	-	1,074	1,074
	<u>2,391,000</u>	<u>2,391,000</u>	<u>2,319,250</u>	<u>(71,750)</u>
Total operating income				
OPERATING EXPENSES				
Salaries and fringe benefits	842,682	842,682	1,055,154	(212,472)
Commissioners	30,200	30,200	28,900	1,300
Office and advertising expense	1,000	1,000	6,300	(5,300)
Water consumption	95,000	95,000	80,724	14,276
Electricity	475,000	475,000	437,602	37,398
Telephone	13,000	13,000	15,004	(2,004)
Travel and training	4,500	4,500	5,789	(1,289)
Rents	-	-	471	(471)
Contractual fees	189,000	189,000	223,818	(34,818)
Vehicle expense	45,000	45,000	47,465	(2,465)
Operating supplies and maintenance	515,820	515,820	378,715	137,105
Licenses, permits, dues, and fees	7,250	7,250	6,858	392
Insurance and bonds	63,000	63,000	57,521	5,479
	<u>2,281,452</u>	<u>2,281,452</u>	<u>2,344,321</u>	<u>(62,869)</u>
Total operating expense				
Operating income (loss) before depreciation	109,548	109,548	(25,071)	(134,619)
Depreciation expense	<u>1,310,520</u>	<u>1,310,520</u>	<u>1,364,456</u>	<u>(53,936)</u>
OPERATING (LOSS)	(1,200,972)	(1,200,972)	(1,389,527)	(188,555)
Non-operating income (expenses)				
Interest income	-	-	6,153	6,153
Refunds to customers	-	-	(282)	(282)
Interest expense	<u>(18,037)</u>	<u>(18,037)</u>	<u>(18,147)</u>	<u>(110)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,219,009)	(1,219,009)	(1,401,803)	(182,794)
Capital contributions				
Tap fees	-	-	31,409	31,409
Contributed capital	<u>-</u>	<u>-</u>	<u>2,300,901</u>	<u>2,300,901</u>
CHANGE IN NET POSITION	<u>\$ (1,219,009)</u>	<u>\$ (1,219,009)</u>	<u>\$ 930,507</u>	<u>\$ 2,149,516</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
BUDGETARY COMPARISON SCHEDULE
for the year ended December 31, 2018**

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
OPERATING INCOME				
Water service	\$ 2,004,000	\$ 2,004,000	\$ 2,121,398	\$ 117,398
Sewer service	-	-	92,007	92,007
Penalties	-	-	21,478	21,478
Miscellaneous income	40,000	40,000	8,846	(31,154)
Reconnection and collection fees	-	-	2,794	2,794
	<u>2,044,000</u>	<u>2,044,000</u>	<u>2,246,523</u>	<u>202,523</u>
OPERATING EXPENSES				
Salaries and fringe benefits	856,393	856,393	970,630	(114,237)
Commissioners	30,200	30,200	30,200	-
Office and advertising expense	1,000	1,000	853	147
Water consumption	93,400	93,400	94,251	(851)
Electricity	417,026	417,026	441,392	(24,366)
Telephone	11,000	11,000	13,236	(2,236)
Travel and training	3,500	3,500	4,764	(1,264)
Rents	1,500	1,500	3,705	(2,205)
Contractual fees	172,500	172,500	195,504	(23,004)
Vehicle expense	31,000	31,000	42,124	(11,124)
Operating supplies and maintenance	290,798	290,798	358,609	(67,811)
Licenses, permits, dues, and fees	-	-	14,916	(14,916)
Bad debt expense	7,020	7,020	62,875	(55,855)
Insurance and bonds	55,000	55,000	62,638	(7,638)
	<u>1,970,337</u>	<u>1,970,337</u>	<u>2,295,697</u>	<u>(325,360)</u>
Total operating expense				
Operating income before depreciation	73,663	73,663	(49,174)	(122,837)
Depreciation expense	<u>1,258,024</u>	<u>1,258,024</u>	<u>1,307,466</u>	<u>(49,442)</u>
OPERATING (LOSS)	(1,184,361)	(1,184,361)	(1,356,640)	(172,279)
Non-operating income (expenses)				
Interest income	-	-	975	975
Refunds to customers	-	-	(827)	(827)
Gain on disposal of capital asset	-	-	7,248	7,248
Interest expense	<u>(20,713)</u>	<u>(20,713)</u>	<u>(20,315)</u>	<u>398</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,205,074)	(1,205,074)	(1,369,559)	(164,485)
Capital contributions				
Tap fees	-	-	28,350	28,350
Contributed capital	-	-	<u>2,397,400</u>	<u>2,397,400</u>
CHANGE IN NET POSITION	<u>\$ (1,205,074)</u>	<u>\$ (1,205,074)</u>	<u>\$ 1,056,191</u>	<u>\$ 2,261,265</u>



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

The Board of Commissioners
Knott County Water and Sewer District
Vicco, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knott County Water and Sewer District (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Knott County Water and Sewer District's basic financial statements and have issued our report thereon dated March 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Knott County Water and Sewer District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2019-002.

Knott County Water and Sewer District's Response to Findings

The Knott County Water and Sewer District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Knott County Water and Sewer District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
March 25, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Commissioners
Knott County Water and Sewer District
Vicco, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Knott County Water and Sewer District's (the District's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
March 25, 2020

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended December 31, 2019**

Federal Grant/Pass Through Grantor/Program Title	Federal CFDA Number	Grantor Number	Grant Award Period	Expenditures
<u>U.S. Department of the Interior:</u>				
Passed through from Commonwealth of Kentucky, Division of Abandoned Mine Lands				
Abandoned Mine Land Reclamation	15.252	PO2 128 1800001288	09/15/17-06/30/19	\$ 1,024,940
	15.252	PO2 128 1900000757	10/01/18-06/30/21	675,664
	15.252	PO2 128 2000000467	10/01/19-01/31/21	<u>39,194</u>
Total Department of the Interior				<u>1,739,798</u>
TOTAL FEDERAL AWARDS (INCLUDED IN CONTRIBUTED CAPITAL)				<u>\$ 1,739,798</u>

The Organization did not pass through any funds to subrecipients.

Note 1 - Basis of Presentation

This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 - Indirect Cost Rates

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended December 31, 2019**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified Yes No
 Significant deficiencies identified that are not considered to be material weaknesses Yes None reported

Noncompliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes No
 Significant deficiencies identified that are not considered to be material weaknesses Yes None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in

accordance with 2 CFR 200.516(a)? Yes No

Major Programs:

CFDA Number	Name of Federal Program or Cluster
15.252	Abandoned Mine Lands (AML) Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as a low-risk auditee?

 Yes No

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended December 31, 2019**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2019-001 – Internal Control over Financial Reporting

Criteria:

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

Cause:

The District lacks personnel with the expertise to prepare its financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

Effect:

The auditor to prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation:

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the financial statements.

2019-002 – Board Member Health Insurance

Criteria:

KRS 74.020(3) states that a Commissioner who participates in an official action by the water district board of commissioners which results in a direct financial benefit to him may be removed from office as provided by KRS 65.007 or 74.025.

Condition:

The Knott County Board of Commissioners received health insurance benefits that had been approved by current members of the Board of Commissioners.

Cause:

The Board of Commissioners relied on Public Service Commission (PSC) Staff Opinion 2013-012, which indicated that entities may provide health care coverage to their officers and employees, including their elected officers. However, the opinion did also reference KRS 74.020(3) and warned of the possibility of removal from office.

Effect:

Members of the Knott County Board of Commissioners participated in an official action which resulted in a direct financial benefit to themselves. During the year ended December 31, 2019, the District paid approximately \$42,000 in health insurance premiums on behalf of the Board of Commissioners. As a result, the PSC determined that four members of the Board of Commissioners violated KRS 74.020(3) and may be removed from their positions on the board. The Commission disallowed any recovery of expenses associated with providing insurance to the board.

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended December 31, 2019**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)

2019-002 – Board Member Health Insurance (continued)

Recommendation:

We recommend that the District take steps to address the noncompliance with KRS 74.020(3) and to comply with the PSC's order regarding the cessation of providing health insurance benefits to board commissioners.

RESPONSE:

Due to the PSC Order 2019-00268, all board members who were receiving benefits have since resigned or were replaced. All current board members are only receiving the monetary compensation allowed as stated in KRS 74.020(6).

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

Finding 2018 -001 – Internal Control over Financial Reporting

Status: Repeated as Finding 2019-001

EXHIBIT B
DESCRIPTION OF
PROPERTY

Knott County Water & Sewer District (KCWSD) was created by the Knott County Fiscal Court on February 10, 1999 to be governed and operated under the rules and procedures in KRS chapter 74, relating to water districts and KRS chapter 220 relating to sanitation districts. The entity received operational activities and assets of the district formerly known as the Caney Creek Water District and to the best of my knowledge there was no purchase cost for the acquisition. Since that time, KCWSD has expanded its operating activities into areas in Knott County not previously served with potable water and sewer collection services by building a water treatment plant in 2009 for approximately \$12,000,000 and was completed funded by multiple agencies. As of Year End 2019, KCWSD has \$57,639,469 in assets, 260 miles of main line, and over 3,000 customers.

EXHIBIT C
KIA AND RUS
LOANS

**ASSISTANCE AGREEMENT
BETWEEN THE KENTUCKY INFRASTRUCTURE AUTHORITY
AND
KNOTT COUNTY WATER & SEWER DISTRICT**

TRANSCRIPT OF PROCEEDINGS

**Peck, Shaffer & Williams LLP
Covington, Kentucky**

INDEX TO TRANSCRIPT OF PROCEEDINGS

In re: Assistance Agreement between Kentucky Infrastructure Authority (the "Authority") and Knott County Water & Sewer District (the "Governmental Agency"), dated as of January 1, 2004

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

DISTRIBUTION LIST

Ms. Alice Ritchie, Chairman
Knott County Water and Sewer District
Post Office Box 884
Hindman, Kentucky 41822

Kentucky Infrastructure Authority
375 Versailles Road
Frankfort, Kentucky 40601

Ms. Linda Amos Wickliffe
National City Bank of Kentucky
Corporate Trust Department
101 South Fifth Street, 3rd Floor
Louisville, Kentucky 40202

Dirk M. Bedarff, Esq.
Peck, Shaffer & Williams LLP
118 W. Fifth Street
Covington, Kentucky 41011

26961.1

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LANCE A. DANIELS
E-Mail:lanced@foothills.net

January 13, 2004

Kentucky Infrastructure Authority
375 Versailles Road
Frankfort, KY 40602

**RE: ASSISTANCE AGREEMENT BY AND BETWEEN KENTUCKY
INFRASTRUCTURE AUTHORITY AND KNOTT COUNTY
WATER & SEWER DISTRICT DATED AS OF JANUARY 1, 2004**

Ladies and Gentlemen:

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

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

Based upon my review I am of the opinion that:

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

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

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

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

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

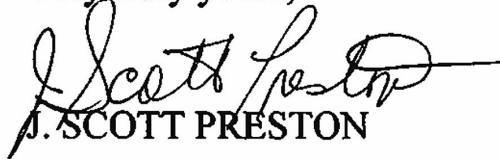
6) To the best of my knowledge after due inquiry there is no action, suit, proceedings or investigation at law or in equity before any Court, public board or body pending, or threatened against, affecting or questioning (I) the valid existence of the Governmental Agency (ii) the right or title of the members and officers of the Governmental

Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Assistance Agreement or the application of any monies or security therefor, (iv) the construction of the project, (v) the validity or enforceability of the Service Charges or (vi) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Assistance Agreement.

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

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

Very truly yours,



J. SCOTT PRESTON

SP/das

Re: Assistance Agreement between the Kentucky Infrastructure Authority ("KIA") and Knott County Water & Sewer District (the "Governmental Agency"), dated as of January 1, 2004

GENERAL CLOSING CERTIFICATE OF GOVERNMENTAL AGENCY

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

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

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

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

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

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

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

respect to the authorization or delivery by the Governmental Agency of the Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with the Assistance Agreement.

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

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

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

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

WITNESS our signatures, this 14th day of Jan., 2004.

GOVERNMENTAL AGENCY:
KNOTT COUNTY WATER & SEWER DISTRICT

By: Alice G. Ritchie
Name: Alice Ritchie
Title: Chairman

ATTEST:

By: Rona Campbell
Name: Rona Campbell
Title: Secretary

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

FUND C

PROJECT NUMBER: C03-03
BORROWER: Knott County Water & Sewer District
BORROWER'S ADDRESS: Post Office Box 884
Hindman, Kentucky 41822
DATE OF ASSISTANCE AGREEMENT: January 1, 2004

Page

ASSISTANCE AGREEMENT

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FUND C
ASSISTANCE AGREEMENT

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

WITNESSETH

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

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

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of April 1, 1989 (the "Indenture") between the Authority and National City Bank of Kentucky (F/K/A First Kentucky Trust Company) (the "Trustee") in order to Provide funding for its Governmental Agencies Program; and

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

WHEREAS, the Governmental Agency desires to enter into this Assistance Agreement with the Authority for the Purpose of securing from the Authority the repayable Loan hereinafter identified in order to secure to the Governmental Agency the advantages of the credit of the Authority and its ability to finance the costs incident to the Project on behalf of the Governmental Agency; and

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

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

ARTICLE I
DEFINITIONS

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

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

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

"Applicable Interest Rate" shall mean the rate(s) of interest which shall be used as part of the repayment criteria for a Governmental Agency under an Assistance Agreement and shall be determined by the Authority in a manner based upon the source of funds from which the Project to which the Assistance Agreement relates were generated, said term shall include the terms "Interim Rate" and "Final Loan Rate".

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

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

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

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

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

"Commonwealth" shall mean the Commonwealth of Kentucky.

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

"Costs of Issuance" shall mean only the costs of issuing a series of Bonds as designated by the Authority including, but not being limited to, the fees and charges of the financial advisors or underwriters, bond counsel, trustee, rating agencies, bond and official statement printers, costs of any credit enhancement, and such other fees and expenses normally attendant to an issue of the Authority's Bonds.

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

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

"Debt Service Reserve" shall mean the reserve for payment of principal of, interest on, and redemption requirements in respect of the Bonds, created and established by the Indenture.

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

"Final Loan" shall mean the principal amount of the Loan identified in the Project Specifics, consisting of the principal amount of the Loan, the Authority's Costs of Issuance incident to the issuance of its Bonds, the Governmental Agency's pro rata portion of the required Debt Service Reserve and the Governmental Agency's pro rata portion of the market discount or underwriting costs to the Authority in connection with the issuance of its Bonds, which Final Loan amount will be set forth in the Schedule of Payments established upon issuance of Bonds relating to the Loan.

"Final Loan Rate" means the rate identified in the Schedule of Payments; being the rate established in connection with the issuance of Bonds.

"Governmental Agencies Program" shall mean the program authorized by the Act and the Indenture for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

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

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

"Interim Loan" shall mean the principal amount of the Loan identified in the Project Specifics advanced by the Authority to the Governmental Agency to meet all or the designated portion of the costs of Construction.

"Interim Rate" shall mean the rate of interest identified in the Project Specifics which the Interim Loan shall bear from the date of each disbursement and which shall be payable on the Payment Dates set forth in the Project Specifics.

"Interim Term" shall mean the term of the Interim Loan which shall be the period from the first disbursement of Loan Proceeds by the Authority to the Governmental Agency to the date upon which the Authority's Bonds are issued and delivered, or such lesser term in the event the Governmental Agency shall elect to prepay its Interim Loan.

"Issue Date" shall mean, with respect to Bonds of a particular series, the date of delivery of the Bonds of such series specified and determined by the series resolution and series indenture authorizing such Bonds.

"Loan" shall mean the loan effected under this Assistance Agreement from the Authority to the Governmental Agency for the purpose of defraying the costs incidental to the permanent financing of the Construction of the Project and shall include the term "Final Loan".

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

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

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

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

"Schedule of Payments" means the principal and interest requirements of the Final Loan as determined following the issuance of the Authority's Bonds and representing the Governmental Agency's pro rata portion of the principal of the Authority's Bonds and the interest accruing thereon from the date of the delivery of the Authority's Bonds as set forth in Exhibit F hereto.

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

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

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

ARTICLE II

REPRESENTATIONS AND WARRANTIES

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

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

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

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

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

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

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

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

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

(D) To the knowledge of the Governmental Agency, there is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Assistance Agreement or to construct the projects or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Assistance Agreement or the construction of the Project, or in

any way contesting or affecting the validity of this Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Assistance Agreement.

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

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

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

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

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

ARTICLE III

AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

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

Section 3.2. Principal Amount of Final Loan and Interim Loan Established; Disbursement of Funds; Loan Payments. The principal amount of the Interim Loan shall be as identified in the Project Specifics. The Authority shall advance the proceeds of the Interim Loan upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto. Such disbursement under a Requisition for Funds representing a portion of the principal amount of the Loan shall bear interest at the Interim Rate from the date of the disbursement; subject to the requirements set forth in Article IV hereof.

Interest on the Interim Loan shall be payable on the Payment Dates set forth in the Project Specifics and shall be calculated upon the aggregate principal amount of the Interim Loan then advanced from the date of each disbursement until the delivery of the Authority's Bonds after which interest will accrue from said date of delivery at the Final Loan Rate.

The term of the Interim Loan shall be the Period beginning with the disbursement by the Authority on behalf of the Governmental Agency of the amount set forth in Exhibit B and ending upon the date of delivery of the Authority's Bonds and the payment of the Interim Loan from the proceeds of said Bonds. Pursuant to the terms of the Indenture, the Interim Loan shall be due and payable on the next February 1 of the year that the General Assembly of the Commonwealth does not meet, unless the Authority shall have determined prior to such date that the amounts deposited in the Revenue Fund and the Debt Service Fund prior to the next Interest Payment Date will be sufficient to pay all interest and principal installments coming due on such Interest Payment Date. In addition, if the Authority fails to issue Bonds for the payment of the Interim Loan within three years from the date of this Assistance Agreement, the Interim Loan shall be payable in full unless the Authority agrees to other amortization provisions for the Interim Loan.

Upon the delivery of the Authority's Bonds, the exact principal amount of the Final Loan shall be calculated based upon the Interim Loan, accrued interest on the Interim Loan then unpaid, and the Governmental Agency's pro rata share of the required Debt Service Reserve, market discount, and Costs of Issuance incurred by the Authority in connection with the issuance of its Bonds.

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

Notwithstanding the right granted under the preceding paragraph, upon the determination by the Authority of the approximate date of delivery of its Bonds, the Authority shall advise the Governmental Agency of its intention to proceed with the authorization of its Bonds and the Governmental Agency shall then have thirty (30) days from its receipt of said notice to exercise its option to prepay the Interim Loan. Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Interim Loan shall terminate and the terms of the Indenture shall govern the terms of the prepayment of all amounts owing the Authority from the Governmental Agency as set forth in Section 3.5 hereof.

Section 3.4. Amortization of Final Loan; Schedule of Payments Incorporated. Upon the delivery of the Authority's Bonds and the establishment of the Final Loan amount, the Authority shall calculate the Schedule of Payments reflecting the Governmental Agency's pro rata participation in the Authority's Bonds.

As soon as practicable following the delivery of the Authority's Bonds, the Authority shall forward the Schedule of Payments to the Governmental Agency for review and acceptance, and upon the execution of the Schedule of Payments by the chief executive officer of the Governmental Agency, said Schedule of Payments shall automatically, without any further action by either of the parties to this Assistance Agreement, become a part of this Assistance Agreement as Exhibit F and shall be attached to the permanent executed copies of this Assistance Agreement.

Interest on the Final Loan shall be payable on the dates set forth in the Schedule of Payments based, in part, upon the interest rate borne by the Bonds until the payment in full of the Governmental Agency's pro rata portion of the Authority's Bonds as reflected by the Schedule of Payments. Principal due on the Final Loan shall be payable in accordance with the Schedule of Payments.

Section 3.5. Authority's Discretion Regarding Terms of Bonds; Prepayment of Final Loan Restricted. The terms upon which the Authority issues its Bonds to fund the Final Loan to the Governmental Agency shall be in accordance with the terms of the Indenture. The Authority, in its sole discretion, shall establish the terms of repayment and prepayment for its Bonds. Notwithstanding the foregoing, it is anticipated that the Authority's Bonds, and accordingly, the Governmental Agency's pro rata responsibility thereunder as represented by the Final Loan under the Schedule of Payments, will mature over the approximate Final Loan Term from the date of delivery of the Bonds, as set forth in the Project Specifics.

The terms under which the Bonds of the Authority may be prepaid or redeemed prior to their stated maturities shall be established by the Authority in its sole discretion at the time of the authorization of the Bonds. The Governmental Agency shall be bound by the terms of prepayment established by the Authority for its Bonds which shall apply to the Governmental Agency's pro rata portion of the indebtedness represented by the Bonds. Any refinancing or defeasance of the Authority's Bonds shall be initiated at the sole discretion of the Authority which shall determine the terms of said refinancing; provided, however, that any such refinancing program shall not increase the annual obligations of the Governmental Agency under the Final Loan as represented by the Schedule of Payments without the prior written consent of the Governmental Agency.

Section 3.6. Subordination of Final Loan. The Authority hereby agrees that the security interest and source of payment for the Final Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT OF INTERIM LOAN;
REQUISITION FOR FUNDS

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

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

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

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

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

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

(F) The Project was not advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals were received by the Governmental Agency and furnished to the Authority.

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

(H) A work progress schedule utilizing a method of standard acceptance in the engineering community was prepared prior to the institution of construction in connection with each construction contract to indicate the proposed schedule as to completion of the Project, and same was maintained monthly thereafter to indicate the actual construction progress of the Project.

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

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

(K) The Governmental Agency proceeded expeditiously with and completed the Project in accordance with the approved surveys, plans, specifications and designs or amendments thereto, prepared by the Engineers to the Governmental Agency and approved by state and federal agencies, but only to the extent such approvals were required.

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

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

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

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

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

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

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

Section 4.2. Disbursements of Interim Loan; Requisition for Funds. The Governmental Agency shall submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) a Requisition for Funds on July 18, 1994 (or such other designated period as is acceptable to the Authority), in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

(A) A full and complete accounting of the costs of the Project; and

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

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

ARTICLE V

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

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

Section 5.2. Governmental Agency's Obligation to Repay Loan. The obligation of the Governmental Agency to repay to the Authority the amount of the Final Loan from the Service Charges shall not be revocable, and in the event that services supplied by the Project shall cease, or be suspended for any reason, the Governmental Agency shall continue to be obligated to repay the Final Loan from the Services Charges. In the event the Governmental Agency defaults in the payment of any Service Charges to the Authority, the amount of such default shall bear interest at the Final Loan Rate, or ten percent (10%) per annum, whichever is the greater, from the date of the default until the date of the payment thereof.

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

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

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

Section 5.5. Covenant to Charge Sufficient Rates; Reports; Inspection. The Governmental Agency hereby irrevocably covenants and agrees with the Authority:

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

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

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

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

Section 5.6. Segregation of Funds. The Governmental Agency shall at all times account for the income and revenues of the System and distinguish same from all other revenues, moneys and funds of the Governmental Agency, if any.

Section 5.7. Mandatory Sewer Connection. In the event that the Project consists of sanitary sewer facilities, the Governmental Agency hereby irrevocably covenants and agrees with the Authority that it will, to the maximum extent permitted by Kentucky law, and by means of ordinance, or other appropriate legislative order or action, mandatorily require the connection to and use of, the sanitary sewers constituting the Project by all persons owning, renting or occupying premises generating pollutants where such sanitary sewers are reasonably available to such premises, and to exhaust, at the expense of the Governmental Agency, all remedies for the collection of Service Charges, including, either directly or indirectly, pursuant to authority granted by Sections 96.930 to 96.943, inclusive, of the Kentucky Revised Statutes, and the Act, causing termination of water services to any premises where the bill for sewer services is delinquent and foreclosure and decretal sale in respect of improvement benefit assessments which are delinquent.

Section 5.8. Termination of Water Services Delinquent Users. In the event the Project consists of water facilities the Governmental Agency covenants and agrees that it shall, pursuant to applicable provisions of law, to the maximum extent authorized by law, enforce and collect the Service Charges imposed upon users of the Project and facilities constituting the System, and will promptly cause water service to be discontinued to any premises where any billing for such facilities and services shall not be paid in a timely manner.

ARTICLE VI

OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

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

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

Section 6.3. Establishment of Completion Date. The completion date for the Project shall be evidenced to the Authority by a certificate signed by the Engineer and an authorized representative of the Governmental Agency stating that (i) the Construction has been completed and all labor, services, materials, supplies, machinery and equipment used in such Construction have been paid for, (ii) all other facilities necessary in connection with the Project have been acquired, constructed, equipped and installed and all costs and expenses incurred in connection therewith have been paid, (iii) the Project and all other facilities in connection therewith have been acquired, constructed, equipped and installed to his satisfaction.

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

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

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

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

Section 6.8. Financial Statements. Within one hundred eighty (180) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority,

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

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

Section 6.10. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not sell, mortgage, or in any manner dispose of, or surrender control or otherwise dispose of any of the facilities of the System or any part thereof without the prior written consent of the Authority, which consent shall not be unreasonably withheld (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 6.11. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act and this Assistance Agreement in accordance with the terms of such provisions.

ARTICLE VII

MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

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

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

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

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

Section 7.5. Covenant to Insure - Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.

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

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

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

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

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

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

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

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

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

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

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

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

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

(D) A default by the Governmental Agency under the provisions of any agreements relating to its Debt Obligations which would in the opinion of the Authority materially and adversely affect the performance of the obligations of the Governmental Agency under the Agreement.

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

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

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

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

Section 8.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Authority under this Assistance Agreement, the Authority shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Authority may, with or

without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

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

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

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

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

ARTICLE IX

MISCELLANEOUS PROVISIONS

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

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

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

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

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

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

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

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

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


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

ATTEST:

KENTUCKY INFRASTRUCTURE AUTHORITY



Title: Secretary

By: 
Title: Exec Director

GOVERNMENTAL AGENCY:
KNOTT COUNTY WATER & SEWER DISTRICT

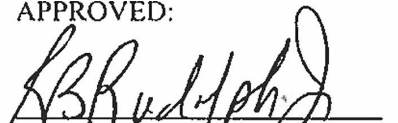

ATTEST:

By: 

Title: Secretary

By: 
Title: Chairman

APPROVED:


SECRETARY/FINANCE AND ADMINISTRATION CABINET OF THE COMMONWEALTH OF KENTUCKY


EXAMINED:


LEGAL COUNSEL TO THE KENTUCKY INFRASTRUCTURE AUTHORITY

EXHIBIT A
PROJECT SPECIFICS
C03-03

GOVERNMENTAL AGENCY:

Name: Knott County Water and Sewer District
Address: Post Office Box 884
Hindman, Kentucky 41822

Contact Person: Alice Ritchie, Chairman
Telephone: 606-785-5584

ENGINEERS:

Name: RM Johnson Engineering, Inc
Address: Post Office Box 444
Hindman, Kentucky 41822

Contact Person: Ron Johnson
Telephone: 606-785-5926

SYSTEM: Drinking Water**PROJECT:** WX21119101

This project consist of approximately 70,000 feet of 8 inch and smaller water lines located along Highway 899 from Pippa Passes east to Mallie and from Pippa Passes west to the junciont of Highway 7. An estimated 350 households are in the project area. This project is part of a larger project that includes a 2 MGD water treatment plant at Carr Creek Lake.

PROJECT COST:

Administrative	26,800
Legal	15,000
Land and Associated Cost	15,000
Planning	71,280
Engineering Fees - Design	369,220
Engineering Fees - Construction	10,000
Engineering Fees - Inspection	56,000
Construction	1,740,096
Equipment	220,000
Contingency	103,425
Total Budget	2,626,821

FUNDING SOURCES:

Coal Development Fund	1,000,000
Federal Earmark	250,000
Coal Severance	818,500
KIA Fund C	558,321
Total Funding	2,626,821

TOTAL LOAN:

Project Cost	558,321
Debt Service Reserve (10%)	63,808
Cost of Issuance (2.5%)	15,952
Total	<u>638,081</u>

LOAN AMOUNT:	558,321
LOAN RATES:	5.50%
ADMINISTRATIVE FEE:	0.20%
LOAN TERM:	20 years
DEFAULT RATE:	10.00%

ESTIMATED ANNUAL DEBT SERVICE: \$54,277

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

DEBT OBLIGATIONS CURRENTLY OUTSTANDING:

Issue	Balance	Maturity
1982 Revenue Bonds	\$29,000	January 1, 2007

LIABILITY INSURANCE COVERAGE:

Death or Personal Injury (per person)
 Death or Personal Injury (per occurrence)
 Property Damage on System

=====
 ===== *See Attached*
 =====

Kentucky Association of Counties All Lines Fund

380 King's Daughters Drive
Frankfort, Kentucky 40601

Declarations Page

Policy Number: KALF 0871

Policy Period: 7/1/2003 to 7/1/2004

Insured Name and Address:

Knott County Water & Sewer District
P.O. Box 884
Hindman, KY 41822

For customer service please call

(800) 264-5253

Issued: 6/4/2003

Business Description: Water District

In return for the payment of the premium, and subject to all the terms of the policy, we agree to provide the insurance stated in this binder.

<i>Coverage</i>			<i>Deductible</i>
<i>General Liability (Per OCC/AGG)</i>	3,000,000	5,000,000	0
<i>Law Enforcement (Per OCC/AGG)</i>	NCD	NCD	NCD
<i>Errors / Omissions (Per OCC/AGG)</i>	3,000,000	3,000,000	1,000
<i>Employment Practices (Per claim/AGG)</i>	3,000,000	3,000,000	1,000
<i>Auto Liability (CSL)</i>	3,000,000		0
Auto Comprehensive	ACV		250
Auto Collision	ACV		250
P.I.P. (No Fault)	10,000	10,000	0
Under Insured / Un-Insured	60,000	60,000	0
Non Owned Auto Coverage	<input checked="" type="radio"/> Primary <input type="radio"/> Excess Only		
<i>Property - Buildings</i>	NCD		NCD
Personal Property	NCD		NCD
Boiler & Machinery	NCD		NCD
Inland Marine & EDP	NCD		NCD
Business Income	500,000	500,000	0
Flood	NCD	NCD	NCD
Earthquake	N/A	N/A	N/A
<i>Crime (Other than Employee Dishonesty)</i>	150,000		0
<i>Employee Dishonesty (Policy #3-764-754-7)</i>	150,000		250
<i>Legal Defense Coverage</i>	100,000		0

Policy

Exceptions:

Authorized
Representative:



Date: 6/4/2003

EXHIBIT B

**REQUEST FOR PAYMENT WITH RESPECT TO
ASSISTANCE AGREEMENT DATED JANUARY 1, 2004**

Request No. ___

Dated

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

FROM: Knott County Water & Sewer District ("Governmental Agency")

Gentlemen:

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

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

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

ELIGIBLE PROJECT EXPENSES INCURRED

Contractor

Expenses
Incurred

Total

ALLOCATION OF FUNDING FOR EXPENSES

Funding Source
Totals

Portion of
Expenses this Request

Portion of Expenses
Total to Date

Respectfully submitted,

Governmental Agency
Knott County Water & Sewer District

By: _____
Title: _____

**Certificate of Consulting Engineers as to
Payment Request**

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

Engineer/Consultant

Firm Name

EXHIBIT C

SCHEDULE OF SERVICE CHARGES

FOR Southwest Portions of Knott County
Community, Town or City

P.S.C. KY. NO. _____

SHEET NO. _____

CANCELLING P.S.C. KY. NO. _____

SHEET NO. _____

Knott County Water and Sewer District
(Name of Utility)

RATES AND CHARGES

MONTHLY WATER RATES

<u>3/4" Meter</u>	<u>Rates</u>
First 2,000 Gallons	\$18.25 Minimum Bill
Next 8,000 Gallons	5.63 Per 1,000 Gallons
Over 10,000 Gallons	4.55 Per 1,000 Gallons
 <u>2" Meter</u>	
First 15,000 Gallons	\$86.00 Minimum Bill
Over 15,000 Gallons	4.55 per 1,000 Gallons

MONTHLY SEWER RATES

<u>3/4" Meter</u>	
First 2,000 Gallons	\$13.80 Minimum Bill
Next 8,000 Gallons	4.38 per 1,000 Gallons
Over 10,000 Gallons	3.42 per 1,000 Gallons
 <u>2" Meter</u>	
First 15,000 Gallons	65.77 Minimum Bill
Over 15,000 Gallons	3.42 per 1,000 Gallons

Sewer Only Customers
Residential Flat Rate

26.25

DATE OF ISSUE May 20, 2003
Month / Date / Year

DATE EFFECTIVE May 20, 2003
Month / Date / Year

ISSUED BY William A. Litchie
(Signature of Officer)

TITLE Chairperson

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2002-00292 DATED _____

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

MAY 20 2003

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

BY Charles L. Dow
EXECUTIVE DIRECTOR

EXHIBIT D

RESOLUTION

RESOLUTION OF THE KNOTT COUNTY WATER & SEWER DISTRICT APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT BETWEEN THE KNOTT COUNTY WATER & SEWER DISTRICT AND THE KENTUCKY INFRASTRUCTURE AUTHORITY.

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

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

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

NOW, THEREFORE, BE IT RESOLVED by the Knott County Water & Sewer District, as follows:

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

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

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

ADOPTED on

Chairman

Attest:

Title: Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Knott County Water & Sewer District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Commissioners at a meeting duly held on _____, 2004; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this ____ day of _____, 2004.

Secretary

EXHIBIT E**OPINION OF COUNSEL****[Letterhead of Counsel to Governmental Agency]****[Date]**

**Kentucky Infrastructure Authority
375 Versailles Road
Frankfort, Kentucky**

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and Knott County Water & Sewer District dated as of January 1, 2004

Ladies and Gentlemen:

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

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

Based upon my review I am of the opinion that:

- 1) The Governmental Agency is a duly organized and existing political subdivision or body politic of the Commonwealth of Kentucky validly existing under the Constitution and statutes of the Commonwealth of Kentucky.
- 2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.
- 3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

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

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

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

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

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

Very truly yours,

EXHIBIT F

TO ASSISTANCE AGREEMENT BETWEEN
KNOTT COUNTY WATER & SEWER DISTRICT,
("GOVERNMENTAL AGENCY") AND
THE KENTUCKY INFRASTRUCTURE AUTHORITY

1) Total C03-03 Loan to be Repaid by
Governmental Agency to
Kentucky Infrastructure Authority \$

Principal and Interest payable
on each June 1 and December 1

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

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

KENTUCKY INFRASTRUCTURE AUTHORITY

By: _____

Title: _____

KNOTT COUNTY WATER & SEWER DISTRICT,
Governmental Agency

By: _____

Title: _____

ATTEST:

Title: _____

EXHIBIT G

ADDITIONAL COVENANTS AND AGREEMENT

1. The Governmental Agency covenants and agrees to review revenues and expenses at the end of Fiscal Year 2004 and to adopt and implement a rate increase, if required, sufficient to meet operation and maintenance expenses and all debt service requirements.

36959 1

RESOLUTION

RESOLUTION OF THE KNOTT COUNTY WATER & SEWER DISTRICT
 APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT
 BETWEEN THE KNOTT COUNTY WATER & SEWER DISTRICT AND THE
 KENTUCKY INFRASTRUCTURE AUTHORITY.

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

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

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

NOW, THEREFORE, BE IT RESOLVED by the Knott County Water & Sewer District, as follows:

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

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

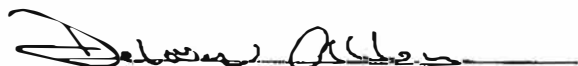
SECTION 3. That this resolution shall take effect at the earliest time provided by law.

ADOPTED on January 14, 2004.



 Chairman

Attest:



 Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Knott County Water & Sewer District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Commissioners at a meeting duly held on January 14 2004; that said official action appears as a matter of public record in the official ~~records~~ or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 14th day of

Jan., 2004.

Deloris Allen
Secretary

**EXCERPTS OF MINUTES OF REGULAR BOARD MEETING OF THE
BOARD OF COMMISSIONERS OF THE KNOTT COUNTY WATER AND
SEWER DISTRICT, HELD ON JANUARY 14, 2004**

A regular monthly meeting of the Board of Commissioners (the "Commission") of the Knott County Water and Sewer District was held on January 14, 2004 at 6:00 P.M., E.S.T., at the District's office in Hindman, Kentucky. The local newspaper of general circulation, and local radio station was notified of the regular Board meeting and the public was notified through these news agencies.

The following Commissioners were present:

Alice Ritchie
Delores Allen
MacArthur Combs
Dale Hamilton
Jerry Slone

The following Commissioners were absent:

None

Chairperson Alice Ritchie presided, and Delores Allen, Secretary, recorded the Minutes of the meeting.

*

*

*

Thereupon, the hour of 6:00 P.M., E.S.T., having arrived, the Chairperson called the attention of the Commission to the fact that the following resolution would need to be read and passed by the Board authorizing an Assistance Agreement between the Knott County Water and Sewer District and the Kentucky Infrastructure Authority.

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

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

NOW, THEREFORE, BE IT RESOLVED by the Knott County Water & Sewer District, as follows:

SECTION 1: That the Governing Authority hereby approves and authorizes the Assistance Agreement between the Governmental Agency and the Authority substantially

in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the Project.

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

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

ADOPTED on 1/14/04.


Chairman

Attest:


Secretary

Chairperson Ritchie asked for any discussion or comments by the Board Members. There was no discussion or comments. Board Member Jerry Slone made a motion to approve the Resolution as read and Board Member MacArthur Combs seconded. The Resolution passed unanimously with all Board Members voting aye.

KENTUCKY INFRASTRUCTURE AUTHORITY Minutes of the Full Board

Meeting Date/Location: 1:30 p.m. on August 7, 2003
Kentucky Infrastructure Authority
375 Versailles Road, Frankfort

Members present:

Chair, Secretary Hank List, Natural Resources and Environmental Protection Cabinet
Vice Chair Mayor Shirlee Yassney, representing the Kentucky League of Cities
Mr. Smith Mitchell, permanent alternate, Economic Development Cabinet
Mr. George Burgess, Executive Director, Office of Financial Management, proxy for Secretary
Gordon C. Duke, Finance and Administration Cabinet
Mr. Bob Chandler, proxy for Commissioner Jody Lassiter, Department for Local Government
Mr. Bob Amato, proxy for Mr. Tom Dorman, Executive Director,
Public Service Commission
Mr. Damon Talley, representing the Kentucky Rural Water Association
Mr. Gregory Heitzman, representing the American Water Works Association
Mr. Roy Mundy, representing for-profit private water companies

Members absent:

Mr. Hugh McCormick, representing the Kentucky Association of Counties

Guests:

Ms. Terri Fugate, Office of Financial Management
Ms. Kelli Rice and Mr. Bill Caldwell, DOW, NREPC
Ms. Karen Crabtree, Ms. Mary Lynn Collins, and Mr. Gary Foreman, LRC
Ms. Holly Nicholas, Tetra Tech, Inc.
Mr. Len Hale, Hopkinsville Water Environment Authority
Mr. David Spenard, Office of the Attorney General
Mr. Wayne Thomas, CIMA

PROCEEDINGS

Chair Hank List called a meeting of the Kentucky Infrastructure Authority (KIA) Board to order. Chair Hank List noted a quorum was present and that the press had been notified regarding the meeting.

I. BUSINESS

A. MINUTES

APPROVAL OF MINUTES OF THE KIA FULL BOARD MEETING OF JUNE 5, 2003

Chair Hank List called for a motion to approve the minutes of the June 5, 2003, Full Board meeting. Mr. Damon Talley moved to approve the minutes; Mr. Roy Mundy seconded and the motion carried.

APPROVAL OF MINUTES OF THE KIA EXECUTIVE COMMITTEE MEETING OF JULY 2, 2003

Chair Hank List called for a motion to approve the minutes of the July 2, 2003, Executive Committee meeting. It was noted that Commissioner Jody Lassiter approved the minutes via email response; Mr. Damon Talley moved to ratify the Executive Committee minutes; Mr. Roy Mundy seconded and the motion carried.

B. INTEREST RATE RECOMMENDATION: FUND A, FUND C, FUND F

Mr. Roger Recktenwald, KIA, noted that in regard to Fund A and Fund F, there are two (2) rates, a standard rate and an incentive or lower rate. According to the Authority's regulations there has to be a two-percentage difference between the rates. It was recommended that the current rates remain the same at 1% for incentive and 3% for standard.

With regard to Fund C, which is a market rate program, the Authority is proposing a 3% rate. This rate would be strictly for the interim loan that would eventually be taken out by permanent financing. Whenever bonds are sold for the Fund C program, the rate would be at market rate.

Chair Hank List called for a motion to approved the interest rate recommendation. Mr. Smith Mitchell moved to approve the recommendation. Mr. Damon Talley seconded and the motion carried.

C. RECOMMENDATION REGARDING INTERIM FUNDING FOR COAL AND TOBACCO PROJECTS READY FOR CONSTRUCTION

Mr. Roger Recktenwald, KIA, noted that there were a number of 2003 Coal & Tobacco Development Fund applicants who have indicated that their projects were

ready to begin. In order to allow these projects to move forward, the Authority staff is proposing to use Fund B monies to provide interim funding for the "ready to go" projects. Fund B would then later be reimbursed with proceeds from the Authority's bond sales. A bond sale is anticipated around the end of September or early October 2003, with proceeds becoming available mid-October.

Vice Chair Shirlee Yassney made a motion to approve the recommendation regarding the interim funding. Mr. Damon Talley seconded the recommendation. Chair Hank List noted the motion and the second and motion carried.

D. NEW PROJECTS

1. RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS

FUND A LOAN

For: CITY OF HOPKINSVILLE

Amount: \$4,915,920

Mr. Bill Gatewood, DOW, and Ms. Sandy Williams, KIA, presented the resolution. The City of Hopkinsville, working through its Water Environment Authority, seeks funding for seven (7) sub-projects. These projects comprise Phase IV of a large plan and consist of sewer rehabilitation, pump station rehabilitation and sewer extensions.

The total cost of the project is \$4,979,920, all of which is being requested from Fund A. The interest rate is 1.0% with an estimated annual debt service payment of \$281,638 for a term of twenty (20) years.

There will be no rate increase associated with this project. The average 4000/gallon residential bill is \$13.96. Normal growth, along with additional customers due to system improvements and line extensions, has increased the sewer customer base by over 14%. The Hopkinsville Water Environment Authority provides water and sewer service to the Cities of Hopkinsville, Crofton, and Pembroke and water service to the Christian County Water District service area.

Both the DOW and KIA staff recommended the project for approval.

Chair Hank List called for a motion to approved the resolution. Mr. Damon Talley moved to approve the resolution. Vice Chair Shirlee Yassney seconded and the motion carried.

2. RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS

FUND C LOAN

For: KNOTT COUNTY WATER AND SEWER DISTRICT

Amount: \$560,321

Mr. Kent Anness, KIA, illustrated the location of the project via the WRIS. Mr. John Covington, KIA, presented the resolution. This project consists of approximately 70,000 feet of small water lines located along Highway 899 from Pippa Passes east to Mallie, and from Pippa Passes west to the junction of

Highway 7. An estimated 350 households are in the project area. This project is part of a larger project that includes a 2 mgd water treatment plant at Carr Creek Lake.

The total cost of the project is \$2,626,821, \$558,321 of which is being requested from Fund C. The interest rate is 5.25% with an estimated annual debt service payment of \$56,485.98 for a term of twenty (20) years.

The Knott County Water and Sewer District (the District) has signed an interlocal agreement committing to cooperation with neighboring utilities to provide access to the new water treatment plant.

The District is experiencing tremendous growth with the addition of new customers and the planned construction of a new water treatment plant. This has caused significant cash flow problems. The District imposed a rate increase in May of 2003 that addresses current needs. Of the capital projects the District is currently working on, most of the funding will come from grants. This will allow the District to add customers without a large capital cost, which will, in turn, help the cash flow situation.

The Authority staff recommended the project for approval with the following conditions: 1) The District will pass a resolution committing to a review of revenues and expenses at the end of Fiscal Year 2004 and commit to a rate increase sufficient to cover operating expenses and debt service requirements. 2) The District will take action to improve collection rates and provide documentation of the actions taken to the Authority.

Concern was expressed about customers being able to handle the large rate increases. Mr. John Covington noted that, considering the current customer base, it would cost approximately \$6.00 a month per customer to cover the debt service. If the District gets the additional customers, that will double the customer base and spread the costs.

Chair Hank List called for a motion to approved the resolution. Mr. Greg Heitzman moved to approve the resolution. Mr. Bob Amato seconded and the motion carried.

**3. RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS
FUND C LOAN – Second Supplemental Assistance Agreement
For: SOUTH GRAVES WATER DISTRICT
Amount: \$560,321**

Mr. John Covington, KIA, noted that the Authority has been working with the South Graves Water District (the District) regarding the District's delinquent loan payments. The Authority has been working with restructuring the District's debt that will allow them to repay the Authority's loan and other loans they have outstanding. The District is \$160,000 delinquent on principal and interest.

The Authority is proposing to allow the District to pay interest and service fee only on the Authority loan through 2009. The Authority would capitalize the amount in arrears so that the current outstanding loan balance would be

\$839,073. The Authority would then re-amortize that amount over 15 years starting 2010. The district would pay interest only until 2010. The interest rate would be 5% for both the interest only payments and the re-amortization of the outstanding balance. (The average interest rate is 4.84% on the existing loan, which was rounded to 5% for the restructuring.)

The District has three (3) Rural Development loans outstanding and a bank loan. Capitalizing the 2004 payment, the District will be able to retire two loans, a Rural Development loan and a bank loan. This will improve the District's cash flow. The bank loan is at 9% and the Authority feels it is in the best interest of District's customers to refinance the loan at 5%.

With the restructuring of the existing debt and the current revenues, the system should be able to generate sufficient cash for the new debt service requirements and operating expenses.

As a condition of the above, the Authority is stipulating that the District look at consolidation of services with area utilities. There had been extensive discussions with the Consumer Water District concerning consolidation but nothing came of this effort. It was subsequently determined that a management contract would be in the District's best interest. A Request for Procurement process was completed, with the City of Mayfield being selected for the management contract. The District has agreed to a letter of intent presented by the City of Mayfield to the arrangement, and a three-year contract is to be executed in the near future.

The Authority has placed the following conditions on the District for restructuring the Fund C loan.

1. The District will enter into a management contract with the City of Mayfield for the operation of the system.
2. The District may not terminate or fail to renew extensions to the management contract, or operate the system without the written approval of the Authority.
3. Any changes to the management contract must have prior approval of the Authority.

After Board discussion, it was recommended that additional language be added to a Supplemental Assistance Agreement (the Agreement) for the District which states that the Authority will waive one half of the late fees and the balance will be forgiven when the debt is retired if the District complies with the terms and conditions of the Agreement. The Authority will reserve the right to forgive the remaining late fee balance at anytime upon the request of the District and approval of the Authority's Board.

Mr. Greg Heitzman suggested that the Authority review the management agreement between the District and the City of Mayfield and ensure there are clearly defined provisions. Then, at the end of the three-year management contract, the Board will review the progress of both the District and the City of Mayfield.

Mr. Greg Heitzman made a motion that the Board approve the Supplemental Assistance Agreement as presented with an amendment that one half of the late fees be waived at this time and the remaining balance be deferred to the end of the loan, and that Authority staff review the management contract with the City of Mayfield to ensure appropriate provisions are set out to stipulate the value provided by the City of Mayfield to the South Graves Water District. Mr. Roy Mundy seconded the motion. Chair Hank List noted the motion and the second and the motion carried.

E. AUTHORIZATION FOR REIMBURSEMENT OF CAPITAL EXPENDITURES

Mr. John Covington, KIA, noted that this routine resolution allows the Authority to reimburse expenses that are paid out of the Authority's funds with bond proceeds. The projects listed below are covered under this resolution.

<u>APPLICANT</u>	<u>FUND</u>	<u>AMOUNT</u>
City of Hopkinsville	A	\$ 4,915,920.00
Knott County Water & Sewer Dist.	C	\$ 560,321.00

Chair Hank List called for a motion to approve the resolution. Mr. Damon Talley moved to approve the resolution. Mr. Bob Amato seconded and motion carried.

F. PROJECT CHANGES

1. Update on Request form City of Olive Hill for Reduced Rate on Fund A

Ms. Sandy Williams, KIA, noted that at the June 2003 Board meeting the Board was informed of a request by the City of Olive Hill (the City) to reduce the interest rate on their Fund A loan to 0%, in order to help reduce customer rates. At that time it was felt that the Authority might be able to use the \$600,000 grant out of this year's budget to reduce the City's loan amount. The Authority discovered, after the budget was printed, that it cannot at this time use the \$600,000 for sewer projects; it may only be used for water projects. The Authority staff is working on either getting that provision changed or getting the money reauthorized in January 2004. If and when one of these actions is achieved, the staff will bring this issue back to the Board.

2. Jackson County Water Association 2020 Project Profile ID Correction

Ms. Vicki Pettus, KIA, stated that in December 2001 the Authority Board approved all the conditional commitments for the 2020 projects. In the listing was the special conditions project for Jackson County, WX21109704, for a water supply utilizing Rockcastle River. The special conditions letter noted that if this project proved unfeasible, Project WX21109706, a water supply utilizing Jackson Lake, would be allowed. Both projects met the same criteria for households served. Subsequently, it was determined that the WX21109706 project would be pursued, and the listing was changed on the web and in subsequent handouts.

The Authority staff requested that the Board verify that project WX21109706 is indeed the project officially approved for 2020 funds, consistent with the wording in the special conditions letter.

Mr. Greg Heitzman made a motion to verify that project WX21109706 is the officially approved conditional commitment for 2020 funds, and this is consistent with the wording in the special conditions letter that mentioned the option of both WX21109704 and WX21109706. Chair Hank List called for a second motion. Mr. Roy Mundy seconded and motion passed.

II. PROGRAM INFORMATION

A. UPDATE ON APPROVING WATER SUPPLY PLANS

Mr. Bill Caldwell, DOW, presented an update on the Water Supply Plan Approval Process. As of December 31, 2002 all fifteen (15) Water Management Councils had submitted plans, and that the Division was in the process of reviewing and approving these plans. The Water Supply Plans constitute the first twelve chapters of the Area Water Management Plans, being developed through the Water Management Councils.

Mr. Caldwell explained that the Source Water Assessment Protection Plans (SWAPP) represent Chapter 8 of the Area Water Management Plans and all of these plans have been submitted as well for Division review and approval. The DOW anticipates completing the review and approval for five (5) of the SWAPPs by the end of August 2003 and the remaining ten (10) by the end of September 2003.

Mr. Greg Heitzman noted that because of so many plans, perhaps it would be simpler if all plans could be consolidated into one plan – e.g., the Area Water Management Plan. Mr. Bill Caldwell and Mr. Kent Anness responded that the idea was to eventually reach that goal.

B. LETTERS TO DELINQUENT 2020 PROJECTS

Ms. Vicki Pettus, KIA, presented an update on the delinquent 2020 projects, noting that forty-one (41) letters were sent to those grantees not meeting deadlines stipulated by the Board. Response has been immediate with approximately one-fourth of the grantees responding to the correspondence. It is anticipated that by the September board meeting the Authority staff will have a better idea of which projects will be recommended for the withdrawal of 2020 funds.

C. UPDATE ON eCLEARINGHOUSE

Ms. Vicki Pettus, KIA, gave a brief update on the eClearinghouse program stating that the pilot testing had been completed. The unveiling of the program will be announced at the Governor's Local Issues Conference, August 11-12, and will be available to the public by web on September 2, 2003. The web site is <https://eclearinghouse.ky.gov>.

Training sessions for the eClearinghouse application site have already been held and it is anticipated that more sessions for engineers and applicants will need to be held in the future.

The eClearinghouse is a collaborative effort by the Department for Local Government, Public Service Commission, Natural Services and Environmental Protection Cabinet, and the Authority.

D. UPDATE ON SRF PROCESS REVIEW & REGULATIONS COMMITTEE

Mr. Roger Recktenwald, KIA, noted that there would a meeting of the State Revolving Fund Process Review and Regulations Committee on August 18.

There will be two (2) separate regulations for the wastewater (Fund A) and drinking water (Fund F) programs.

E. DRAFT MEMORANDUM OF AGREEMENT BETWEEN PSC & KIA

Mr. Roger Recktenwald, KIA, handed out a draft Memorandum of Agreement (the Agreement) between the Public Service Commission (PSC) and the Authority, which allows for PSC to perform studies of accounting systems, revenue requirements and cost of service for municipal systems funded by the Authority.

The Agreement will be brought back to the Authority Board for action during the September 4th board meeting.

III. ISSUES AND STATUS REPORTS

A. STATUS REPORTS FOR FUNDS

1. Coal and Tobacco Development Fund Grants
2. 2020 Account/Fund B Grants
3. Coal Severance Grants
4. Funds A, A1, B, B1, C, E, F, F1

Chair Hank List noted that a copy of the above mentioned status reports were included in the board book for information purposes. The 2003 Coal and Tobacco Development Fund tracking database report phase is still under construction.

IV. ANNOUNCEMENTS/NOTIFICATIONS

***Next Scheduled Kentucky Infrastructure Authority Board Meeting
Thursday, September 4, 2003, 1:30 p.m., KIA Office, 375 Versailles Road, Frankfort***

Other Meetings

Governor's Local Issues Conference
August 11-12, Louisville, KY

Kentucky Rural Water Association Conf.
August 25-27, Owensboro, KY

Security Issues

Mr. Damon Talley questioned the security and user protocol of computer use within the Authority. Mr. Kent Anness responded that the Authority operates on the statewide policy regarding computer use. The Authority's servers are already behind the Governor's Office of Technology's "firewalls."

Chair Hank List noted that the Natural Resources and Environmental Protection Cabinet would be meeting and all the chief information officers had been asked attend to discuss measures and policies regarding this issue.

There being no further business the meeting was adjourned at 3:10 p.m.

Submitted by:



Vicki M. Pettus, Secretary
Kentucky Infrastructure Authority

9-4-03
Date



Kentucky Infrastructure Authority

375 Versailles Road
 Frankfort, Kentucky 40601-3646
 502-573-0260 • 502-573-0157 fax
<http://wris.state.ky.us/kiw/>

August 27, 2003

Ms. Alice Ritchie, Chairman
 Knott County Water and Sewer District
 Post Office Box 884
 Hindman, Kentucky 41822

KENTUCKY INFRASTRUCTURE AUTHORITY GOVERNMENTAL AGENCIES PROGRAM CONDITIONAL LOAN COMMITMENT C03-03 DRINKING WATER SYSTEM IMPROVEMENTS

Dear Ms. Ritchie:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. The Authority at the August 7, 2003 board meeting approved your loan application for \$558,321 of construction financing for a \$2,626,821 project. All anticipated funding for the project has been reflected in Attachment A. Attachment A, incorporated herein by reference, fully describes the project. **Please note that failure to respond to this conditional commitment within thirty (30) days may result in the Authority's withdrawal of the commitment of funds.**

A loan agreement will be executed between the Authority and the Knott County Water and Sewer District upon satisfactory performance of the conditions set forth in this letter. A period of eleven (11) months from the date of this letter, July 27, 2004, will be allowed for you to meet the conditions and enter the loan agreement. A one-time extension of up to six (6) months may be granted with acceptable justification. Funds will be available for disbursement only after execution of the loan agreement.

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

1. The loan agreement will cover both the permanent loan and an interim loan from "Authority" cash until bonds are issued to provide the permanent loan.
2. The KIA loan shall not exceed \$638,081. The loan amount is based on the project cost financed by this loan, a proportional share of the bond financing expenses and a 10% debt service reserve. This amount will be adjusted based on the actual results of the bond sale. The financing expenses will be a cost to you for the loan. Construction funds advanced to the borrower shall not exceed \$558,321.
3. The loan shall be repaid over a period of not to exceed 20 years from the date bonds are sold.




An Equal Opportunity Employer M/F/D




Ms. Alice Ritchie
August 27, 2003
Page 2

4. During the interim loan, advances will be made from proceeds of the Authority's Notes in an amount not to exceed the loan amount. Such interim advances shall bear interest at the rate or rates established for the Notes or other source of funding, or from funds available to the Authority for such purposes, until repaid from either borrower revenues or the proceeds of the Assistance Agreement upon issuance of bonds.
5. Prior to the bond sale for the loan, interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1 or December 1 immediately succeeding the date of the initial draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1 or December 1 which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid. When bonds are sold full principal and interest payments will commence on the following June 1 or December 1. Principal and interest payments will be due each six months thereafter until the loan is repaid.
6. A loan servicing fee of two-tenths of one percent (0.2%) of the annual outstanding loan balance shall be payable to the Authority as a part of each payment for the project or payment in full of the outstanding loan balance.
7. Loan funds will be disbursed after execution of the loan agreement as project cost is incurred.
8. The loan agreement must be approved by ordinance or resolution of the city council or appropriate governing board.
9. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the state's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. At this time we know of no further submission required for their review; however, they may request information as needed.
10. The attached "Authorization For Electronic Deposit of Vendor Payment" Form must complete and returned to KIA.

The following is a list of the standard conditions to be satisfied prior to execution of the loan agreement or incorporated in the loan agreement. Any required documentation must be submitted to the Authority.

1. Upon completion of final design of the facilities in the attached project description, favorable approval shall be obtained of such design by all appropriate parties as required by Kentucky statute or administrative regulation.
- 

 Ms. Alice Ritchie
August 27, 2003
Page 3

2. Construction bid specifications shall be approved as required by the Kentucky Division of Water and other funding sources if applicable, and the Kentucky Infrastructure Authority should be consulted prior to preparation of bidding specifications for guidance on federal or state requirements.
3. Applicant must provide certification from their legal counsel stating that they have prepared construction specifications in accordance with all applicable state or federal wage rate laws, and that the procurement procedures, including those for construction, land, equipment and professional services that are a part of the project, are in compliance with applicable federal, state and local procurement laws.
4. Documentation of final funding commitments from all parties other than the Authority as reflected in the Attachment A description shall be provided to the Authority prior to the pre-closing of the Authority loan and disbursement of the loan moneys. Rejections of any anticipated project funding or any new sources or funding not reflected in Attachment A shall be immediately reported to the Authority and cause this loan to be subject to further consideration.
5. Upon receipt of construction bids a tabulation of such bids and engineer's recommendations on compliance with bid specifications and recommendation for award, shall be forwarded to the Authority for final approval and sizing of this loan and the project.
6. Based on the final "as bid" project budget, the community must provide satisfactory proof, based on then existing conditions, that the revenue projections in the attached descriptions are still obtainable and that projections of operating expenses have not materially changed. This shall be reviewed and approved by your consultant engineer.
7. Any required adjustment in utility service rates shall be adopted by ordinance or resolution by the city council or appropriate governing board. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance or resolution. Any required approvals by the Kentucky Public Service Commission shall be obtained.
8. All easements or purchases of land shall be completed prior to commencement of construction and prior to execution of the loan agreement. Certification of said acquisitions shall be provided to the Authority.

The following are conditions to be satisfied prior to execution of the loan agreement or incorporated in the loan agreement.

1. The District will pass a resolution committing to a review of revenues and expenses at the end of Fiscal Year 2004 and commit to a rate increase sufficient to cover operating expenses and debt service requirements.

Ms. Alice Ritchie
August 27, 2003
Page 4

- 2. The District will take action to improve collection rates and provide documentation of the actions taken to the Authority

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

Sincerely,

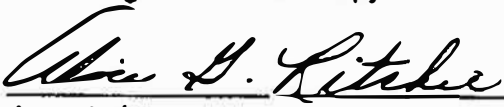


John E. Covington, III

Attachment

c: State Local Debt Officer, Department for Local Government
 Steve Basham, Knott County Water and Sewer District
 Ron Johnson, RM Johnson Engineering, Inc

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



Accepted

9-10-03
 Date

**AUTHORIZATION FOR ELECTRONIC DEPOSIT
OF BORROWER PAYMENT
KENTUCKY INFRASTRUCTURE AUTHORITY
(FUND C)
C03-03**

Borrower Information:

Name: KNOTT COUNTY WATER & SEWER DISTRICT
Address: P.O. BOX 884
City: HINDMAN State: KY Zip: 41822
Telephone: 606/785-5584 Contact: STEVE BASHAM
Federal I.D. # 610719881

Financial Institution Information:

Bank Name: Whitaker Bank N.A.
Branch: Perry Co.
City: Hazard State: Ky. Zip: 41702
Transit / ABA No.: 0421 04168
Account Name: Knott County Water & Sewer
Account Number: 80451783

I, the undersigned, authorize payments directly to the account indicated above and to correct any errors which may occur from the transactions. I also authorize the Financial Institution to post these transactions to that account.

Signature: Alice G. Ritchie Date: 9/2/03
Name Printed: Alice G. Ritchie Job Title: Chair

Please return completed form to: **Kentucky Infrastructure Authority**
375 Versailles Road
Frankfort, KY 40601
phone: 502-573-0260
fax: 502-573-0157

RESOLUTION NO. 091003-1

The Knott County Water and Sewer District

Commitment to rate increase if required by a review of revenue and expenses at the end of Fiscal Year 2004.

Resolution of the Board of Commissioners of the Knott County Water and Sewer District approving to a rate increase, if needed, to cover operating expenses and debt service requirements by reviewing all revenues and expenses at the end of Fiscal Year 2004.

KNOTT COUNTY WATER AND SEWER DISTRICT

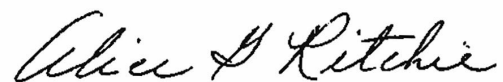
By *Alice G. Ritchie*
Chairperson

Dated this September 10, 2003

Delores Allen
Secretary

The Board Members and I appreciate all your help in working with us to provide the needed potable water to the citizens of Knott County.

Sincerely yours,



Alice G. Ritchie, Chair
KNOTT COUNTY WATER AND SEWER DISTRICT

Cc: Steve Basham, Manager
Knott County Water & Sewer District

11 MONTH KIA ACH LOAN PAYMENT "G/L 2047-00 (Principal) ~~NOT DUE~~
 5040-wb (INTEREST & FEE) ALL DESTROYED
 Past due 899 present

**KENTUCKY INFRASTRUCTURE AUTHORITY
 REPAYMENT SCHEDULE**

**LOAN # C03-03
 KNOTT COUNTY WATER DISTRICT
 RESTRUCTURED AMORTIZATION SCHEDULE**

**\$547,000 Principal Balance
 4.05% Rate
 \$5,336.77 P & I Calculation**

Past Due as of 12/1/10 Billing **\$ 294,368.67**

Interest / Fee Portion (12/1) **\$ 134,236.07**
 Additional Interest / Fees **\$5,811.88**
 Total Past Due Interest & Fees **\$ 140,047.95**

*Assuming \$75,000 payment

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Past Due Amount*	Total Payment	Principal Balance
						\$ 65,047.95		\$547,000.00
03/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,000.00	\$4,937.29	\$547,000.00
04/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,000.00	\$4,937.29	\$547,000.00
05/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,000.00	\$4,937.29	\$547,000.00
06/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,000.00	\$4,937.29	\$547,000.00
07/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
08/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
09/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
10/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
11/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
12/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
01/01/12	\$3,490.65	\$1,846.13	4.05%	\$5,336.77	\$91.17	\$534.13	\$5,962.07	\$543,509.35
02/01/12	\$3,502.43	\$1,834.34	4.05%	\$5,336.77	\$90.58	\$534.13	\$5,961.49	\$540,006.93
03/01/12	\$3,514.25	\$1,822.52	4.05%	\$5,336.77	\$90.00	\$534.13	\$5,960.90	\$536,492.68
04/01/12	\$3,526.11	\$1,810.66	4.05%	\$5,336.77	\$89.42	\$534.13	\$5,960.32	\$532,966.57
05/01/12	\$3,538.01	\$1,798.76	4.05%	\$5,336.77	\$88.83	\$534.13	\$5,959.73	\$529,428.56
06/01/12	\$3,549.95	\$1,786.82	4.05%	\$5,336.77	\$88.24	\$534.13	\$5,959.14	\$525,878.61
07/01/12	\$3,561.93	\$1,774.84	4.05%	\$5,336.77	\$87.65	\$534.13	\$5,958.55	\$522,316.68
08/01/12	\$3,573.95	\$1,762.82	4.05%	\$5,336.77	\$87.05	\$534.13	\$5,957.96	\$518,742.73
09/01/12	\$3,586.01	\$1,750.76	4.05%	\$5,336.77	\$86.46	\$534.13	\$5,957.36	\$515,156.72
10/01/12	\$3,598.12	\$1,738.65	4.05%	\$5,336.77	\$85.86	\$534.13	\$5,956.76	\$511,558.60
11/01/12	\$3,610.26	\$1,726.51	4.05%	\$5,336.77	\$85.26	\$534.13	\$5,956.16	\$507,948.34
12/01/12	\$3,622.45	\$1,714.33	4.05%	\$5,336.77	\$84.66	\$534.13	\$5,955.56	\$504,325.90
01/01/13	\$3,634.67	\$1,702.10	4.05%	\$5,336.77	\$84.05	\$534.13	\$5,954.96	\$500,691.23
02/01/13	\$3,646.94	\$1,689.83	4.05%	\$5,336.77	\$83.45	\$534.13	\$5,954.35	\$497,044.29
03/01/13	\$3,659.25	\$1,677.52	4.05%	\$5,336.77	\$82.84	\$534.13	\$5,953.74	\$493,385.04
04/01/13	\$3,671.60	\$1,665.17	4.05%	\$5,336.77	\$82.23	\$534.13	\$5,953.13	\$489,713.45
05/01/13	\$3,683.99	\$1,652.78	4.05%	\$5,336.77	\$81.62	\$534.13	\$5,952.52	\$486,029.46
06/01/13	\$3,696.42	\$1,640.35	4.05%	\$5,336.77	\$81.00	\$534.13	\$5,951.91	\$482,333.04
07/01/13	\$3,708.90	\$1,627.87	4.05%	\$5,336.77	\$80.39	\$534.13	\$5,951.29	\$478,624.14
08/01/13	\$3,721.41	\$1,615.36	4.05%	\$5,336.77	\$79.77	\$534.13	\$5,950.67	\$474,902.73
09/01/13	\$3,733.97	\$1,602.80	4.05%	\$5,336.77	\$79.15	\$534.13	\$5,950.05	\$471,168.75
10/01/13	\$3,746.58	\$1,590.19	4.05%	\$5,336.77	\$78.53	\$534.13	\$5,949.43	\$467,422.18
11/01/13	\$3,759.22	\$1,577.55	4.05%	\$5,336.77	\$77.90	\$534.13	\$5,948.81	\$463,662.95

12,624.12

6,169.50

PRINCIPAL ~~TO PAST DUE~~ = 24CH MONTHS G/L ENTRY FOR FLOOR. 2041-00

Exhibit C

Past Due + Interest + Servicing Fee - 5040

"Month KIA ACH LOAN PAYMENT"

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Past Due Amount*	Total Payment	Principal Balance
✓ 12/01/13	\$3,771.91	\$1,564.86	4.05%	\$5,336.77	\$77.28	\$534.13	\$5,948.18	\$459,891.05
✓ 01/01/14	\$3,784.64	\$1,552.13	4.05%	\$5,336.77	\$76.65	\$534.13	\$5,947.55	\$456,106.41
✓ 02/01/14	\$3,797.41	\$1,539.36	4.05%	\$5,336.77	\$76.02	\$534.13	\$5,946.92	\$452,309.00
✓ 03/01/14	\$3,810.23	\$1,526.54	4.05%	\$5,336.77	\$75.38	\$534.13	\$5,946.29	\$448,498.77
✓ 04/01/14	\$3,823.09	\$1,513.68	4.05%	\$5,336.77	\$74.75	\$534.13	\$5,945.65	\$444,675.68
✓ 05/01/14	\$3,835.99	\$1,500.78	4.05%	\$5,336.77	\$74.11	\$534.13	\$5,945.02	\$440,839.69
✓ 06/01/14	\$3,848.94	\$1,487.83	4.05%	\$5,336.77	\$73.47	\$534.13	\$5,944.38	\$436,990.75
✓ 07/01/14	\$3,861.93	\$1,474.84	4.05%	\$5,336.77	\$72.83	\$534.13	\$5,943.73	\$433,128.83
✓ 08/01/14	\$3,874.96	\$1,461.81	4.05%	\$5,336.77	\$72.19	\$534.13	\$5,943.09	\$429,253.87
✓ 09/01/14	\$3,888.04	\$1,448.73	4.05%	\$5,336.77	\$71.54	\$534.13	\$5,942.45	\$425,365.83
✓ 10/01/14	\$3,901.16	\$1,435.61	4.05%	\$5,336.77	\$70.89	\$534.13	\$5,941.80	\$421,464.67
✓ 11/01/14	\$3,914.33	\$1,422.44	4.05%	\$5,336.77	\$70.24	\$534.13	\$5,941.15	\$417,550.34
✓ 12/01/14	\$3,927.54	\$1,409.23	4.05%	\$5,336.77	\$69.59	\$534.13	\$5,940.49	\$413,622.80
✓ 01/01/15	\$3,940.79	\$1,395.98	4.05%	\$5,336.77	\$68.94	\$534.13	\$5,939.84	\$409,682.01
✓ 02/01/15	\$3,954.09	\$1,382.68	4.05%	\$5,336.77	\$68.28	\$534.13	\$5,939.18	\$405,727.91
✓ 03/01/15	\$3,967.44	\$1,369.33	4.05%	\$5,336.77	\$67.62	\$534.13	\$5,938.52	\$401,760.47
✓ 04/01/15	\$3,980.83	\$1,355.94	4.05%	\$5,336.77	\$66.96	\$534.13	\$5,937.86	\$397,779.65
✓ 05/01/15	\$3,994.26	\$1,342.51	4.05%	\$5,336.77	\$66.30	\$534.13	\$5,937.20	\$393,785.38
✓ 06/01/15	\$4,007.75	\$1,329.03	4.05%	\$5,336.77	\$65.63	\$534.13	\$5,936.53	\$389,777.64
✓ 07/01/15	\$4,021.27	\$1,315.50	4.05%	\$5,336.77	\$64.96	\$534.13	\$5,935.87	\$385,756.36
✓ 08/01/15	\$4,034.84	\$1,301.93	4.05%	\$5,336.77	\$64.29	\$534.13	\$5,935.20	\$381,721.52
✓ 09/01/15	\$4,048.46	\$1,288.31	4.05%	\$5,336.77	\$63.62	\$534.13	\$5,934.52	\$377,673.06
✓ 10/01/15	\$4,062.12	\$1,274.65	4.05%	\$5,336.77	\$62.95	\$534.13	\$5,933.85	\$373,610.94
✓ 11/01/15	\$4,075.83	\$1,260.94	4.05%	\$5,336.77	\$62.27	\$534.13	\$5,933.17	\$369,535.10
✓ 12/01/15	\$4,089.59	\$1,247.18	4.05%	\$5,336.77	\$61.59	\$534.13	\$5,932.49	\$365,445.51
✓ 01/01/16	\$4,103.39	\$1,233.38	4.05%	\$5,336.77	\$60.91	\$534.13	\$5,931.81	\$361,342.12
✓ 02/01/16	\$4,117.24	\$1,219.53	4.05%	\$5,336.77	\$60.22	\$534.13	\$5,931.13	\$357,224.88
✓ 03/01/16	\$4,131.14	\$1,205.63	4.05%	\$5,336.77	\$59.54	\$534.13	\$5,930.44	\$353,093.74
✓ 04/01/16	\$4,145.08	\$1,191.69	4.05%	\$5,336.77	\$58.85	\$534.13	\$5,929.75	\$348,948.66
✓ 05/01/16	\$4,159.07	\$1,177.70	4.05%	\$5,336.77	\$58.16	\$534.13	\$5,929.06	\$344,789.60
✓ 06/01/16	\$4,173.11	\$1,163.66	4.05%	\$5,336.77	\$57.46	\$534.13	\$5,928.37	\$340,616.49
✓ 07/01/16	\$4,187.19	\$1,149.58	4.05%	\$5,336.77	\$56.77	\$534.13	\$5,927.67	\$336,429.30
✓ 08/01/16	\$4,201.32	\$1,135.45	4.05%	\$5,336.77	\$56.07	\$534.13	\$5,926.97	\$332,227.98
✓ 09/01/16	\$4,215.50	\$1,121.27	4.05%	\$5,336.77	\$55.37	\$534.13	\$5,926.27	\$328,012.48
✓ 10/01/16	\$4,229.73	\$1,107.04	4.05%	\$5,336.77	\$54.67	\$534.13	\$5,925.57	\$323,782.75
✓ 11/01/16	\$4,244.00	\$1,092.77	4.05%	\$5,336.77	\$53.96	\$534.13	\$5,924.87	\$319,538.74
✓ 12/01/16	\$4,258.33	\$1,078.44	4.05%	\$5,336.77	\$53.26	\$534.13	\$5,924.16	\$315,280.42
✓ 01/01/17	\$4,272.70	\$1,064.07	4.05%	\$5,336.77	\$52.55		\$5,389.32	\$311,007.72
✓ 02/01/17	\$4,287.12	\$1,049.65	4.05%	\$5,336.77	\$51.83		\$5,388.61	\$306,720.60
✓ 03/01/17	\$4,301.59	\$1,035.18	4.05%	\$5,336.77	\$51.12		\$5,387.89	\$302,419.01
✓ 04/01/17	\$4,316.11	\$1,020.66	4.05%	\$5,336.77	\$50.40		\$5,387.17	\$298,102.90

50,145.10

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Past Due Amount*	Total Payment	Principal Balance
✓05/01/17	\$4,330.67	\$1,006.10	4.05%	\$5,336.77	\$49.68		\$5,386.45	\$293,772.23
✓06/01/17	\$4,345.29	\$991.48	4.05%	\$5,336.77	\$48.96		\$5,385.73	\$289,426.94
✓07/01/17	\$4,359.95	\$976.82	4.05%	\$5,336.77	\$48.24		\$5,385.01	\$285,066.99
✓08/01/17	\$4,374.67	\$962.10	4.05%	\$5,336.77	\$47.51		\$5,384.28	\$280,692.32
✓09/01/17	\$4,389.43	\$947.34	4.05%	\$5,336.77	\$46.78		\$5,383.55	\$276,302.88
✓10/01/17	\$4,404.25	\$932.52	4.05%	\$5,336.77	\$46.05		\$5,382.82	\$271,898.63
✓11/01/17	\$4,419.11	\$917.66	4.05%	\$5,336.77	\$45.32		\$5,382.09	\$267,479.52
✓12/01/17	\$4,434.03	\$902.74	4.05%	\$5,336.77	\$44.58		\$5,381.35	\$263,045.49
✓01/01/18	\$4,448.99	\$887.78	4.05%	\$5,336.77	\$43.84		\$5,380.61	\$258,596.50
✓02/01/18	\$4,464.01	\$872.76	4.05%	\$5,336.77	\$43.10		\$5,379.87	\$254,132.49
✓03/01/18	\$4,479.07	\$857.70	4.05%	\$5,336.77	\$42.36		\$5,379.13	\$249,653.42
✓04/01/18	\$4,494.19	\$842.58	4.05%	\$5,336.77	\$41.61		\$5,378.38	\$245,159.23
✓05/01/18	\$4,509.36	\$827.41	4.05%	\$5,336.77	\$40.86		\$5,377.63	\$240,649.87
✓06/01/18	\$4,524.58	\$812.19	4.05%	\$5,336.77	\$40.11		\$5,376.88	\$236,125.29
✓07/01/18	\$4,539.85	\$796.92	4.05%	\$5,336.77	\$39.35		\$5,376.12	\$231,585.45
✓08/01/18	\$4,555.17	\$781.60	4.05%	\$5,336.77	\$38.60		\$5,375.37	\$227,030.28
✓09/01/18	\$4,570.54	\$766.23	4.05%	\$5,336.77	\$37.84		\$5,374.61	\$222,459.73
✓10/01/18	\$4,585.97	\$750.80	4.05%	\$5,336.77	\$37.08		\$5,373.85	\$217,873.76
✓11/01/18	\$4,601.45	\$735.32	4.05%	\$5,336.77	\$36.31		\$5,373.08	\$213,272.32
✓12/01/18	\$4,616.98	\$719.79	4.05%	\$5,336.77	\$35.55		\$5,372.32	\$208,655.34
✓01/01/19	\$4,632.56	\$704.21	4.05%	\$5,336.77	\$34.78		\$5,371.55	\$204,022.78
✓02/01/19	\$4,648.19	\$688.58	4.05%	\$5,336.77	\$34.00		\$5,370.77	\$199,374.59
✓03/01/19	\$4,663.88	\$672.89	4.05%	\$5,336.77	\$33.23		\$5,370.00	\$194,710.71
✓04/01/19	\$4,679.62	\$657.15	4.05%	\$5,336.77	\$32.45		\$5,369.22	\$190,031.08
✓05/01/19	\$4,695.42	\$641.35	4.05%	\$5,336.77	\$31.67		\$5,368.44	\$185,335.67
✓06/01/19	\$4,711.26	\$625.51	4.05%	\$5,336.77	\$30.89		\$5,367.66	\$180,624.41
✓07/01/19	\$4,727.16	\$609.61	4.05%	\$5,336.77	\$30.10		\$5,366.87	\$175,897.24
08/01/19	\$4,743.12	\$593.65	4.05%	\$5,336.77	\$29.32		\$5,366.09	\$171,154.12
09/01/19	\$4,759.13	\$577.65	4.05%	\$5,336.77	\$28.53		\$5,365.30	\$166,395.00
10/01/19	\$4,775.19	\$561.58	4.05%	\$5,336.77	\$27.73		\$5,364.50	\$161,619.81
11/01/19	\$4,791.30	\$545.47	4.05%	\$5,336.77	\$26.94		\$5,363.71	\$156,828.51
12/01/19	\$4,807.47	\$529.30	4.05%	\$5,336.77	\$26.14		\$5,362.91	\$152,021.03
01/01/20	\$4,823.70	\$513.07	4.05%	\$5,336.77	\$25.34		\$5,362.11	\$147,197.33
02/01/20	\$4,839.98	\$496.79	4.05%	\$5,336.77	\$24.53		\$5,361.30	\$142,357.35
03/01/20	\$4,856.31	\$480.46	4.05%	\$5,336.77	\$23.73		\$5,360.50	\$137,501.04
04/01/20	\$4,872.70	\$464.07	4.05%	\$5,336.77	\$22.92		\$5,359.69	\$132,628.34
05/01/20	\$4,889.15	\$447.62	4.05%	\$5,336.77	\$22.10		\$5,358.88	\$127,739.18
06/01/20	\$4,905.65	\$431.12	4.05%	\$5,336.77	\$21.29		\$5,358.06	\$122,833.53
07/01/20	\$4,922.21	\$414.56	4.05%	\$5,336.77	\$20.47		\$5,357.24	\$117,911.33
08/01/20	\$4,938.82	\$397.95	4.05%	\$5,336.77	\$19.65		\$5,356.42	\$112,972.51
09/01/20	\$4,955.49	\$381.28	4.05%	\$5,336.77	\$18.83		\$5,355.60	\$108,017.02

52,234.92

54,300.16

9,451.08

356,634.30

8406.95

365.78

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Past Due Amount*	Total Payment	Principal Balance
10/01/20	\$4,972.21	\$364.56	4.05%	\$5,336.77	\$18.00		\$5,354.77	\$103,044.80
11/01/20	\$4,988.99	\$347.78	4.05%	\$5,336.77	\$17.17		\$5,353.94	\$98,055.81
12/01/20	\$5,005.83	\$330.94	4.05%	\$5,336.77	\$16.34		\$5,353.11	\$93,049.98
01/01/21	\$5,022.73	\$314.04	4.05%	\$5,336.77	\$15.51		\$5,352.28	\$88,027.25
02/01/21	\$5,039.68	\$297.09	4.05%	\$5,336.77	\$14.67		\$5,351.44	\$82,987.57
03/01/21	\$5,056.69	\$280.08	4.05%	\$5,336.77	\$13.83		\$5,350.60	\$77,930.88
04/01/21	\$5,073.75	\$263.02	4.05%	\$5,336.77	\$12.99		\$5,349.76	\$72,857.13
05/01/21	\$5,090.88	\$245.89	4.05%	\$5,336.77	\$12.14		\$5,348.91	\$67,766.25
06/01/21	\$5,108.06	\$228.71	4.05%	\$5,336.77	\$11.29		\$5,348.07	\$62,658.19
07/01/21	\$5,125.30	\$211.47	4.05%	\$5,336.77	\$10.44		\$5,347.21	\$57,532.89
08/01/21	\$5,142.60	\$194.17	4.05%	\$5,336.77	\$9.59		\$5,346.36	\$52,390.30
09/01/21	\$5,159.95	\$176.82	4.05%	\$5,336.77	\$8.73		\$5,345.50	\$47,230.34
10/01/21	\$5,177.37	\$159.40	4.05%	\$5,336.77	\$7.87		\$5,344.64	\$42,052.98
11/01/21	\$5,194.84	\$141.93	4.05%	\$5,336.77	\$7.01		\$5,343.78	\$36,858.13
12/01/21	\$5,212.37	\$124.40	4.05%	\$5,336.77	\$6.14		\$5,342.91	\$31,645.76
01/01/22	\$5,229.97	\$106.80	4.05%	\$5,336.77	\$5.27		\$5,342.04	\$26,415.79
02/01/22	\$5,247.62	\$89.15	4.05%	\$5,336.77	\$4.40		\$5,341.17	\$21,168.18
03/01/22	\$5,265.33	\$71.44	4.05%	\$5,336.77	\$3.53		\$5,340.30	\$15,902.85
04/01/22	\$5,283.10	\$53.67	4.05%	\$5,336.77	\$2.65		\$5,339.42	\$10,619.75
05/01/22	\$5,300.93	\$35.84	4.05%	\$5,336.77	\$1.77		\$5,338.54	\$5,318.82
06/01/22	\$5,318.82	\$17.95	4.05%	\$5,336.77	\$0.89		\$5,337.66	(\$0.00)
Totals	\$547,000.00	\$143,894.36		\$690,894.36	\$7,105.89	\$65,047.95	\$763,048.19	

Created by KIA on

1/10/2011

KIA Loan # C03-03

ACH DEBIT AUTHORIZATION FORM

AUTHORIZATION AGREEMENT FOR PRE-ARRANGED PAYMENTS
(DEBITS)

The undersigned hereby authorizes U.S. Bank National Association Corporate Trust Department ("U.S. Bank") to initiate debit entries to the Checking Savings (specify type) account indicated below at the bank named below:

BANK NAME BANK OF HENDMAN BRANCH MAZU
 CITY HENDMAN STATE KY ZIP CODE 41822
 BANK TRANSIT/ABA NO. 042105154 ACCOUNT NO. 0026948

This authority is to remain in full force and effect until U.S. Bank has received written notification from the undersigned of its termination in such time and in such manner as to afford U.S. Bank a reasonable opportunity to act. The undersigned has the right to stop payment of a debit entry by reasonable prior written notification to U.S. Bank. After the above account has been charged, the undersigned has the right to have the amount of any erroneous debit immediately credited to its account by U.S. Bank up to 30 days following issuance of a statement.

NAME OF ENTITY: KNOTT COUNTY WATER & SEWER DISTRICT
 ADDRESS 7777 BIG BRANCH ROAD, VI EGO, KY 41773
 TAX IDENTIFICATION NUMBER: 61-0719881

By  Dated 8/01/14
 Authorized Signer

Send to: U.S. Bank
 Attention: Corporate Trust Administration
 One Financial Square
 Mail Code: CN-KY-0850
 Louisville, KY 40202

**KENTUCKY INFRASTRUCTURE AUTHORITY
REPAYMENT SCHEDULE**

LOAN # C03-03
KNOTT COUNTY WATER DISTRICT
RESTRUCTURED AMORTIZATION SCHEDULE

\$547,000 Principal Balance
4.05% Rate
\$5,336.77 P & I Calculation

*ALL DESTROYED
899 PROJECT*

Past Due as of 12/1/10 Billing Page 75 of 164
\$ 294,368.67

Interest / Fee Portion (12/1) \$ 134,236.07
Additional Interest / Fees \$ 5,811.88
Total Past Due Interest & Fees \$ 140,047.95

*Assuming \$75,000 payment

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Past Due Amount*	Total Payment	Principal Balance
						\$ 65,047.95		\$547,000.00
03/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,000.00	\$4,937.29	\$547,000.00
04/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,000.00	\$4,937.29	\$547,000.00
05/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,000.00	\$4,937.29	\$547,000.00
06/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,000.00	\$4,937.29	\$547,000.00
07/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
08/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
09/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
10/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
11/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
12/01/11	\$0.00	\$1,846.13	4.05%	\$1,846.13	\$91.17	\$3,500.00	\$5,437.29	\$547,000.00
01/01/12	\$3,490.65	\$1,846.13	4.05%	\$5,336.77	\$91.17	\$534.13	\$5,962.07	\$543,509.35
02/01/12	\$3,502.43	\$1,834.34	4.05%	\$5,336.77	\$90.58	\$534.13	\$5,961.49	\$540,006.93
03/01/12	\$3,514.25	\$1,822.52	4.05%	\$5,336.77	\$90.00	\$534.13	\$5,960.90	\$536,492.68
04/01/12	\$3,526.11	\$1,810.66	4.05%	\$5,336.77	\$89.42	\$534.13	\$5,960.32	\$532,966.57
05/01/12	\$3,538.01	\$1,798.76	4.05%	\$5,336.77	\$88.83	\$534.13	\$5,959.73	\$529,428.56
06/01/12	\$3,549.95	\$1,786.82	4.05%	\$5,336.77	\$88.24	\$534.13	\$5,959.14	\$525,878.61
07/01/12	\$3,561.93	\$1,774.84	4.05%	\$5,336.77	\$87.65	\$534.13	\$5,958.55	\$522,316.68
08/01/12	\$3,573.95	\$1,762.82	4.05%	\$5,336.77	\$87.05	\$534.13	\$5,957.96	\$518,742.73
09/01/12	\$3,586.01	\$1,750.76	4.05%	\$5,336.77	\$86.46	\$534.13	\$5,957.36	\$515,156.72
10/01/12	\$3,598.12	\$1,738.65	4.05%	\$5,336.77	\$85.86	\$534.13	\$5,956.76	\$511,558.60
11/01/12	\$3,610.26	\$1,726.51	4.05%	\$5,336.77	\$85.26	\$534.13	\$5,956.16	\$507,948.34
12/01/12	\$3,622.45	\$1,714.33	4.05%	\$5,336.77	\$84.66	\$534.13	\$5,955.56	\$504,325.90
01/01/13	\$3,634.67	\$1,702.10	4.05%	\$5,336.77	\$84.05	\$534.13	\$5,954.96	\$500,691.23
02/01/13	\$3,646.94	\$1,689.83	4.05%	\$5,336.77	\$83.45	\$534.13	\$5,954.35	\$497,044.29
03/01/13	\$3,659.25	\$1,677.52	4.05%	\$5,336.77	\$82.84	\$534.13	\$5,953.74	\$493,385.04
04/01/13	\$3,671.60	\$1,665.17	4.05%	\$5,336.77	\$82.23	\$534.13	\$5,953.13	\$489,713.45
05/01/13	\$3,683.99	\$1,652.78	4.05%	\$5,336.77	\$81.62	\$534.13	\$5,952.52	\$486,029.46
06/01/13	\$3,696.42	\$1,640.35	4.05%	\$5,336.77	\$81.00	\$534.13	\$5,951.91	\$482,333.04
07/01/13	\$3,708.90	\$1,627.87	4.05%	\$5,336.77	\$80.39	\$534.13	\$5,951.29	\$478,624.14
08/01/13	\$3,721.41	\$1,615.36	4.05%	\$5,336.77	\$79.77	\$534.13	\$5,950.67	\$474,902.73
09/01/13	\$3,733.97	\$1,602.80	4.05%	\$5,336.77	\$79.15	\$534.13	\$5,950.05	\$471,168.75
10/01/13	\$3,746.58	\$1,590.19	4.05%	\$5,336.77	\$78.53	\$534.13	\$5,949.43	\$467,422.18
11/01/13	\$3,759.22	\$1,577.55	4.05%	\$5,336.77	\$77.90	\$534.13	\$5,948.81	\$463,662.95

12, 1, 2, 3, 4, 12

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Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Past Due Amount*	Total Payment	Principal Balance
✓ 12/01/13	\$3,771.91	\$1,564.86	4.05%	\$5,336.77	\$77.28	\$534.13	\$5,948.18	\$459,891.05
✓ 01/01/14	\$3,784.64	\$1,552.13	4.05%	\$5,336.77	\$76.65	\$534.13	\$5,947.55	\$456,106.41
✓ 02/01/14	\$3,797.41	\$1,539.36	4.05%	\$5,336.77	\$76.02	\$534.13	\$5,946.92	\$452,309.00
✓ 03/01/14	\$3,810.23	\$1,526.54	4.05%	\$5,336.77	\$75.38	\$534.13	\$5,946.29	\$448,498.77
✓ 04/01/14	\$3,823.09	\$1,513.68	4.05%	\$5,336.77	\$74.75	\$534.13	\$5,945.65	\$444,675.68
✓ 05/01/14	\$3,835.99	\$1,500.78	4.05%	\$5,336.77	\$74.11	\$534.13	\$5,945.02	\$440,839.69
✓ 06/01/14	\$3,848.94	\$1,487.83	4.05%	\$5,336.77	\$73.47	\$534.13	\$5,944.38	\$436,990.75
07/01/14	\$3,861.93	\$1,474.84	4.05%	\$5,336.77	\$72.83	\$534.13	\$5,943.73	\$433,128.83
08/01/14	\$3,874.96	\$1,461.81	4.05%	\$5,336.77	\$72.19	\$534.13	\$5,943.09	\$429,253.87
09/01/14	\$3,888.04	\$1,448.73	4.05%	\$5,336.77	\$71.54	\$534.13	\$5,942.45	\$425,365.83
10/01/14	\$3,901.16	\$1,435.61	4.05%	\$5,336.77	\$70.89	\$534.13	\$5,941.80	\$421,464.67
11/01/14	\$3,914.33	\$1,422.44	4.05%	\$5,336.77	\$70.24	\$534.13	\$5,941.15	\$417,550.34
12/01/14	\$3,927.54	\$1,409.23	4.05%	\$5,336.77	\$69.59	\$534.13	\$5,940.49	\$413,622.80
01/01/15	\$3,940.79	\$1,395.98	4.05%	\$5,336.77	\$68.94	\$534.13	\$5,939.84	\$409,682.01
02/01/15	\$3,954.09	\$1,382.68	4.05%	\$5,336.77	\$68.28	\$534.13	\$5,939.18	\$405,727.91
03/01/15	\$3,967.44	\$1,369.33	4.05%	\$5,336.77	\$67.62	\$534.13	\$5,938.52	\$401,760.47
04/01/15	\$3,980.83	\$1,355.94	4.05%	\$5,336.77	\$66.96	\$534.13	\$5,937.86	\$397,779.65
05/01/15	\$3,994.26	\$1,342.51	4.05%	\$5,336.77	\$66.30	\$534.13	\$5,937.20	\$393,785.38
06/01/15	\$4,007.75	\$1,329.03	4.05%	\$5,336.77	\$65.63	\$534.13	\$5,936.53	\$389,777.64
07/01/15	\$4,021.27	\$1,315.50	4.05%	\$5,336.77	\$64.96	\$534.13	\$5,935.87	\$385,756.36
08/01/15	\$4,034.84	\$1,301.93	4.05%	\$5,336.77	\$64.29	\$534.13	\$5,935.20	\$381,721.52
09/01/15	\$4,048.46	\$1,288.31	4.05%	\$5,336.77	\$63.62	\$534.13	\$5,934.52	\$377,673.06
10/01/15	\$4,062.12	\$1,274.65	4.05%	\$5,336.77	\$62.95	\$534.13	\$5,933.85	\$373,610.94
11/01/15	\$4,075.83	\$1,260.94	4.05%	\$5,336.77	\$62.27	\$534.13	\$5,933.17	\$369,535.10
12/01/15	\$4,089.59	\$1,247.18	4.05%	\$5,336.77	\$61.59	\$534.13	\$5,932.49	\$365,445.51
01/01/16	\$4,103.39	\$1,233.38	4.05%	\$5,336.77	\$60.91	\$534.13	\$5,931.81	\$361,342.12
02/01/16	\$4,117.24	\$1,219.53	4.05%	\$5,336.77	\$60.22	\$534.13	\$5,931.13	\$357,224.88
03/01/16	\$4,131.14	\$1,205.63	4.05%	\$5,336.77	\$59.54	\$534.13	\$5,930.44	\$353,093.74
04/01/16	\$4,145.08	\$1,191.69	4.05%	\$5,336.77	\$58.85	\$534.13	\$5,929.75	\$348,948.66
05/01/16	\$4,159.07	\$1,177.70	4.05%	\$5,336.77	\$58.16	\$534.13	\$5,929.06	\$344,789.60
06/01/16	\$4,173.11	\$1,163.66	4.05%	\$5,336.77	\$57.46	\$534.13	\$5,928.37	\$340,616.49
07/01/16	\$4,187.19	\$1,149.58	4.05%	\$5,336.77	\$56.77	\$534.13	\$5,927.67	\$336,429.30
08/01/16	\$4,201.32	\$1,135.45	4.05%	\$5,336.77	\$56.07	\$534.13	\$5,926.97	\$332,227.98
09/01/16	\$4,215.50	\$1,121.27	4.05%	\$5,336.77	\$55.37	\$534.13	\$5,926.27	\$328,012.48
10/01/16	\$4,229.73	\$1,107.04	4.05%	\$5,336.77	\$54.67	\$534.13	\$5,925.57	\$323,782.75
11/01/16	\$4,244.00	\$1,092.77	4.05%	\$5,336.77	\$53.96	\$534.13	\$5,924.87	\$319,538.74
12/01/16	\$4,258.33	\$1,078.44	4.05%	\$5,336.77	\$53.26	\$534.13	\$5,924.16	\$315,280.42
01/01/17	\$4,272.70	\$1,064.07	4.05%	\$5,336.77	\$52.55		\$5,389.32	\$311,007.72
02/01/17	\$4,287.12	\$1,049.65	4.05%	\$5,336.77	\$51.83		\$5,388.61	\$306,720.60
03/01/17	\$4,301.59	\$1,035.18	4.05%	\$5,336.77	\$51.12		\$5,387.89	\$302,419.01
04/01/17	\$4,316.11	\$1,020.66	4.05%	\$5,336.77	\$50.40		\$5,387.17	\$298,102.90

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Past Due Amount*	Total Payment	Principal Balance
05/01/17	\$4,330.67	\$1,006.10	4.05%	\$5,336.77	\$49.68		\$5,386.45	\$293,772.23
06/01/17	\$4,345.29	\$991.48	4.05%	\$5,336.77	\$48.96		\$5,385.73	\$289,426.94
07/01/17	\$4,359.95	\$976.82	4.05%	\$5,336.77	\$48.24		\$5,385.01	\$285,066.99
08/01/17	\$4,374.67	\$962.10	4.05%	\$5,336.77	\$47.51		\$5,384.28	\$280,692.32
09/01/17	\$4,389.43	\$947.34	4.05%	\$5,336.77	\$46.78		\$5,383.55	\$276,302.88
10/01/17	\$4,404.25	\$932.52	4.05%	\$5,336.77	\$46.05		\$5,382.82	\$271,898.63
11/01/17	\$4,419.11	\$917.66	4.05%	\$5,336.77	\$45.32		\$5,382.09	\$267,479.52
12/01/17	\$4,434.03	\$902.74	4.05%	\$5,336.77	\$44.58		\$5,381.35	\$263,045.49
01/01/18	\$4,448.99	\$887.78	4.05%	\$5,336.77	\$43.84		\$5,380.61	\$258,596.50
02/01/18	\$4,464.01	\$872.76	4.05%	\$5,336.77	\$43.10		\$5,379.87	\$254,132.49
03/01/18	\$4,479.07	\$857.70	4.05%	\$5,336.77	\$42.36		\$5,379.13	\$249,653.42
04/01/18	\$4,494.19	\$842.58	4.05%	\$5,336.77	\$41.61		\$5,378.38	\$245,159.23
05/01/18	\$4,509.36	\$827.41	4.05%	\$5,336.77	\$40.86		\$5,377.63	\$240,649.87
06/01/18	\$4,524.58	\$812.19	4.05%	\$5,336.77	\$40.11		\$5,376.88	\$236,125.29
07/01/18	\$4,539.85	\$796.92	4.05%	\$5,336.77	\$39.35		\$5,376.12	\$231,585.45
08/01/18	\$4,555.17	\$781.60	4.05%	\$5,336.77	\$38.60		\$5,375.37	\$227,030.28
09/01/18	\$4,570.54	\$766.23	4.05%	\$5,336.77	\$37.84		\$5,374.61	\$222,459.73
10/01/18	\$4,585.97	\$750.80	4.05%	\$5,336.77	\$37.08		\$5,373.85	\$217,873.76
11/01/18	\$4,601.45	\$735.32	4.05%	\$5,336.77	\$36.31		\$5,373.08	\$213,272.32
12/01/18	\$4,616.98	\$719.79	4.05%	\$5,336.77	\$35.55		\$5,372.32	\$208,655.34
01/01/19	\$4,632.56	\$704.21	4.05%	\$5,336.77	\$34.78		\$5,371.55	\$204,022.78
02/01/19	\$4,648.19	\$688.58	4.05%	\$5,336.77	\$34.00		\$5,370.77	\$199,374.59
03/01/19	\$4,663.88	\$672.89	4.05%	\$5,336.77	\$33.23		\$5,370.00	\$194,710.71
04/01/19	\$4,679.62	\$657.15	4.05%	\$5,336.77	\$32.45		\$5,369.22	\$190,031.08
05/01/19	\$4,695.42	\$641.35	4.05%	\$5,336.77	\$31.67		\$5,368.44	\$185,335.67
06/01/19	\$4,711.26	\$625.51	4.05%	\$5,336.77	\$30.89		\$5,367.66	\$180,624.41
07/01/19	\$4,727.16	\$609.61	4.05%	\$5,336.77	\$30.10		\$5,366.87	\$175,897.24
08/01/19	\$4,743.12	\$593.65	4.05%	\$5,336.77	\$29.32		\$5,366.09	\$171,154.12
09/01/19	\$4,759.13	\$577.65	4.05%	\$5,336.77	\$28.53		\$5,365.30	\$166,395.00
10/01/19	\$4,775.19	\$561.58	4.05%	\$5,336.77	\$27.73		\$5,364.50	\$161,619.81
11/01/19	\$4,791.30	\$545.47	4.05%	\$5,336.77	\$26.94		\$5,363.71	\$156,828.51
12/01/19	\$4,807.47	\$529.30	4.05%	\$5,336.77	\$26.14		\$5,362.91	\$152,021.03
01/01/20	\$4,823.70	\$513.07	4.05%	\$5,336.77	\$25.34		\$5,362.11	\$147,197.33
02/01/20	\$4,839.98	\$496.79	4.05%	\$5,336.77	\$24.53		\$5,361.30	\$142,357.35
03/01/20	\$4,856.31	\$480.46	4.05%	\$5,336.77	\$23.73		\$5,360.50	\$137,501.04
04/01/20	\$4,872.70	\$464.07	4.05%	\$5,336.77	\$22.92		\$5,359.69	\$132,628.34
05/01/20	\$4,889.15	\$447.62	4.05%	\$5,336.77	\$22.10		\$5,358.88	\$127,739.18
06/01/20	\$4,905.65	\$431.12	4.05%	\$5,336.77	\$21.29		\$5,358.06	\$122,833.53
07/01/20	\$4,922.21	\$414.56	4.05%	\$5,336.77	\$20.47		\$5,357.24	\$117,911.33
08/01/20	\$4,938.82	\$397.95	4.05%	\$5,336.77	\$19.65		\$5,356.42	\$112,972.51
09/01/20	\$4,955.49	\$381.28	4.05%	\$5,336.77	\$18.83		\$5,355.60	\$108,017.02

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Past Due Amount*	Total Payment	Principal Balance
10/01/20	\$4,972.21	\$364.56	4.05%	\$5,336.77	\$18.00		\$5,354.77	\$103,044.80
11/01/20	\$4,988.99	\$347.78	4.05%	\$5,336.77	\$17.17		\$5,353.94	\$98,055.81
12/01/20	\$5,005.83	\$330.94	4.05%	\$5,336.77	\$16.34		\$5,353.11	\$93,049.98
01/01/21	\$5,022.73	\$314.04	4.05%	\$5,336.77	\$15.51		\$5,352.28	\$88,027.25
02/01/21	\$5,039.68	\$297.09	4.05%	\$5,336.77	\$14.67		\$5,351.44	\$82,987.57
03/01/21	\$5,056.69	\$280.08	4.05%	\$5,336.77	\$13.83		\$5,350.60	\$77,930.88
04/01/21	\$5,073.75	\$263.02	4.05%	\$5,336.77	\$12.99		\$5,349.76	\$72,857.13
05/01/21	\$5,090.88	\$245.89	4.05%	\$5,336.77	\$12.14		\$5,348.91	\$67,766.25
06/01/21	\$5,108.06	\$228.71	4.05%	\$5,336.77	\$11.29		\$5,348.07	\$62,658.19
07/01/21	\$5,125.30	\$211.47	4.05%	\$5,336.77	\$10.44		\$5,347.21	\$57,532.89
08/01/21	\$5,142.60	\$194.17	4.05%	\$5,336.77	\$9.59		\$5,346.36	\$52,390.30
09/01/21	\$5,159.95	\$176.82	4.05%	\$5,336.77	\$8.73		\$5,345.50	\$47,230.34
10/01/21	\$5,177.37	\$159.40	4.05%	\$5,336.77	\$7.87		\$5,344.64	\$42,052.98
11/01/21	\$5,194.84	\$141.93	4.05%	\$5,336.77	\$7.01		\$5,343.78	\$36,858.13
12/01/21	\$5,212.37	\$124.40	4.05%	\$5,336.77	\$6.14		\$5,342.91	\$31,645.76
01/01/22	\$5,229.97	\$106.80	4.05%	\$5,336.77	\$5.27		\$5,342.04	\$26,415.79
02/01/22	\$5,247.62	\$89.15	4.05%	\$5,336.77	\$4.40		\$5,341.17	\$21,168.18
03/01/22	\$5,265.33	\$71.44	4.05%	\$5,336.77	\$3.53		\$5,340.30	\$15,902.85
04/01/22	\$5,283.10	\$53.67	4.05%	\$5,336.77	\$2.65		\$5,339.42	\$10,619.75
05/01/22	\$5,300.93	\$35.84	4.05%	\$5,336.77	\$1.77		\$5,338.54	\$5,318.82
06/01/22	\$5,318.82	\$17.95	4.05%	\$5,336.77	\$0.89		\$5,337.66	(\$0.00)
Totals	\$547,000.00	\$143,894.36		\$690,894.36	\$7,105.89	\$65,047.95	\$763,048.19	

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BOND RESOLUTION

KNOTT COUNTY WATER AND SEWER DISTRICT

AUTHORIZING

KNOTT COUNTY WATER AND SEWER DISTRICT

WATER AND SEWER REVENUE BONDS, SERIES 2007

IN THE PRINCIPAL AMOUNT OF

\$100,000

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BOND RESOLUTION

RESOLUTION OF THE KNOTT COUNTY WATER AND SEWER DISTRICT OF KNOTT COUNTY, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$100,000 PRINCIPAL AMOUNT OF KNOTT COUNTY WATER AND SEWER DISTRICT WATER AND SEWER REVENUE BONDS, SERIES 2007 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING COMBINED AND CONSOLIDATED WATERWORKS AND SEWER SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID COMBINED AND CONSOLIDATED WATERWORKS AND SEWER SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the combined and consolidated waterworks and sewer system (the "System") of the Knott County Water and Sewer District (the "District") is owned and operated by said District pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act"), and

WHEREAS, the District presently has outstanding certain Prior Bonds (as hereinafter defined), which Prior Bonds are payable from and secured by a pledge of the revenues derived from the operation of the System, and

WHEREAS, all of the Prior Bonds presently outstanding are current as to payment of both principal and interest, and for the security of which a certain Sinking Fund and certain reserves are being maintained in the manner and by the means prescribed in the Prior Bond Resolution (as hereinafter defined) of the District, authorizing the Prior Bonds, and

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$100,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by R.M. Johnson Engineers, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued subject to the vested rights and priorities in favor of the owners of the outstanding Prior Bonds, and

WHEREAS, the Public Service Commission of Kentucky has granted to the District a Certificate of Public Convenience and Necessity, authorizing the construction of said extensions, additions and improvements, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE KNOTT COUNTY WATER AND SEWER DISTRICT OF KNOTT COUNTY, KENTUCKY, AS FOLLOWS:

**ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;
SECURITY.**

Section 101. Definitions. As used in this Resolution, unless the context requires otherwise:

"Act" refers to Chapters 58 and 74 of the Kentucky Revised Statutes.

"ARC Grant" refers to the Appalachian Regional Commission grant described in Section 805 of this Resolution.

"Beginning Month" refers to the month following the month in which the Current Bonds authorized herein are issued, sold and delivered to the Purchaser thereof.

"Bond Counsel" refers to an attorney or firm of attorneys recognized nationally as experts in the field of municipal bond law and shall be deemed to refer to Rubin & Hays, Louisville, Kentucky, or their successors.

"Bondowner" or "Owner" refer to registered Owners of the Current Bonds at the time issued and outstanding hereunder.

"Bonds" collectively refers to the outstanding Current Bonds, Prior Bonds and the Parity Bonds.

"Bonds of 2003" or "Series 2003 Bonds" refer to the outstanding Knott County Water and Sewer District Water and Sewer Revenue Bonds, Series 2003, dated December 19, 2003, in the original authorized principal amount of \$185,000.

"Bond Resolution of 2003" or "2003 Bond Resolution" refer to the Resolution authorizing the Bonds of 2003, duly adopted by the Board of Commissioners of the District on December 10, 2003.

"CDBG Grant" refers to the Community Development Block Grant described in Section 806 of this Resolution.

"Chairman" refers to the elected or appointed Chairman or Chairperson of the Commission.

"Code" refers to the Internal Revenue Code of 1986, as amended, and the Treasury Regulations relating thereto.

"Commission" refers to the Board of Commissioners of the District, or such other body as shall be the governing body of said District under the laws of Kentucky at any given time.

"Construction Account" refers to the Knott County Water and Sewer District Water and Sewer Construction Account, created in Section 301(B) of this Current Bond Resolution.

"Contractors" refers to the general contractors who have been employed by the District to construct the Project.

"Current Bond Resolution" or **"Resolution"** refer to this Resolution authorizing the Current Bonds.

"Current Bonds" refers to the \$100,000 of Knott County Water and Sewer District Water and Sewer Revenue Bonds, Series 2007 authorized by this Resolution, to be dated as of the date of issuance thereof.

"Current Sinking Fund" refers to the Knott County Water and Sewer District Water and Sewer Sinking Fund, created in Section 401 of this Resolution.

"Depository Bank" refers to the bank, which shall be a member of the FDIC, which bank is Whitaker Bank, NA, Hazard, Kentucky, or its successor.

"Depreciation Fund" refers to the Knott County Water and Sewer District Depreciation Reserve Fund, described in Section 402 of this Resolution.

"District" refers to the Knott County Water and Sewer District of Knott County, Kentucky.

"EPA Grant" refers to the Environmental Protection Agency grant to the District described in Section 806 of this Resolution.

"Engineers" refers to the Engineers or any one of them, who prepared the plans and specifications for the construction of the Project and who will supervise the construction thereof and/or will furnish full time resident inspection of the construction of the Project, and shall be deemed to refer to R.M. Johnson Engineers, Inc., and/or MSE of Kentucky, Inc., or a member of said firms, or their successors.

"Event of Default" refers to one or more of the Events of Default set forth in Section 701 of this Resolution.

"FDIC" refers to the Federal Deposit Insurance Corporation, or its successors.

"Fiscal Year" refers to the annual accounting period of the District, beginning on January 1, and ending on December 31, of each year.

"Funds" refers to the Construction Account, the Revenue Fund, the Prior Sinking Fund, the Current Sinking Fund, the Depreciation Fund and the Operation and Maintenance Fund.

"Government" refers to the United States of America, or any agency thereof, including RD.

"Grant Proceeds" refers to the proceeds of the RD Grant, the ARC Grant, the EPA Grant, the CDBG Grant and the Coal Development Fund Grant.

"Independent Consulting Engineer" refers to a consulting engineer or a firm of consulting engineers of recognized excellent reputation in the field of combined and consolidated waterworks and sewer system engineering, and such definition includes the Engineers named above.

"Interim Lender" refers to Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky, its successors or assigns; or any other financial institution or governmental agency approved by the District.

"KIA Loan" refers to the outstanding 2004 Kentucky Infrastructure Authority Loan to the District in the authorized principal amount of \$638,081.

"Local Counsel" refers to Ronald G. Combs, Esq., Hazard, Kentucky, or any other attorney or firm of attorneys designated by the District.

"Multiple Advances" refers to the advance of loan funds from the RD as described in Section 302 of this Resolution.

"Note" refers to a single note or any number of notes, in such form as may be prescribed by the Interim Lender, including any revenue bond anticipation notes issued pursuant to Chapter 58 of the Kentucky Revised Statutes, including any renewal or extensions of the Note, issued by the District evidencing the interim financing for the Project as prescribed in Section 302 of this Resolution.

"Operation and Maintenance Fund" refers to the Knott County Water and Sewer District Operation and Maintenance Fund described in Section 401 of this Resolution.

"Outstanding Bonds" refers to the outstanding Bonds, and does not refer to, nor include, any Bonds for the payment of the principal and interest of which sufficient funds will have been deposited and earmarked for payment of Bonds; provided all Outstanding Bonds of any series held by the RD shall be deemed to constitute Outstanding Bonds until paid regardless of the deposit of funds to pay for same.

"Parity Bonds" refers to bonds which may be issued in the future which, pursuant to this Resolution, rank on a basis of parity with the outstanding Bonds, as to priority, security and source of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Bonds.

"Prior Bonds" refers collectively to the Series 2003 Bonds, and the KIA Loan.

"Prior Bond Resolution" refers collectively to the 2003 Bond Resolution.

"Prior Sinking Fund" refers to the Knott County Water and Sewer District Sinking Fund, described in Section 401 of this Resolution.

"*Project*" refers specifically to the construction of the currently proposed extensions, additions and improvements to the System of the District, which Project is being financed by the Current Bonds and by other funds.

"*Purchaser*" refers to the agency, person, firm or firms, or their successors, to whom the Current Bonds herein authorized are awarded at the public sale of the Current Bonds.

"*RD*" refers to the Rural Development of the Department of Agriculture of the United States of America.

"*RD Grant*" refers to the RD grant described in Section 804 of this Resolution.

"*Required Signatures*" refers to the signatures necessary to be obtained with reference to the approval of the expenditures to be made from the Construction Account, which required signatures shall consist of the signatures of (1) the Chairman; (2) the Engineers; and (3) the Purchaser; provided, however, any expenditures for issuance and administrative costs and the costs of any equipment which is not permanently affixed to the real estate shall not require the signature or the approval of the Engineers.

"*Revenue Fund*" refers to the Knott County Water and Sewer District Revenue Fund, described in Section 401 of this Resolution.

"*Secretary*" refers to the elected or appointed Secretary of the Commission.

"*System*" refers to the existing combined and consolidated waterworks and sewer system of the District, together with all extensions, additions and improvements to said System.

"*Treasurer*" refers to the elected or appointed Treasurer of the Commission.

"*U.S. Obligations*" refers to bonds or notes which are the direct obligations of the United States of America, or obligations the principal of and interest on which are guaranteed by the United States of America.

All words and terms importing the singular number shall, where the context requires, import the plural number and vice versa. Unless otherwise indicated, references to Articles or Sections refers to those in this Resolution.

Section 102. Purpose. The Current Bonds shall be issued for the purpose of financing the cost (not otherwise provided) of the Project, as set out in the plans and specifications prepared by the Engineers. The Commission hereby declares the System of the District, including the extensions, additions and improvements to be constructed, to constitute a revenue producing public project, and said System shall continue to be owned, controlled, operated and maintained by the District as a revenue producing public project pursuant to the Act, so long as any Bonds remain outstanding.

Section 103. Construction Award Approved; Work Authorized. The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking

steps toward awarding the contracts for the construction of the Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

Section 104. Declaration of Period of Usefulness. The Commission hereby declares that the period of usefulness of the System is more than forty (40) years from the date of completion of the Project.

Section 105. Authorization of Bonds. The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$10,919,860. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$100,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$10,919,860
Less:		
RD Grant	\$3,419,860	
ARC Grant	500,000	
EPA Grant	1,000,000	
CDBG Grant	2,000,000	
Coal Development Grant	<u>3,000,000</u>	
Total Non-Bond Funds:		<u>(10,819,860)</u>
Balance to be financed by Current Bonds		\$100,000

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$100,000 principal amount of Knott County Water and Sewer District Water and Sewer Revenue Bonds, Series 2007.

The Current Bonds shall be dated as of the date of delivery to the Purchaser thereof; shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Current Bonds, as hereinafter provided; and shall be issued and delivered as prescribed in Section 202 hereof.

Interest on the Current Bonds shall be payable semiannually on January 1 and July 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Current Bonds to the ensuing January 1 or July 1, as the case may be. Principal of the Current Bonds shall be payable on January 1 of each of the respective years until maturity, as set out in Section 201 hereof.

Section 106. Recognition of Prior Bonds. The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

Section 107. Current Bonds Shall be Payable Out of Gross Revenues. The Current Bonds, and any additional Parity Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be secured by and payable out of the gross revenues of the System, after providing for all of the principal and interest requirements of the outstanding Prior Bonds.

Section 108. Lien on Contracts. In addition to the revenue pledge securing the Bonds, a lien is hereby created and granted in favor of the Bondowners on all contracts, and on all other rights of the District pertaining to the System, enforceable by assignment to any receiver or other operator proceeding by authority of any court.

ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.

Section 201. Principal Payments. Principal payments due on the Current Bonds shall be as set forth in the schedule of maturities set out in **Exhibit A** attached to this Resolution and incorporated herein.

Section 202. Issuance of Current Bonds; Bond Form. The Purchaser of the Current Bonds at the public sale shall take delivery of the Current Bonds in the form of one or more fully registered bonds, as set forth in **Exhibit B** attached hereto and incorporated herein, amounting in the aggregate to the principal amount of the Current Bonds authorized herein, maturing as to principal as set out in Section 201. The Current Bonds shall be numbered R-1 and consecutively upward thereafter. Such Current Bonds shall, upon appropriate execution on behalf of the District as prescribed, constitute the entire bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), registered as to principal and interest and payable as directed by the registered Owner.

Section 203. Place of Payment and Manner of Execution. Both principal of and interest on the Current Bonds shall be payable at the place and in the manner set out in the form of such Current Bond. The Current Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Chairman of the District, with the Corporate Seal of the District affixed thereto and attested by the manual or facsimile signature of the Secretary of said District.

If either of the officers whose signatures appear on the Current Bonds ceases to be such officer before delivery of said Current Bonds, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery.

Section 204. Provisions as to Prepayment. Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to January 1, 2017, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2017, shall be subject to prepayment by the District on any date falling on and after January 1, 2016, at par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are owned by the Government, all or any of the Current Bonds, or in a multiple of \$100, may be prepaid at any time in inverse chronological order of the principal maturities due, at par plus accrued interest without any prepayment penalty.

Notice of such prepayment shall be given by certified mail to the Bondowner or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the Bondowner.

**ARTICLE 3. CONSTRUCTION ACCOUNT; INTERIM FINANCING;
APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS.**

Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits. The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$16,000 (the "Fidelity Bond"), or such larger amount as the RD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RD so long as it is owner of any of the Current Bonds. The RD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RD. Whenever sums in the Funds shall exceed \$16,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RD.

A. Covenants Applicable if RD Purchases Current Bonds. It is acknowledged that all covenants herein with reference to the necessity for approval of the RD, the necessity of observing RD regulations and procedures and the necessity of using RD forms (the "RD Forms"), shall apply only if the RD is the Purchaser of the Current Bonds and only so long as the RD holds the Current Bonds thereafter. In the event that the RD shall not be the Purchaser of the Current Bonds, or, after purchasing same, shall sell or transfer the Current Bonds to an Owner who shall not be the Government, all covenants herein with reference to the necessity for approval of the RD, the necessity of observing RD regulations and procedures, and the necessity of using RD Forms, shall not be applicable.

B. Application of Proceeds of Current Bonds. The proceeds of the Current Bonds shall be applied as follows:

(1) Payment of Interim Financing, Costs of Project and Costs of Issuance. Simultaneously with the delivery of the Current Bonds, there shall immediately be paid to the Interim Lender (or the RD if Multiple Advances are made) an amount sufficient to pay principal of and interest on any temporary loans borrowed by the District in anticipation of the sale and delivery of the Current Bonds and/or of the receipt of Grant Proceeds. Also, at the time of delivery of the Current Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Project and in connection with the issuance of the Current Bonds.

(2) Construction Account. If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest, principal and costs referred to in subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Knott County Water and Sewer District Water and Sewer Construction Account" hereby created, which shall be established at the Depository Bank. There shall also be deposited in said Construction Account the Grant Proceeds, as and when received, or said

Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds.

(3) Withdrawal of Funds From Construction Account. Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the RD as to such expenditures, if the RD is the Owner of any Outstanding Bonds. The proceeds of said Construction Account shall be withdrawn only on checks signed by the Chairman, the Treasurer (or by such other official of the District as may be authorized by the Commission), provided such official shall be covered by the Fidelity Bond required by Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Project, as evidenced by (1) a Requisition Certificate; and (2) invoices and/or partial payment estimates bearing the written approval of the Engineers and the Chairman (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated RD official.

Written approval or certification of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items.

During construction, the District shall disburse Construction Account funds in a manner consistent with RD Instruction 1780.

The District shall prepare and submit any and all RD Forms required by the RD. Periodic audits of the District's Construction Account records shall be made by RD as determined by it to be necessary.

(4) Transfer of Capitalized Interest to Current Sinking Fund. There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$60,000) during the construction of the Project, as approved by the Engineers and by the RD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Current Sinking Fund.

(5) Investment of Funds in Construction Account. Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the Project (as determined by the Engineers, the Chairman and the RD), provided that to the extent that any amounts on deposit in said Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes.

Investments in Certificates of Deposit may be made only if a separate RD Form 402-4 Agreement is executed, if the RD has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

(6) Statements of Contractors, Engineers and Attorneys as to Payment. Prior to the delivery of the Current Bonds, if the RD is the Purchaser of the Current Bonds, the District will be required to provide the RD with statements from the Contractors, Engineers and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under RD Instruction 1780.

(7) Disposition of Balance in Construction Account After Completion of Project. When the Project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District and/or by the RD, any balance then remaining in the Construction Account may, with the consent of the RD, be applied to the cost of constructing additional extensions, additions and improvements to the System (the "Additional Construction"). If such Additional Construction is to be undertaken by the Contractors previously engaged in the Project, such Additional Construction may be authorized by a change order.

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Current Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the Current Sinking Fund shall be used by the District immediately to prepay principal installments due on the Current Bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$100 of the principal payment falling due in any year on the Bonds will be transferred to the Depreciation Fund.

Section 302. Interim Financing Authorization.

A. Interim Financing. The District shall use interim financing for the Project during construction of that portion of the cost of the Project financed by the Current Bonds, if available at reasonable rates and terms.

The borrowing of up to the aggregate sum of \$100,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim Lender to the District for services rendered and/or materials supplied in connection with the Project, as evidenced by a Requisition Certificate.

Interim financing shall be disbursed as follows:

(1) At the direction of the District, the Interim Lender shall disburse the proceeds of the Note by cashier's checks directly to the parties entitled thereto as set forth in the Requisition Certificate; or

(2) At the direction of the District, the Interim Lender shall deposit the proceeds of the Note in the Construction Account, in which event amounts of the District on deposit therein shall, until expended to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The aggregate of the principal amount of all Notes shall not exceed \$100,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RD.

The total authorized interim financing of \$100,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

The District hereby covenants and agrees with the Interim Lender that upon the issuance and delivery of the Current Bonds and/or the receipt of said Grant Proceeds, the District will apply the proceeds thereof, to whatever extent may be necessary, in payment of the principal amount of the Note, together with accrued interest thereon to the date of such payment; and the proceeds of the Current Bonds and Grant Proceeds are hereby pledged therefor, and such pledge shall constitute a first and prior charge against said proceeds.

Although the proceeds of the Current Bonds and Grant Proceeds are pledged to the repayment of said interim financing, it is recognized that the Grant Proceeds may be applied to the extent required at the time of receipt of the Grant Proceeds, to the payment of costs of the Project due and owing by the District at the time of receipt of such Grant Proceeds, rather than to the repayment of portions of the interim financing at that time. If and to the extent that the Grant Proceeds are in excess of any costs of the Project due and owing at the time of receipt thereof, such Grant Proceeds may be applied, in the same manner as set out hereinabove, to the reduction of the amount of the interim financing, after which, such interim financing may again be increased as theretofore. The District further pledges the revenues of the System to the repayment of said interim financing, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization and sale, by public advertisement or

otherwise, of bond anticipation notes and/or grant anticipation notes to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

B. Multiple Advances by RD. In the event the Current Bonds are purchased by the RD, and in the event the District is unable to obtain a commitment for interim financing for the Project from any Interim Lender at reasonable rates and terms, the Chairman is authorized to request Multiple Advances of loan funds from the RD.

If the RD agrees to make Multiple Advances to the District pending the delivery of the Current Bonds, the Chairman is hereby authorized to execute in the name and on behalf of the District any number of Notes. Each such Note, evidencing an advance of funds by the RD to the District, shall be in the form prescribed by the RD.

Each request for an advance from the RD shall be accompanied by a Requisition Certificate. The District will also furnish to the RD, prior to the receipt of each Multiple Advance, whatever additional documentation shall be requested by the RD, including an updated supplemental title opinion of Local Counsel and an updated supplemental preliminary legal opinion of Bond Counsel.

The proceeds of any Multiple Advances shall be either (i) disbursed directly to the parties entitled thereto for services and/or materials supplied in connection with the Project; or (ii) deposited into the Construction Account and disbursed in accordance with the provisions of Section 301 hereof, in which event amounts on deposit in such Construction Account shall, until expended, to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The proceeds of the Current Bonds are hereby pledged to the repayment of such Multiple Advances, and such pledge shall constitute a first and prior pledge against such proceeds. The District further pledges the revenues of the System to the repayment of said Multiple Advances, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

Section 303. Arbitrage Limitations on Investment of Proceeds. The District covenants and certifies, in compliance with the Code, on the basis of known facts and reasonable expectations on the date of adoption of this Resolution, that it is not expected that the proceeds of the Current Bonds will be used in a manner which would cause the Current Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The District covenants to the Owners of the Current Bonds that (1) the District will make no use of the proceeds of said Current Bonds which, if such use had been reasonably expected on the date of issue of such Current Bonds, would have caused such Current Bonds to be "arbitrage bonds"; and (2) the District will comply with all of the requirements of the Code to whatever extent is necessary to assure that the Current Bonds shall not be treated as or constitute "arbitrage bonds" and that the interest on the Bonds shall be excludable from gross income for federal income tax purposes.

Prior to or at the time of delivery of the Current Bonds, the Chairman and/or the Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) are authorized to execute such certifications as shall be required by Bond Counsel, setting out all

known and contemplated facts concerning the anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code in order to assure that interest on the Current Bonds shall be excludable from gross income for federal income tax purposes and that the Current Bonds will not be treated as "arbitrage bonds".

ARTICLE 4. FLOW OF FUNDS.

Section 401. Funds. There was heretofore created in the Prior Bond Resolution the following funds and accounts:

- (a) Knott County Water and Sewer District Revenue Fund
- (b) Knott County Water and Sewer District Sinking Fund
- (c) Knott County Water and Sewer District Depreciation Reserve Fund
- (d) Knott County Water and Sewer District Operation and Maintenance Fund

The is hereby created and established in this Resolution the Knott County Water and Sewer District Sinking Fund of 2007.

All of the Funds shall be maintained with the Depository Bank so long as any Bonds remain outstanding.

Section 402. Flow of Funds. All proceedings preliminary to and in connection with the issuance of the Outstanding Bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the Outstanding Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of the Outstanding Bonds and (v) the depreciation of the System; and all other covenants for the benefit of Bondowners set out in the Prior Bond Resolution, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Outstanding Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the Current Bonds, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

A. Revenue Fund. The District covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the District only for the purpose and in the manner and order of priorities specified in the Prior Bond Resolution, as hereinafter modified by this Resolution, all as permitted by the Act, and in accordance with previous contractual commitments.

B. Prior Sinking Fund. There shall be transferred from the Revenue Fund and deposited into the Prior Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Prior Bonds, a sum equal to the total of the following:

- (1) A sum equal to one-sixth (1/6) of the next succeeding interest payment to become due on all Prior Bonds then outstanding, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of all of the Prior Bonds maturing on the next succeeding principal payment date.

Said Prior Sinking Fund shall be used solely and only and is hereby pledged for the purpose of paying the principal of and interest on the Prior Bonds.

C. Current Sinking Fund. At or after the time that the Current Bonds have been delivered, there shall be transferred from the Construction Account into the Current Sinking Fund an amount sufficient (currently estimated at \$60,000) to provide for capitalized interest during the construction of the Project, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project.

After the monthly transfers required in the preceding paragraphs have been paid from the Revenue Fund, there shall next be transferred monthly from said Revenue Fund and deposited into the Current Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Current Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the Current Bonds then outstanding, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Current Bonds maturing on the next succeeding January 1.

The Current Sinking Fund is hereby pledged for the payment of the interest and the principal of the Current Bonds, but subject to the vested rights and priorities of the Prior Bonds.

D. Depreciation Fund. It is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$50.00 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$6,000, which amount shall be maintained, and when necessary, restored to said sum of \$6,000, so long as any of the Bonds are outstanding and unpaid. These deposits are in addition to the deposits required by the Prior Bond Resolution.

As further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

E. Operation and Maintenance Fund. There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the District's annual budget.

F. Monthly Principal and Interest Payments if Requested by the RD. So long as any of the Bonds are held or insured by the RD, the District shall, if requested by the RD, make the payments required by this Section 402, in monthly installments to the RD or to the insured Owners of the Bonds.

G. Surplus Funds. Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Fund for application in accordance with the terms of this Resolution or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

H. Investment and Miscellaneous Provisions. All monies in the Sinking Fund and the Depreciation Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the Commission. All monies in the Sinking Fund and the Depreciation Fund shall be invested for the benefit of such respective Funds in Certificates of Time Deposit or savings accounts of the Depository Bank or in U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for the purposes for which such funds may be expended, provided that to the extent that any amount of the District on deposit in the Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes.

If the RD has purchased any of the Outstanding Bonds, investments in Certificates of Deposit may be made only if a separate RD Form 402-4 Agreement is executed. Any such investments will be a part of the respective Funds from which the proceeds invested are derived, and income from such investments will be credited to such respective Funds. All investments of funds derived from proceeds of the Outstanding Bonds shall be subject to the applicable limitations set out in Section 303 hereof.

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless

invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

Section 403. Current Bonds are Subordinate to the Prior Bonds. It is hereby certified and declared that the Current Bonds shall be subordinate to the lien and pledge of the Prior Bonds on the gross revenues of the System.

ARTICLE 5. COVENANTS OF DISTRICT

Section 501. Rates and Charges. The District shall charge such rates and charges for all services and facilities rendered by the System, which rates and charges shall be reasonable, taking into account and consideration the cost and value of the System, the cost of maintaining, repairing and operating same and the amounts necessary for the payment of principal of and interest on Outstanding Bonds against the System. The District shall charge such rates and charges as shall be adequate to meet the requirements of Articles 4 and 5 hereof.

The District covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Secretary a certification of an Independent Consulting Engineer that the annual net revenues (defined as gross revenues less operating expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified in Section 603 hereof.

Section 502. Books and Accounts; Audit. The District shall maintain proper records and accounts relating to the operation of the System and the District's financial affairs; and the Bondowners, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities of the System and all records, accounts and data relating thereto. An annual audit shall be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than ninety (90) days after the close of each Fiscal Year, copies of such audit reports certified by such Certified Public Accountant shall be promptly mailed to the RD without request, so long as the Government is the Owner of any of the Bonds, and to any Bondowner that may have made a written request for same.

Monthly operating reports shall be furnished to the RD and to any Bondowner requesting same, during the first two (2) years of operation after completion of the Project, and whenever and so long as the District is delinquent in any of the covenants set out in the Prior Bond Resolution or this Current Bond Resolution. Thereafter, quarterly operating reports shall be furnished at all other times to the RD and to any Bondowner requesting the same.

Section 503. System to Continue to be Operated on Fiscal Year Basis; Annual Budget. While any of the Bonds are outstanding and unpaid, and to the extent permitted by law, the System shall continue to be operated and maintained on a Fiscal Year basis.

Not later than sixty (60) days before the end of each Fiscal Year, the District agrees to cause to be prepared a proposed annual budget of operating expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such Proposed Budget and to the RD without request, if the Government is the Owner of any of the Bonds.

For the purpose of the Proposed Budget, operating expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining and insuring the System, but shall exclude depreciation and debt service payments. The District covenants that the operating expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the District will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for operating expenses in the annual budget, except upon resolution by the District that such expenses are necessary to operate and maintain the System.

Not later than sixty (60) days before the end of each Fiscal Year, the District shall prepare an estimate of gross revenues to be derived from the operation of the System for said Fiscal Year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all Outstanding Bonds during the ensuing Fiscal Year, (b) to accumulate and maintain all required reserves enumerated herein and (c) to pay operating expenses, the District shall revise the rates and charges sufficiently to provide the funds so required.

If the Owners of at least 50% of the principal amount of the Outstanding Bonds, or the Government so long as it is the Owner of any of said Outstanding Bonds, so request, the Commission shall hold an open hearing not later than thirty (30) days before the beginning of the ensuing Fiscal Year, at which time any Bondowner may appear by agent or attorney and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least fifteen (15) days prior to the hearing to each registered Bondowner and to the Government.

The District covenants that annually before the first day of the Fiscal Year, the annual budget for the upcoming Fiscal Year will be adopted substantially in accordance with the Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said District by a specific resolution duly adopted.

Section 504. General Covenants. The District, through its Commission, hereby covenants and agrees with the Owners of the Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions and improvements that may be made thereto, until all of the Outstanding

Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;

- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due; (ii) to pay the cost of operating and maintaining the System; and (iii) to provide for an adequate depreciation account;
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain combined and consolidated waterworks and sewer systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures); and
- (7) It will, pursuant to Section 96.394 of the Kentucky Revised Statutes and other applicable legal provisions, cause rates and charges for sewer services provided by the System to be billed simultaneously with rates and charges for water service furnished to sewer customers by the System, and will provide that water service will be discontinued to any premises where there is a failure to pay any part of the aggregate charges so billed, including such penalties and fees for disconnection and/or reconnection as be prescribed from time to time.

Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds. So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

Section 506. Insurance on Motors, Tanks and Structures. The District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Project, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RD, so long as the RD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the RD if and whenever the District has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by the RD.

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS

Section 601. Inferior Bonds. Except as hereinafter provided below in this Article, the District shall not, so long as any Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues to secure such additional bonds are made inferior and subordinate in all respects to the security of the Bonds.

The District expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the RD must be obtained prior to the issuance of any inferior bonds so long as the RD owns any of the Bonds, and provided further that, after the initial completion of the Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Outstanding Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding all or a portion of the Outstanding Bonds.

Section 602. Parity Bonds to Complete the Project. The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the Project shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Project, and provided the District has complied with the provisions of Section 603 below or has obtained:

- (a) the consent of the RD if the Government is as the Owner of the Prior Bonds at that time or the consent of any other Owners of the Prior Bonds, and
- (b) the consent of (1) the RD if the Government is the purchaser of the Current Bonds; or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by Owners other than the Government.

Section 603. Parity Bonds to Finance Future Improvements. The District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in the Current Bond Resolution, which conditions are as follows:

The District further reserves the right to add new combined and consolidated waterworks and sewer facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.

(b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Bonds at the time of issuance of such Parity Bonds; and (2) the written consent of the Owners of all of the then outstanding Prior Bonds, and no other prerequisite need be complied with by the District in order to issue Parity Bonds.

Section 604. Covenants to be Complied with at Time of Issuance of Parity BondsThe District hereby covenants and agrees that in the event any Parity Bonds are issued, the District shall:

(a) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the average annual debt service requirements of the Parity Bonds;

(b) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

(c) Make such Parity Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

Section 605. Prepayment Provisions Applicable to Parity Bonds. If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the District at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the RD.

Section 606. Consent of the RD Regarding Future Bonds. Notwithstanding any other provisions of this Resolution, the District agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the District will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the RD.

Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities. The District covenants and agrees that so long as any of the Prior Bonds and/or Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Outstanding Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year,

plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any Bonds are held by the Government, the District shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the RD.

ARTICLE 7. DEFAULT AND CONSEQUENCES

Section 701. Events of Default. The following items shall constitute an Event of Default on the part of the District:

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RD, within thirty (30) days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds, the Prior Bond Resolution or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within sixth (60) days after entry.

Section 702. Consequences of Event of Default. Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the District set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of said the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Outstanding Bonds and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Outstanding Bonds may require the governing body of the District by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Resolution.

**ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVAL;
MISCELLANEOUS PROVISIONS.**

Section 801. Resolution Contractual with BondownersThe provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 75% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of the Owners of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain Owners of the Outstanding Bonds without similarly affecting the rights of all Owners of such Outstanding Bonds, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the RD so long as the RD owns any of the Outstanding Bonds.

Section 802. All Current Bonds are Equal. The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited. So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

Section 804. Approval and Acceptance of RD Grant Agreement. The RD has agreed to make a grant to the District in the amount of \$3,419,860 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the District to approve, accept and execute RD Form 1780-12 (the "RD Grant Agreement"), setting out the terms and conditions upon which said RD Grant will be made. Said RD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RD Grants offered to the District in connection with the Project and to execute any and all RD Grant Agreements and any other documents as may be requested by the RD in connection with RD Grants which have been and/or which may hereafter be approved for such Project.

Section 805. Approval and Acceptance of ARC Grant Agreement. The Appalachian Regional Commission (the "ARC") has agreed to make a grant to the District in the amount of \$500,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the ARC has requested the District to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said ARC Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other ARC Grants offered to the District in connection with the Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Project.

Section 806. Approval and Acceptance of EPA Grant Agreement. The Environmental Protection Agency (the "EPA") has agreed to make a grant to the District in the amount of \$1,900,000 (the "EPA Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the EPA has requested the District to approve, accept and execute a certain EPA Grant Agreement (the "EPA Grant Agreement"), setting out the terms and conditions upon which said EPA Grant will be made. Said EPA Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said EPA Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other EPA Grants offered to the District in connection with the Project and to execute any and all EPA Grant Agreements and any other documents as may be requested by the EPA in connection with EPA Grants which have been and/or which may hereafter be approved for such Project.

Section 807. Approval and Acceptance of CDBG Grant Agreement. The Department of Housing and Urban Development (the "HUD") has agreed to make a grant to the District in the amount of \$2,000,000 (the "CDBG Grant"), to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and HUD has requested the District to approve, accept and execute a certain CDBG Grant Agreement (the "CDBG Grant Agreement") setting out the terms and conditions upon which said CDBG Grant will be made. Said CDBG Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said CDBG Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other CDBG Grants offered to the District in connection with the Project and to execute any and all CDBG Grant Agreements and any other documents as may be

requested by HUD in connection with CDBG Grants which have been and/or which may hereafter be approved for such Project.

Section 808. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents. The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1780-27).
- (e) Agreement for Engineering Services with the Engineers.

Section 809. Authorization of Condemnation to Acquire Easements and/or Sites in the event that (a) any necessary deeds of easement to allow construction of the Project over the property of any property owner or (b) any necessary deed to the necessary site of any combined and consolidated waterworks and sewer facility of the Project shall not be obtained through negotiation within ten (10) days after the date of adoption of this Resolution and in the event that (1) such combined and consolidated waterworks and sewer lines cannot be located within the right-of-way of the State and/or County road involved; and/or (2) such combined and consolidated waterworks and sewer facilities cannot be located on a site already owned by the District, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the District or the Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Project and whenever the necessary deed is not obtained by negotiation at least ten (10) days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The District further approves the payment from the funds available therefor allocated to the costs of the Project to pay any judgment award, or compromise, determined by Local Counsel with the acquiescence of the Commission, toward the costs of such easements, rights-of-way and/or sites; provided, in each instance, that the payment of such funds to satisfy any judgment, award or compromise must first be approved by the RD; and the Commission further determines that if and to whatever extent the funds available from the proceeds of the financing contemplated by this Resolution shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the District is unable to obtain the approval of the RD for any such payment, the Commission shall take all reasonably necessary actions, within the powers

and authority of the Commission, to make such additional amount available from all other available District resources.

Section 810. Authorization to File Required Financing Statements. In the event that it is determined by Bond Counsel or Local Counsel that the District is required to file any financing statements under the Kentucky Uniform Commercial Code in order to perfect the pledge of the gross revenues of the District's System as security for the Current Bonds, Bond Counsel and/or Local Counsel are hereby authorized to prepare and file with the appropriate officials such financing statements as they deem necessary.

ARTICLE 9. SALE OF CURRENT BONDS

Section 901. Sale of Current Bonds. The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and all of such documents having been found to be in satisfactory form, a copy of each is hereby ordered to be filed in the records of the Secretary with the Minutes of the meeting at which this Resolution is adopted. The Notice of Bond Sale shall be signed by the Secretary and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed. In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the District, with the consent of the Purchaser of the Current Bonds, determines it is in the District's best interest to change the maturities, the applicable prepayment date or any other dates, the District may adjust the same by a Resolution of the Commission approving the adjustments.

ARTICLE 10. CONCLUDING PROVISIONS

Section 1001. Covenant of District to Take All Necessary Action To Assure Compliance with the Code. In order to assure the Owners of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for federal income tax purposes and exempt from all Kentucky income taxation, the District covenants to and with the Owners of the Current Bonds to take the following action:

(a) The District will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for federal income tax purposes; (2) will take no actions which will violate any of the provisions of the Code; and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for federal income tax purposes.

(b) The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the District, or any subordinate entity of the District, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Current Bonds and all interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The District further certifies that the Current Bonds and any and all interim financing obligations of the District are not "private activity bonds" within the meaning of the Code.

(d) The District covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the District, upon the advice of Bond Counsel, that the Construction Account, or any other Fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income attributable to such excess, there shall be established a separate and special fund with the Depository Bank, which fund shall be designated the "Excess Earnings and Rebate Fund", which shall be utilized for the collection and payment of any excess generated from investments and the remittance thereof to the United States of America on or before the anniversary of the fifth (5th) year from the date of the Current Bonds, and once every five (5) years thereafter until the final retirement of the Current Bonds; the last installment, to the extent required, to be made no later than sixty (60) days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The District further covenants to file any and all reports, if any, as may be required to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

Section 1002. Severability Clause. If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

Section 1003. All Provisions in Conflict Repealed. All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The District covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

Section 1004. Effective Immediately Upon Adoption. This Resolution shall take effect and be effective immediately upon its adoption.

Adopted this February 14, 2007.

Knott County Water and Sewer District


Chairperson

(Seal of District)

Attest:

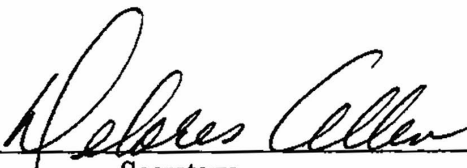

Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Knott County Water and Sewer District of Knott County, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairperson of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on February 14, 2007, as shown by the official records of said District in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this February 14, 2007.


Secretary

(Seal of District)

EXHIBIT A**Schedule of Principal Payments**

<u>Payment Due</u> <u>January 1,</u>	<u>Principal</u> <u>Payment</u>	<u>Payment Due</u> <u>January 1,</u>	<u>Principal</u> <u>Payment</u>
2009	\$1,000	2028	\$2,400
2010	1,100	2029	2,500
2011	1,100	2030	2,600
2012	1,200	2031	2,700
2013	1,200	2032	2,900
2014	1,300	2033	3,000
2015	1,400	2034	3,100
2016	1,400	2035	3,300
2017	1,500	2036	3,400
2018	1,500	2037	3,600
2019	1,600	2038	3,700
2020	1,700	2039	3,900
2021	1,800	2040	4,100
2022	1,800	2041	4,200
2023	1,900	2042	4,400
2024	2,000	2043	4,600
2025	2,100	2044	4,800
2026	2,200	2045	5,100
2027	2,300	2046	5,600

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

**UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
KNOTT COUNTY WATER AND SEWER DISTRICT
WATER AND SEWER REVENUE BONDS, SERIES 2007**

No. R- _____ Interest Rate: _____ % \$ _____

KNOW ALL PERSONS BY THESE PRESENTS:

That the Knott County Water and Sewer District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Knott County, Kentucky, for value received, hereby promises to pay to

_____ the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

_____ DOLLARS (\$ _____),

on the first day of January, in years and installments as follows:

Year Principal Year Principal Year Principal

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised

Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing combined and consolidated waterworks and sewer system of the District (said existing combined and consolidated waterworks and sewer system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond is issued subject to the vested rights and priorities in favor of the owners of the outstanding (i) Knott County Water and Sewer District Water and Sewer Revenue Bonds, Series 2003, dated December 19, 2003 (the "2003 Bonds"), authorized by a Resolution adopted by the Commission of the District on December 10, 2003 (the "2003 Bond Resolution"); and (ii) 2004 Kentucky Infrastructure Authority Loan (the "KIA Loan") [hereinafter the 2003 Bonds and the KIA Loan shall be collectively referred to as the "Prior Bonds"]. Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured by a pledge of the gross revenues to be derived from the operation of the System, after providing for the requirements of the Prior Bonds.

This Bond has been issued in full compliance with the Current Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Knott County Water and Sewer District Sinking Fund", created in the Current Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2016, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Knott County Water and Sewer District, by its Board of Commissioners, has caused this Bond to be executed by its Chairperson, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

Knott County Water and Sewer District
Knott County, Kentucky

By _____
Chairperson

Attest:

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

ASSIGNMENT

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto _____, this ____ day of _____, _____.

By: _____

EXHIBIT C

REQUISITION CERTIFICATE

Re: Knott County Water and Sewer District Water and Sewer Revenue Bonds, Series 2007, in the principal amount of \$100,000 (Treatment Plant Project)

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Knott County Water and Sewer District (the "District") of Knott County, Kentucky.

2. That the named firms and/or persons set forth on Exhibit A attached hereto are now entitled to the aggregate sum of \$ _____, itemized as set forth in said Exhibit A and as per approved invoices attached hereto:

3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Knott County Water and Sewer District Water and Sewer Construction Account".

4. That we hereby certify that we have carefully inspected the work and, as a result of our inspection and to the best of our knowledge and belief, the amounts shown in this Requisition Certificate are correct and the work has been performed in accordance with the agreements between the District and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this ____ day of _____, 20 ____.

Knott County Water and Sewer District

R.M. Johnson Engineers, Inc.

By _____

By _____
Registered Professional Engineer
State of Kentucky No. _____

Approved on _____

Approved on _____

Rural Development

Amount expended heretofore \$ _____

By _____
Authorized RD Official

Amount approved herein _____

Total _____

Approved on _____

EXHIBIT A TO REQUISITION CERTIFICATE

Name of Entity/Person

Amount

Feb 03 2015 14:28:11 18554544516

606 889 1512 U.S. Department of A Page 885



BOND SCHEDULE, 1/26/2007

91-11

Name of Borrower: Knott County Water and Sewer District			
Amount of Loan	100000	Annual Interest Rate	0.045
Number of Initial Interest Only Payments	2	Number of principal and/or Interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	100	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2008	1	1	4500	4500	0	100000
2009	1	2	4500	4500	0	100000
2010	1	3	5500	4500	1000	99000
2011	1	4	5555	4455	1100	97900
2012	1	5	5506	4406	1100	96800
2013	1	6	5556	4356	1200	95600
2014	1	7	5502	4302	1200	94400
2015	1	8	5548	4248	1300	93100
2016	1	9	5590	4190	1400	91700
2017	1	10	5527	4127	1400	90300
2018	1	11	5564	4064	1500	88800
2019	1	12	5496	3996	1500	87300
2020	1	13	5529	3929	1600	85700
2021	1	14	5557	3857	1700	84000
2022	1	15	5580	3780	1800	82200
2023	1	16	5499	3699	1800	80400
2024	1	17	5518	3618	1900	78500
2025	1	18	5533	3533	2000	76500
2026	1	19	5543	3443	2100	74400
2027	1	20	5548	3348	2200	72200
2028	1	21	5549	3249	2300	69900
2029	1	22	5546	3146	2400	67500
2030	1	23	5538	3038	2500	65000
2031	1	24	5525	2925	2600	62400
2032	1	25	5508	2808	2700	59700
2033	1	26	5587	2687	2900	56800
2034	1	27	5556	2556	3000	53800
2035	1	28	5521	2421	3100	50700
2036	1	29	5582	2282	3300	47400
2037	1	30	5533	2133	3400	44000
2038	1	31	5580	1980	3600	40400
2039	1	32	5518	1818	3700	36700
2040	1	33	5552	1652	3900	32800
2041	1	34	5576	1476	4100	28700
2042	1	35	5492	1292	4200	24500
2043	1	36	5503	1103	4400	20100
2044	1	37	5505	905	4600	15500
2045	1	38	5498	698	4800	10700
2046	1	39	5582	482	5100	5600
2047	1	40	5852	252	5600	0
TOTALS			219754	119754	100000	

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

BOND RESOLUTION

KNOTT COUNTY WATER AND SEWER DISTRICT

AUTHORIZING

**KNOTT COUNTY WATER AND SEWER DISTRICT
WATER AND SEWER REVENUE BONDS,
SERIES 2003**

IN THE AMOUNT OF

\$185,000

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EXHIBIT A - Schedule of Principal Payments

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BOND RESOLUTION

RESOLUTION OF THE KNOTT COUNTY WATER AND SEWER DISTRICT OF KNOTT COUNTY, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$185,000 PRINCIPAL AMOUNT OF KNOTT COUNTY WATER AND SEWER DISTRICT WATER AND SEWER REVENUE BONDS, SERIES 2003 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE PURCHASE OF EQUIPMENT AND MISCELLANEOUS ITEMS FOR THE EXISTING COMBINED AND CONSOLIDATED WATERWORKS AND SEWER SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID COMBINED AND CONSOLIDATED WATERWORKS AND SEWER SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the combined and consolidated waterworks and sewer system (the "System") of the Knott County Water and Sewer District (the "District") is owned and operated by said District pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act"), and

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$185,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the purchase of equipment and miscellaneous items for the System of the District, and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued as first lien bonds, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$85,000, to provide the total cost of such project,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE KNOTT COUNTY WATER AND SEWER DISTRICT OF KNOTT COUNTY, KENTUCKY, AS FOLLOWS:

**ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;
SECURITY.**

Section 101. Definitions. As used in this Resolution, unless the context requires otherwise:

"Act" refers to Chapters 58 and 74 of the Kentucky Revised Statutes.

"Beginning Month" refers to the month following the month in which the Current Bonds authorized herein are issued, sold and delivered to the Purchaser thereof.

"Bond Counsel" refers to an attorney or firm of attorneys recognized nationally as experts in the field of municipal bond law and shall be deemed to refer to Rubin & Hays, Louisville, Kentucky, or their successors.

"Bondowner" or "Owner" refer to registered Owners of the Current Bonds at the time issued and outstanding hereunder.

"Bonds" collectively refers to the outstanding Current Bonds, Prior Bonds and the Parity Bonds.

"Chairman" refers to the elected or appointed Chairman or Chairperson of the Commission.

"Code" refers to the Internal Revenue Code of 1986, as amended, and the Treasury Regulations relating thereto.

"Commission" refers to the Board of Commissioners of the District, or such other body as shall be the governing body of said District under the laws of Kentucky at any given time.

"Current Bond Resolution" or "Resolution" refer to this Resolution authorizing the Current Bonds.

"Current Bonds" refers to the \$185,000 of Knott County Water and Sewer District Water and Sewer Revenue Bonds, Series 2003 authorized by this Resolution, to be dated as of the date of issuance thereof.

"Depository Bank" refers to the bank, which shall be a member of the FDIC, and which shall be designated by the City.

"Depreciation Fund" refers to the Knott County Water and Sewer District Water and Sewer Depreciation Reserve Fund, described in Section 402 of this Resolution.

"District" refers to the Knott County Water and Sewer District of Knott County, Kentucky.

"Event of Default" refers to one or more of the Events of Default set forth in Section 701 of this Resolution.

"FDIC" refers to the Federal Deposit Insurance Corporation, or its successors.

"Fiscal Year" refers to the annual accounting period of the District, beginning on January 1 and ending on December 31 of each year.

"Funds" refers to the Revenue Fund, the Sinking Fund, the Depreciation Fund and the Operation and Maintenance Fund.

"Government" refers to the United States of America, or any agency thereof, including the RD.

"Grant Proceeds" refers to the proceeds of the RD Grant.

"Local Counsel" refers to J. Scott Preston, Esq., Paintsville, Kentucky, or any other attorney or firm of attorneys designated by the District.

"Operation and Maintenance Fund" refers to the Knott County Water and Sewer District Water and Sewer Operation and Maintenance Fund described in Section 401 of this Resolution.

"Outstanding Bonds" refers to the outstanding Bonds, and does not refer to, nor include, any Bonds for the payment of the principal and interest of which sufficient funds will have been deposited and earmarked for payment of Bonds; provided all Outstanding Bonds of any series held by the RD shall be deemed to constitute Outstanding Bonds until paid regardless of the deposit of funds to pay for same.

"Parity Bonds" refers to bonds which may be issued in the future which, pursuant to this Resolution, rank on a basis of parity with the outstanding Bonds, as to priority, security and source of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Bonds.

"Project" refers specifically to the purchase of equipment and miscellaneous items for the System of the District, which Project is being financed by the Current Bonds and by other funds.

"Purchaser" refers to the agency, person, firm or firms, or their successors, to whom the Current Bonds herein authorized are awarded at the public sale of the Current Bonds.

"RD" refers to the Rural Development of the Department of Agriculture of the United States of America.

"RD Grant" refers to the RD grant described in Section 804 of this Resolution.

"Revenue Fund" refers to the Knott County Water and Sewer District Water and Sewer Revenue Fund, described in Section 401 of this Resolution.

"Secretary" refers to the elected or appointed Secretary of the Commission.

"Sinking Fund" refers to the Knott County Water and Sewer District Water and Sewer Sinking Fund, described in Section 401 of this Resolution.

"System" refers to the existing combined and consolidated water and sewer system of the District.

"Treasurer" refers to the elected or appointed Treasurer of the Commission.

"U.S. Obligations" refers to bonds or notes which are the direct obligations of the United States of America, or obligations the principal of and interest on which are guaranteed by the United States of America.

All words and terms importing the singular number shall, where the context requires, import the plural number and vice versa. Unless otherwise indicated, references to Articles or Sections refers to those in this Resolution.

Section 102. Purpose. The Current Bonds shall be issued for the purpose of financing the cost (not otherwise provided) of the Project. The Commission hereby declares the System of the District to constitute a revenue producing public project, and said System shall continue to be owned, controlled, operated and maintained by the District as a revenue producing public project pursuant to the Act, so long as any Bonds remain outstanding.

Section 103. Declaration of Period of Usefulness. The Commission hereby declares that the period of usefulness of the System is more than forty (40) years from the date of completion of the Project.

Section 104. Authorization of Bonds. The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$270,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$185,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$270,000
Less:		
RD Grant	<u>\$85,000</u>	
Total Non-Bond Funds:		<u>(85,000)</u>
Balance to be financed by Current Bonds		\$185,000

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$185,000 principal amount of Knott County Water and Sewer District Water and Sewer Revenue Bonds, Series 2003.

The Current Bonds shall be dated as of the date of delivery to the Purchaser thereof; shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Current Bonds, as hereinafter provided; and shall be issued and delivered as prescribed in Section 202 hereof.

Interest on the Current Bonds shall be payable semiannually on January 1 and July 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Current Bonds to the ensuing January 1 or July 1, as the case may be. Principal of the Current Bonds shall be payable on January 1 of each of the respective years until maturity, as set out in Section 201 hereof.

Section 105. Current Bonds Shall be Payable on Out of Gross Revenues. The Current Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely on a first lien basis out of the gross revenues of the System.

ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.

Section 201. Principal Payments. Principal payments due on the Current Bonds shall be as set forth in the schedule of maturities set out in **Exhibit A** attached to this Resolution and incorporated herein.

Section 202. Issuance of Current Bonds; Bond Form. The Purchaser of the Current Bonds at the public sale shall take delivery of the Current Bonds in the form of one or more fully registered bonds, as set forth in **Exhibit B** attached hereto and incorporated herein, amounting in the aggregate to the principal amount of the Current Bonds authorized herein, maturing as to principal as set out in Section 201. The Current Bonds shall be numbered R-1 and consecutively upward thereafter. Such Current Bonds shall, upon appropriate execution on behalf of the District as prescribed, constitute the entire bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), registered as to principal and interest and payable as directed by the registered Owner.

Section 203. Place of Payment and Manner of Execution. Both principal of and interest on the Current Bonds shall be payable at the place and in the manner set out in the form of such Current Bond. The Current Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Chairman of the District, with the Corporate Seal of the District affixed thereto and attested by the manual or facsimile signature of the Secretary of said District.

If either of the officers whose signatures appear on the Current Bonds ceases to be such officer before delivery of said Current Bonds, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery.

Section 204. Provisions as to Prepayment. Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to January 1, 2013, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2013, shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2012, at par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are owned by the Government, all or any of the Current Bonds, or in a multiple of \$100, may be prepaid at any time in inverse chronological order of the principal maturities due, at par plus accrued interest without any prepayment penalty.

Notice of such prepayment shall be given by certified mail to the Bondowner or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the Bondowner.

**ARTICLE 3. GENERAL ACCOUNT; APPLICATION OF PROCEEDS;
ARBITRAGE LIMITATIONS.**

Section 301. General Account; Application of Proceeds of Bonds; Other Transfers and Deposits. The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the General Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$11,000 (the "Fidelity Bond"), or such larger amount as the RD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RD so long as it is owner of any of the Current Bonds. The RD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RD. Whenever sums in the Funds shall exceed \$11,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RD.

A. Covenants Applicable if RD Purchases Current Bonds. It is acknowledged that all covenants herein with reference to the necessity for approval of the RD, the necessity of observing RD regulations and procedures and the necessity of using RD forms (the "RD Forms"), shall apply only if the RD is the Purchaser of the Current Bonds and only so long as the RD holds the Current Bonds thereafter. In the event that the RD shall not be the Purchaser of the Current Bonds, or, after purchasing same, shall sell or transfer the Current Bonds to an Owner who shall not be the Government, all covenants herein with reference to the necessity for approval of the RD, the necessity of observing RD regulations and procedures, and the necessity of using RD Forms, shall not be applicable.

B. Application of Proceeds of Current Bonds. The proceeds of the Current Bonds shall be applied as follows:

(1) Payment of Interim Financing, Costs of Project and Costs of Issuance. Simultaneously with the delivery of the Current Bonds, there shall immediately be paid to the interim lender, if any, an amount sufficient to pay principal of and interest on any temporary loans borrowed by the District in anticipation of the sale and delivery of the Current Bonds and/or of the receipt of Grant Proceeds. Also, at the time of delivery of the Current Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Project and in connection with the issuance of the Current Bonds.

(2) General Account. If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest, principal and costs referred to in subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Knott County Water and Sewer District Water and Sewer General Account". There shall also be deposited in said General Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds.

(3) Withdrawal of Funds From General Account. Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the RD as to such expenditures, if the RD is the Owner of any Outstanding Bonds. The proceeds of said General Account shall be withdrawn only on checks signed by the Chairman, the Treasurer (or by such other official of the District as may be authorized by the Commission), provided such official shall be covered by the Fidelity Bond required by Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Project, as evidenced by invoices and/or partial payment estimates bearing the written approval of the Chairman (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated RD official.

The District shall prepare and submit any and all RD Forms required by the RD. Periodic audits of the District's General Account records shall be made by RD as determined by it to be necessary.

(4) Investment of Funds in General Account. Pending disbursement of amounts on deposit in the General Account, all such funds, or such portion of said amounts on deposit in said General Account as is designated by the Commission, shall be invested for the benefit of such General Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the Project (as determined by the Engineers, the Chairman and the RD), provided that to the extent that any amounts on deposit in said Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. Investments in Certificates of Deposit may be made only if a separate RD Form 402-4 Agreement is executed, if the RD has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the General Account, and income from such investments will be credited to the General Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

(5) Statements of Attorneys as to Payment. Prior to the delivery of the Current Bonds, if the RD is the Purchaser of the Current Bonds, the District will be required to provide the RD with statements from the Attorneys for the District that they have been paid to date in accordance with their agreements. Any exceptions must be authorized under RD Instruction 1780.

(6) Disposition of Balance in General Account After Completion of Project. When the Project has been completed and all costs have been paid in full, as certified by RD, any balance then remaining in the General Account may, with the consent of the RD, be applied to the cost of additional equipment for the System (the "Additional Purchase").

If there is a balance remaining in the General Account after such Additional Purchase, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Sinking Fund. Such remaining balance in the General Account so transferred to the Sinking Fund shall be used by the District immediately to prepay principal installments due on the Current Bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$100 of the principal payment falling due in any year on the Bonds will be transferred to the Depreciation Fund.

Section 302. Arbitrage Limitations on Investment of Proceeds. The District covenants and certifies, in compliance with the Code, on the basis of known facts and reasonable expectations on the date of adoption of this Resolution, that it is not expected that the proceeds of the Current Bonds will be used in a manner which would cause the Current Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The District covenants to the Owners of the Current Bonds that (1) the District will make no use of the proceeds of said Current Bonds which, if such use had been reasonably expected on the date of issue of such Current Bonds, would have caused such Current Bonds to be "arbitrage bonds"; and (2) the District will comply with all of the requirements of the Code to whatever extent is necessary to assure that the Current Bonds shall not be treated as or constitute "arbitrage bonds" and that the interest on the Bonds shall be excludable from gross income for federal income tax purposes.

Prior to or at the time of delivery of the Current Bonds, the Chairman and/or the Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) are authorized to execute such certifications as shall be required by Bond Counsel, setting out all known and contemplated facts concerning the anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code in order to assure that interest on the Current Bonds shall be excludable from gross income for federal income tax purposes and that the Current Bonds will not be treated as "arbitrage bonds".

ARTICLE 4. FLOW OF FUNDS.

Section 401. Funds. There is hereby created in this Bond Resolution the following funds and accounts:

- (a) Knott County Water and Sewer District Water and Sewer Revenue Fund
- (b) Knott County Water and Sewer District Water and Sewer Sinking Fund
- (c) Knott County Water and Sewer District Water and Sewer Depreciation Reserve Fund
- (d) Knott County Water and Sewer District Water and Sewer Operation and Maintenance Fund

All of the Funds shall be maintained with the Depository Bank so long as any Bonds remain outstanding.

Section 402. Flow of Funds.

A. Revenue Fund. The District covenants and agrees that it will deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall be used, disbursed and applied by the District only for the purpose and in the manner and order of priorities specified in this Resolution, all as permitted by the Act.

B. Sinking Fund. It is hereby recognized that the District is obligated upon the issuance of the Current Bonds to provide for debt service requirements of the Current Bonds.

There shall be transferred from the Revenue Fund and deposited into the Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Outstanding Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the Bonds, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Bonds maturing on the next succeeding January 1.

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

C. Depreciation Fund. It is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$90.00 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$10,800, which amount shall be maintained, and when necessary, restored to said sum of \$10,800, so long as any of the Bonds are outstanding and unpaid.

As further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future purchase equipment to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

D. Operation and Maintenance Fund. There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the District's annual budget.

E. Monthly Principal and Interest Payments if Requested by the RD. So long as any of the Bonds are held or insured by the RD, the District shall, if requested by the RD, make the payments required by this Section 402, in monthly installments to the RD or to the insured Owners of the Bonds.

F. Surplus Funds. Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Fund for application in accordance with the terms of this Resolution or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

G. Investment and Miscellaneous Provisions. All monies in the Sinking Fund and the Depreciation Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the Commission. All monies in the Sinking Fund and the Depreciation Fund shall be

invested for the benefit of such respective Funds in Certificates of Time Deposit or savings accounts of the Depository Bank or in U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for the purposes for which such funds may be expended, provided that to the extent that any amount of the District on deposit in the Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes.

If the RD has purchased any of the Outstanding Bonds, investments in Certificates of Deposit may be made only if a separate RD Form 402-4 Agreement is executed. Any such investments will be a part of the respective Funds from which the proceeds invested are derived, and income from such investments will be credited to such respective Funds. All investments of funds derived from proceeds of the Outstanding Bonds shall be subject to the applicable limitations set out in Section 303 hereof.

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

ARTICLE 5. COVENANTS OF DISTRICT

Section 501. Rates and Charges. The District shall charge such rates and charges for all services and facilities rendered by the System, which rates and charges shall be reasonable, taking into account and consideration the cost and value of the System, the cost of maintaining, repairing and operating same and the amounts necessary for the payment of principal of and interest on Outstanding Bonds against the System. The District shall charge such rates and charges as shall be adequate to meet the requirements of Articles 4 and 5 hereof.

The District covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Secretary a certification of an Independent Consulting Engineer that the annual net revenues (defined as gross revenues less operating expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified in Section 603 hereof.

Section 502. Books and Accounts; Audit. The District shall maintain proper records and accounts relating to the operation of the System and the District's financial affairs; and the Bondowners, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities of the System and all records, accounts and data relating thereto. An annual audit shall be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than ninety (90) days after the close of each Fiscal Year, copies of such audit reports certified by such Certified Public Accountant shall be promptly mailed to the RD without request, so long as the Government is the Owner of any of the Bonds, and to any Bondowner that may have made a written request for same.

Monthly operating reports shall be furnished to the RD and to any Bondowner requesting same, during the first two (2) years of operation after completion of the Project, and whenever and so long as the District is delinquent in any of the covenants set out in this Current Bond Resolution. Thereafter, quarterly operating reports shall be furnished at all other times to the RD and to any Bondowner requesting the same.

Section 503. System to Continue to be Operated on Fiscal Year Basis; Annual Budget. While any of the Bonds are outstanding and unpaid, and to the extent permitted by law, the System shall continue to be operated and maintained on a Fiscal Year basis.

Not later than sixty (60) days before the end of each Fiscal Year, the District agrees to cause to be prepared a proposed annual budget of operating expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such Proposed Budget and to the RD without request, if the Government is the Owner of any of the Bonds.

For the purpose of the Proposed Budget, operating expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining and insuring the System, but shall exclude depreciation and debt service payments. The District covenants that the operating expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the District will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for operating expenses in the annual budget, except upon resolution by the District that such expenses are necessary to operate and maintain the System.

Not later than sixty (60) days before the end of each Fiscal Year, the District shall prepare an estimate of gross revenues to be derived from the operation of the System for said Fiscal Year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all Outstanding Bonds during the ensuing Fiscal Year, (b) to accumulate and maintain all required reserves enumerated herein and (c) to pay operating expenses, the District shall revise the rates and charges sufficiently to provide the funds so required.

If the Owners of at least 50% of the principal amount of the Outstanding Bonds, or the Government so long as it is the Owner of any of said Outstanding Bonds, so request, the Commission shall hold an open hearing not later than thirty (30) days before the beginning of the ensuing Fiscal Year, at which time any Bondowner may appear by agent or attorney and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least fifteen (15) days prior to the hearing to each registered Bondowner and to the Government.

The District covenants that annually before the first day of the Fiscal Year, the annual budget for the upcoming Fiscal Year will be adopted substantially in accordance with the Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said District by a specific resolution duly adopted.

Section 504. General Covenants. The District, through its Commission, hereby covenants and agrees with the Owners of the Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto, until all of the

Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;

- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due; (ii) to pay the cost of operating and maintaining the System; and (iii) to provide for an adequate depreciation account; and
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain combined and consolidated waterworks and sewer systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures).

Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds. So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

Section 506. Insurance on Motors, Tanks and Structures. The District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Project, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RD, so long as the RD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the RD if and whenever the District has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by the RD.

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS

Section 601. Inferior Bonds. Except as hereinafter provided below in this Article, the District shall not, so long as any Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues to secure such additional bonds are made inferior and subordinate in all respects to the security of the Bonds.

The District expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the RD must be obtained prior to the issuance of any inferior bonds so long as the RD owns any of the Bonds, and provided further that, after the initial completion of the Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Outstanding Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding all or a portion of the Outstanding Bonds.

Section 602. Parity Bonds to Complete the Project. The District hereby certifies, covenants and agrees that in the event that the cost of completion of the Project shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Project, and provided the District has complied with the provisions of Section 603 below or has obtained the consent of (1) the RD if the Government is the purchaser of the Current Bonds; or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by Owners other than the Government.

Section 603. Parity Bonds to Finance Future Improvements. The District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in this Current Bond Resolution, which conditions are as follows:

The District further reserves the right to add new combined and consolidated waterworks and sewer facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

- (a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.
- (b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Bonds at the time of issuance of such Parity Bonds; and (2) the written consent of the Owners of all of the then outstanding Prior Bonds, and no other prerequisite need be complied with by the District in order to issue Parity Bonds.

Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds.

The District hereby covenants and agrees that in the event any Parity Bonds are issued, the District shall:

(a) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the average annual debt service requirements of the Parity Bonds;

(b) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

(c) Make such Parity Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

Section 605. Prepayment Provisions Applicable to Parity Bonds. If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the District at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the RD.

Section 606. Consent of the RD Regarding Future Bonds. Notwithstanding any other provisions of this Resolution, the District agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the District will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the RD.

Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities. The District covenants and agrees that so long as any of the Prior Bonds and/or Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Outstanding Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any Bonds are held by the Government, the District shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the RD.

ARTICLE 7. DEFAULT AND CONSEQUENCES

Section 701. Events of Default. The following items shall constitute an Event of Default on the part of the District:

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RD, within thirty (30) days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within sixth (60) days after entry.

Section 702. Consequences of Event of Default. Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the District set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of said the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Outstanding Bonds and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Outstanding Bonds may require the governing body of the District by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Resolution.

**ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVAL;
MISCELLANEOUS PROVISIONS.**

Section 801. Resolution Contractual with Bondowners. The provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 75% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of any certain Owners of the Outstanding Bonds without similarly affecting the rights of all Owners of such Outstanding Bonds, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the RD so long as the RD owns any of the Outstanding Bonds.

Section 802. All Current Bonds are Equal. The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited. So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

Section 804. Approval and Acceptance of RD Grant Agreement. The RD has agreed to make a grant to the District in the amount of \$85,000 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the District to approve, accept and execute RD Form 1780-12 (the "RD Grant Agreement"), setting out the terms and conditions upon which said RD Grant will be made. Said RD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RD Grants offered to the District in connection with the Project and to execute any and all RD Grant Agreements and any other documents as may be requested by the RD in connection with RD Grants which have been and/or which may hereafter be approved for such Project.

Section 805. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents. The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1780-27).

ARTICLE 9. SALE OF CURRENT BONDS

Section 901. Sale of Current Bonds. The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and all of such documents having been found to be in satisfactory form, a copy of each is hereby ordered to be filed in the records of the Secretary with the Minutes of the meeting at which this Resolution is adopted. The Notice of Bond Sale shall be signed by the Secretary and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed. In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the District, with the consent of the Purchaser of the Current Bonds, determines it is in the District's best interest to change the maturities, the applicable prepayment date or any other dates, the District may adjust the same by a Resolution of the Commission approving the adjustments.

ARTICLE 10. CONCLUDING PROVISIONS

Section 1001. Covenant of District to Take All Necessary Action To Assure Compliance with the Code. In order to assure the Owners of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for federal income tax purposes and exempt from all Kentucky income taxation, the District covenants to and with the Owners of the Current Bonds to take the following action:

(a) The District will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for federal income tax purposes; (2) will take no actions which will violate any of the provisions of the Code; and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for federal income tax purposes.

(b) The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the District, or any subordinate entity of the District, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Current Bonds and all interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The District further certifies that the Current Bonds and any and all interim financing obligations of the District are not "private activity bonds" within the meaning of the Code.

(d) The District covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the District, upon the advice of Bond Counsel, that the Construction Account, or any other Fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income attributable to such excess, there shall be established a separate and special fund with the Depository Bank, which fund shall be designated the "Excess Earnings and Rebate Fund", which shall be utilized for the collection and payment of any excess generated from investments and the remittance thereof to the United States of America on or before the anniversary of the fifth (5th) year from the date of the Current Bonds, and once every five (5) years thereafter until the final retirement of the Current Bonds; the last installment, to the extent required, to be made no later than sixty (60) days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The District further covenants to file any and all reports, if any, as may be required to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

Section 1002. Severability Clause. If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

Section 1003. All Provisions in Conflict Repealed. All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The District covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

Section 1004. Effective Immediately Upon Adoption. This Resolution shall take effect and be effective immediately upon its adoption.

Adopted this December 10, 2003.

KNOTT COUNTY WATER AND SEWER
DISTRICT

Chairperson

(Seal of District)

Attest:

Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Knott County Water and Sewer District of Knott County, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairperson of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on December 10, 2003, as shown by the official records of said District in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this December 10, 2003.

Secretary

(Seal of District)

EXHIBIT A**Schedule of Principal Payments**

<u>Payment Due</u> <u>January 1,</u>	<u>Principal</u> <u>Payment</u>	<u>Payment Due</u> <u>January 1,</u>	<u>Principal</u> <u>Payment</u>
2006	\$2,000	2025	\$4,500
2007	2,000	2026	4,500
2008	2,000	2027	5,000
2009	2,000	2028	5,000
2010	2,500	2029	5,500
2011	2,500	2030	5,500
2012	2,500	2031	6,000
2013	2,500	2032	6,000
2014	2,500	2033	6,500
2015	3,000	2034	6,500
2016	3,000	2035	7,000
2017	3,000	2036	7,000
2018	3,500	2037	7,500
2019	3,500	2038	8,000
2020	3,500	2039	8,000
2021	3,500	2040	8,500
2022	4,000	2041	9,000
2023	4,000	2042	9,500
2024	4,000	2043	10,000

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
KNOTT COUNTY WATER AND SEWER DISTRICT
WATER AND SEWER REVENUE BONDS,
SERIES 2003

No. R- _____ Interest Rate: _____ % \$ _____

KNOW ALL PERSONS BY THESE PRESENTS:

That the Knott County Water and Sewer District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Knott County, Kentucky, for value received, hereby promises to pay to

the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

_____ DOLLARS (\$ _____),

on the first day of January, in years and installments as follows:

Year Principal Year Principal Year Principal

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the purchase of equipment and miscellaneous items for the District (said existing combined and consolidated waterworks and sewer system, together with said purchased equipment, being hereinafter referred to as the "System").

This Bond has been issued in full compliance with the Current Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Knott County Water and Sewer District Water and Sewer Sinking Fund", created in the Current Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as this Bond is outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2013, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent

to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Knott County Water and Sewer District, by its Board of Commissioners, has caused this Bond to be executed by its Chairperson, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

**KNOTT COUNTY WATER AND SEWER
DISTRICT
Knott County, Kentucky**

By _____
Chairperson

Attest:

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

ASSIGNMENT

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto _____, this ____ day of _____, _____.

By: _____

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1st of Dec paid princ. for next year

93-05



RURAL UTILITIES SERVICE BOND SCHEDULE, 10/21/2003



Name of Borrower: Knott County Water & Sewer District			
Amount of Loan	185000	Annual Interest Rate	0.045
Number of Initial Interest Only Payments	2	Number of principal and/or Interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	500	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2004	1	1	8325	8325	0	185000
2005	1	2	8325	8325	0	185000
2006	1	3	10325	8325	2000	183000
2007	1	4	10235	8235	2000	181000
2008	1	5	10145	8145	2000	179000
2009	1	6	10055	8055	2000	177000
2010	1	7	10465	7965	2500	174500
2011	1	8	10353	7853	2500	172000
2012	1	9	10240	7740	2500	169500
2013	1	10	10128	7628	2500	167000
2014	1	11	10015	7515	2500	164500
2015	1	12	10403	7403	3000	161500
2016	1	13	10268	7268	3000	158500
2017	1	14	10133	7133	3000	155500
2018	1	15	10498	6998	3500	152000
2019	1	16	10340	6840	3500	148500
2020	1	17	10183	6683	3500	145000
2021	1	18	10025	6525	3500	141500
2022	1	19	10368	6368	4000	137500
2023	1	20	10188	6188	4000	133500
2024	1	21	10008	6008	4000	129500
2025	1	22	10328	5828	4500	125000
2026	1	23	10125	5625	4500	120500
2027	1	24	10423	5423	5000	115500
2028	1	25	10198	5198	5000	110500
2029	1	26	10473	4973	5500	105000
2030	1	27	10225	4725	5500	99500
2031	1	28	10478	4478	6000	93500
2032	1	29	10208	4208	6000	87500
2033	1	30	10438	3938	6500	81000
2034	1	31	10145	3645	6500	74500
2035	1	32	10353	3353	7000	67500
2036	1	33	10038	3038	7000	60500
2037	1	34	10223	2723	7500	53000
2038	1	35	10385	2385	8000	45000
2039	1	36	10025	2025	8000	37000
2040	1	37	10165	1665	8500	28500
2041	1	38	10283	1283	9000	19500
2042	1	39	10378	878	9500	10000
2043	1	40	10450	450	10000	0
TOTALS			406366	221366	185000	

Greg Pridemore - Hazard
606-439-1378 Ext. 4

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606 889 1512 U.S. Department of Agriculture Page 006

1st of Dec paid princ. for next year

93-05



RURAL UTILITIES SERVICE BOND SCHEDULE, 10/21/2003



Name of Borrower: Knott County Water & Sewer District

Amount of Loan	185000	Annual Interest Rate	0.045
Number of Initial Interest Only Payments	2	Number of principal and/or Interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	500	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2004	1	1	8325	8325	0	185000
2005	1	2	8325	8325	0	185000
2006	1	3	10325	8325	2000	183000
2007	1	4	10235	8235	2000	181000
2008	1	5	10145	8145	2000	179000
2009	1	6	10055	8055	2000	177000
2010	1	7	10465	7965	2500	174500
2011	1	8	10353	7853	2500	172000
2012	1	9	10240	7740	2500	169500
2013	1	10	10128	7628	2500	167000
2014	1	11	10015	7515	2500	164500
2015	1	12	10403	7403	3000	161500
2016	1	13	10268	7268	3000	158500
2017	1	14	10133	7133	3000	155500
2018	1	15	10498	6998	3500	152000
2019	1	16	10340	6840	3500	148500
2020	1	17	10183	6683	3500	145000
2021	1	18	10025	6525	3500	141500
2022	1	19	10368	6368	4000	137500
2023	1	20	10188	6188	4000	133500
2024	1	21	10008	6008	4000	129500
2025	1	22	10328	5828	4500	125000
2026	1	23	10125	5625	4500	120500
2027	1	24	10423	5423	5000	115500
2028	1	25	10198	5198	5000	110500
2029	1	26	10473	4973	5500	105000
2030	1	27	10225	4725	5500	99500
2031	1	28	10478	4478	6000	93500
2032	1	29	10208	4208	6000	87500
2033	1	30	10438	3938	6500	81000
2034	1	31	10145	3645	6500	74500
2035	1	32	10353	3353	7000	67500
2036	1	33	10038	3038	7000	60500
2037	1	34	10223	2723	7500	53000
2038	1	35	10385	2385	8000	45000
2039	1	36	10025	2025	8000	37000
2040	1	37	10165	1665	8500	28500
2041	1	38	10283	1283	9000	19500
2042	1	39	10378	878	9500	10000
2043	1	40	10450	450	10000	0
TOTALS			406366	221366	185000	

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BOND SCHEDULE, 1/26/2007

91-11

Name of Borrower: Knott County Water and Sewer District			
Amount of Loan	100000	Annual Interest Rate	0.045
Number of Initial Interest Only Payments	2	Number of principal and/or interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	100	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2008	1	1	4500	4500	0	100000
2009	1	2	4500	4500	0	100000
2010	1	3	5500	4500	1000	99000
2011	1	4	5553	4455	1100	97900
2012	1	5	5506	4406	1100	96800
2013	1	6	5556	4356	1200	95600
2014	1	7	5502	4302	1200	94400
2015	1	8	5548	4248	1300	93100
2016	1	9	5590	4190	1400	91700
2017	1	10	5527	4127	1400	90300
2018	1	11	5564	4064	1500	88800
2019	1	12	5496	3996	1500	87300
2020	1	13	5529	3929	1600	85700
2021	1	14	5557	3857	1700	84000
2022	1	15	5580	3780	1800	82200
2023	1	16	5499	3699	1800	80400
2024	1	17	5518	3618	1900	78500
2025	1	18	5533	3533	2000	76500
2026	1	19	5543	3443	2100	74400
2027	1	20	5548	3348	2200	72200
2028	1	21	5549	3249	2300	69900
2029	1	22	5546	3146	2400	67500
2030	1	23	5538	3038	2500	65000
2031	1	24	5525	2925	2600	62400
2032	1	25	5508	2808	2700	59700
2033	1	26	5587	2687	2900	56800
2034	1	27	5556	2556	3000	53800
2035	1	28	5521	2421	3100	50700
2036	1	29	5582	2282	3300	47400
2037	1	30	5533	2133	3400	44000
2038	1	31	5580	1980	3600	40400
2039	1	32	5518	1818	3700	36700
2040	1	33	5552	1652	3900	32800
2041	1	34	5576	1476	4100	28700
2042	1	35	5492	1292	4200	24500
2043	1	36	5503	1103	4400	20100
2044	1	37	5505	905	4600	15500
2045	1	38	5498	698	4800	10700
2046	1	39	5582	482	5100	5600
2047	1	40	5852	252	5600	0
TOTALS			219754	119754	100000	

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

EXHIBIT D
KCWSD BOARD
RESOLUTION

RESOLUTION

WHEREAS, on the 22nd day of October 2020, the Knott County Water and Sewer District (“KCWSD”) met in special session pursuant to proper notice; and,

WHEREAS, KCWSD currently has three separate debt obligations previously incurred to provide funding sources for district improvements and operations as follows:

- Kentucky Infrastructure Authority (“KIA”), Loan No. C03-03, original principal amount of loan \$547,000, rate 4.05%, original loan date 3/1/11;
- United States Department of Agriculture, Rural Development (“USDA-RD1”), original principal amount of loan \$185,000, rate 4.50%, original loan date 10/21/03;
- United States Department of Agriculture, Rural Development (“USDA-RD2”), original principal amount of loan \$100,000, rate 4.5%, original loan date 1/26/07; and,

WHEREAS, as of 12/31/20 KCWSD will owe \$93,049.98 on the KIA loan, \$145,000 on the USDA-RD1 loan and \$85,700 on the USDA-RD2 loan, for a total indebtedness owing of \$323,749.98; and,

WHEREAS, KCWSD desires to consolidate such indebtedness into one loan and reduce the interest rate payable on same in order to reduce the District’s annual interest payments; and,

WHEREAS, Current lenders are unable to refinance or refinance at favorable rate; and,

WHEREAS, KCWSD after solicitation of proposals; and,

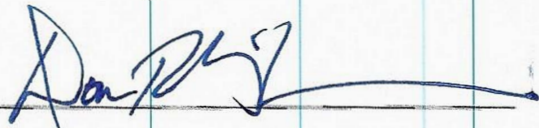
WHEREAS, KCWSD has received a very favorable loan offer from the Bank of Hindman to consolidate the above loans under the following essential terms: Being \$323,749.98 in principal at an interest rate of 2.75% for 60 Months subject to closing dates and PSC approval; and,

WHEREAS, KCWSD has calculated that refinancing the above indebtedness with Bank of Hindman will result in a total projected interest savings of \$135,133.63 over the life of the loan when compared to the current KIA, USDA-RD1 and USDA-RD2 loans; **NOW THEREFORE**,

BE IT RESOLVED, after conducting substantial due diligence of the loan proposal the Board of Commissioners of KCWSD believe it is in the best interests of the District and its customers/ratepayers that the District refinance the aforementioned three loans with, KIA, USDA-RD1, and USDA-RD2 under the terms and conditions described herein and elsewhere in the proposed loan documents to take effect upon approval by the Kentucky Public Service Commission; in furtherance of this refinancing management and staff of the District are directed and empowered to engage an attorney and other consultants as needed to file for approval of same with the Kentucky Public Service Commission at the earliest possible date; and, that management and staff of the District, and the Board Chairperson and other appropriate officers.

are directed and empowered to sign any and all documents and perform all other tasks and things necessary to successfully complete this refinancing.

This 22nd day of October, 2020.

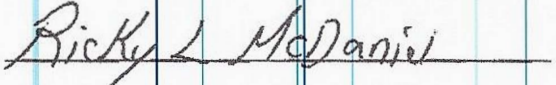


Knott County Water and Sewer District

By: Don R. Gibson

Chairman of the Board of Commissioners

ATTEST:



Knott County Water and Sewer District

By: Ricky L. McDaniel

Secretary of the Board of Commissioners

EXHIBIT E
LOAN PROPOSAL
FOR BANK OF
HINDMAN



Member
FDIC

ESTABLISHED 1903



MAIN BANK
1362 Hindman Bypass
PO Box 786
Hindman, KY 41822
Ph.: 606-785-3158
Fax: 606-785-3162

W. R. SMITH BRANCH
340 Hwy. 899
Hindman, KY 41822
Ph.: 606-785-4104
Fax: 606-785-4522

December 8, 2020

Knott County Water & Sewer District
7777 Big Branch Road
Vicco, KY 41773

The Bank of Hindman is pleased to offer financing to Knott County Water & Sewer District. The outline of this offer is as follows:

Borrower: Knott County Water & Sewer District
Purpose: Refinance existing loans
Loan Amount: \$325,000.00 (Approximate)
Rate: 2.75%
Terms: 60 monthly payments of approximately \$5,803.79
Closing Costs: Total estimated closing costs \$1,200
Expiration: Offer expires February 28, 2021

Should you have any questions, please feel free to contact me at any time.

Thanks,

A handwritten signature in cursive script that reads "Byron Jacobs".

Byron Jacobs, President

EXHIBIT F
DIRECT
TESTIMONY OF
KYLE SMITH

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Application of Knott County Water and)
Sewer District for Approval of Financing) Case No. 2020-00384
Pursuant to KRS 278.300)

**DIRECT TESTIMONY OF KYLE SMITH
ON BEHALF OF
KNOTT COUNTY WATER AND SEWER INC.**

Filed: December 15, 2020

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Application of Knott County Water and Sewer District for Approval of Financing Pursuant to KRS 278.300)) Case No. 2020-00384))

VERIFICATION OF KYLE SMITH

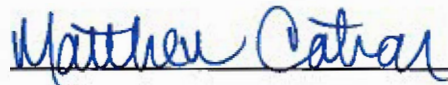
COMMONWEALTH OF KENTUCKY))
COUNTY OF KNOTT))

Kyle Smith, Chief Financial Officer of Knott County Water and Sewer District being duly sworn, states that he has supervised the preparation of his Direct Testimony in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.



Kyle Smith

The foregoing Verification was signed, acknowledged and sworn to before me this 14 day of December, 2020, by Kyle Smith.



Notary Commission Number: 6233 _____

Commission expiration: 5/02/2024 _____

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **OCCUPATION.**

3 A. My name is Kyle Smith and my business address is 7777 Big Branch Rd., Vicco,
4 KY 41773. I am the Chief Financial Officer (“CFO”) for Knott County Water and
5 Sewer District (“KCWSD”).

6 **Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL**
7 **EXPERIENCE.**

8 A. I received a Bachelor’s in Business Administration with a minor in Accounting
9 from Alice Lloyd College. I have performed accounting duties for coal and lumber
10 companies as well as my current duties with the water district.

11 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR DUTIES AT**
12 **KCWSD.**

13 A. I am the CFO in charge of Accounts Payable, Accounts Receivable, Payroll,
14 provide financial reports, maintain accounting records, and comply with local, state
15 and federal government reporting requirements and filings.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
17 **PROCEEDING?**

18 A. I am offering testimony to support the refinancing Application and to show the
19 benefits the refinancing would bring to KCWSD and its customers.

20 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

21 A. Yes. I am sponsoring each of the exhibits to the Application.

22 **Q. PLEASE GENERALLY DESCRIBE THE BUSINESS OPERATIONS OF**
23 **KCWSD.**

1 A. KCWSD treats and sells potable water to five (5) wholesale customers and
2 approximately 3,000 retail customers throughout Knott County, as well as provides
3 sanitary sewer service for approximately 172 customers across its approximately
4 300 square mile service territory.

5 **Q. PLEASE DESCRIBE THE ORIGINAL TERMS OF THE KIA AND RUS**
6 **LOAN.S**

7 A. The original principal amount of the KIA loan was \$547,000 and the interest rate
8 was 4.05%. The original principal amount of the 2003 RUS loan was \$185,000
9 with an interest rate of 4.50%. The original principal amount of the 2007 RUS loan
10 was \$100,000 with an interest rate of 4.50%.

11 **Q. WHAT ARE THE BALANCES OWED AS OF DECEMBER 31, 2020 ON**
12 **THE KIA AND RUS LOANS?**

13 A. The balance as of December 31, 2020 on the KIA loan will be \$93,049.98. The
14 balance on the 2003 RUS loan will be \$145,000 and on the 2007 RUS loan will be
15 \$85,700. This is a total sum of \$323,749.98 for the three existing loans.

16 **Q. PLEASE DESCRIBE THE TERMS OF THE PROPOSED TERMS OF THE**
17 **REFINACING.**

18 A. KCWSD is proposing to refinance its existing Kentucky Infrastructure Authority
19 (“KIA”) loan and its two Rural Utility Service (“RUS”) loans. The refinancing
20 would be provided by the Bank of Hindman with an interest rate of 2.75% over a
21 term of 60 months. The principal amount would be \$325,000.00. Under the new
22 loan Bank of Hindman is not requiring KCWSD to pledge any utility plant as
23 collateral.

1 **Q. CAN YOU PLEASE DESCRIBE THE BENEFITS TO KCWSD AND ITS**
2 **CUSTOMERS FROM THE REFINANCING?**

3 A. Refinancing the existing loans will result in KCWSD be able to consolidate the
4 indebtedness into one loan and to reduce the interest rate and therefore the interest
5 payments on the indebtedness. Furthermore, the new terms on the Bank of
6 Hindman loan will result in a projected savings of \$135,133.63 in interest payments
7 over the life of the loan. This will result in savings to KCWSD and its customers.

8 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

9 A. It is my belief that the refinancing of KCWSD's existing KIA and RUS loans with
10 the Bank of Hindman under the proposed loan terms will be in KCWSD and its
11 customer's best interest. There is a considerable amount of savings on the interest
12 payments with the more favorable interest rate being offered by the Bank of
13 Hindman.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes.